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, 2011

OR

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

FOR THE TRANSITION PERIOD FROM _____ TO _____

Commission file number 1-3187

CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC

(Exact name of registrant as specified in its charter)

Texas	**22-3865106**
(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 Houston Electric, LLC meets the conditions set forth in General Instruction H(1)(a) and (b) of Form 10-Q and is therefore filing this Form 10-Q with the reduced disclosure format.

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☑ No 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 ☑ (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 15, 2011, all 1,000 common shares of CenterPoint Energy Houston Electric, LLC were held by Utility Holding, LLC, a wholly owned subsidiary of CenterPoint Energy, Inc.

CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC
QUARTERLY REPORT ON FORM 10-Q
FOR THE QUARTER ENDED JUNE 30, 2011

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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

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

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

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

- the resolution of the true-up proceedings, including future actions by the Public Utility Commission of Texas (Texas Utility Commission) in response to the decisions by the Texas Supreme Court and the Texas Third Court of Appeals, and any further appeals thereof;
- state and federal legislative and regulatory actions or developments relating to the environment, including those related to global climate change;
- other state and federal legislative and regulatory actions or developments affecting various aspects of our business, including, among others, energy deregulation or re-regulation, health care reform, financial reform and tax legislation;
- timely and appropriate rate actions and increases, allowing recovery of costs and a reasonable return on investment;
- the timing and outcome of any audits, disputes and other proceedings related to taxes;
- industrial, commercial and residential growth in our service territory and changes in market demand, including the effects of energy efficiency measures and demographic patterns;
- weather variations and other natural phenomena;
- the impact of unplanned facility outages;
- timely and appropriate regulatory actions allowing securitization or other recovery of costs associated with any future hurricanes or natural disasters;
- 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;
- 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. (GenOn) (formerly known as RRI Energy, Inc., Reliant Energy, Inc. and Reliant Resources, Inc.) and its subsidiaries to satisfy their obligations to us, including indemnity obligations;

- the ability of retail electric providers (REPs), including REP subsidiaries of NRG Retail LLC and REP subsidiaries of TXU Energy Retail Company LLC, which are our two largest customers, to satisfy their obligations to us and our subsidiaries;

- the outcome of litigation brought by or against us;

- our ability to control costs;

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

- our potential business strategies, including restructurings, 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; 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, 2010 and in Item 1A of Part II of our Quarterly Report on Form 10-Q for the quarter ended March 31, 2011, each of which is 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 HOUSTON ELECTRIC, LLC AND SUBSIDIARIES
(AN INDIRECT WHOLLY OWNED SUBSIDIARY OF CENTERPOINT ENERGY, INC.)
CONDENSED STATEMENTS OF CONSOLIDATED INCOME
(Millions of Dollars)
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2011	2010	2011
Revenues	$ 562	$ 606	$ 1,050	$ 1,095
Expenses:				
Operation and maintenance	207	221	398	431
Depreciation and amortization	145	149	277	274
Taxes other than income taxes	52	51	104	104
Total	404	421	779	809
Operating Income	158	185	271	286
Other Income (Expense):				
Interest and other finance charges	(37)	(38)	(74)	(75)
Interest on transition and system restoration bonds	(36)	(32)	(72)	(65)
Other, net	9	7	16	15
Total	(64)	(63)	(130)	(125)
Income Before Income Taxes	94	122	141	161
Income tax expense	34	43	51	58
Net Income	$ 60	$ 79	$ 90	$ 103

See Notes to the Interim Condensed Consolidated Financial Statements

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

ASSETS

	December 31, 2010	June 30, 2011
Current Assets:		
Cash and cash equivalents ($198 and $176 related to VIEs at December 31, 2010 and June 30, 2011, respectively)	$ 198	$ 176
Accounts and notes receivable, net ($49 and $68 related to VIEs at December 31, 2010 and June 30, 2011, respectively)	203	267
Accounts and notes receivable – affiliated companies	919	985
Accrued unbilled revenues	70	82
Inventory	71	74
Taxes receivable	63	—
Deferred tax asset	3	4
Other ($39 and $40 related to VIEs at December 31, 2010 and June 30, 2011, respectively)	62	48
Total current assets	1,589	1,636
Property, Plant and Equipment:		
Property, plant and equipment	7,586	7,742
Less accumulated depreciation and amortization	2,805	2,866
Property, plant and equipment, net	4,781	4,876
Other Assets:		
Regulatory assets ($2,597 and $2,460 related to VIEs at December 31, 2010 and June 30, 2011, respectively)	2,675	2,570
Notes receivable — affiliated companies	750	750
Other	37	45
Total other assets	3,462	3,365
Total Assets	$ 9,832	$ 9,877

See Notes to the Interim Condensed Consolidated Financial Statements

CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC AND SUBSIDIARIES
(AN INDIRECT WHOLLY OWNED SUBSIDIARY OF CENTERPOINT ENERGY, INC.)
CONDENSED CONSOLIDATED BALANCE SHEETS — (Continued)
(Millions of Dollars)
(Unaudited)

LIABILITIES AND MEMBER'S EQUITY

	December 31, 2010	June 30, 2011
Current Liabilities:		
Current portion of VIE transition and system restoration bonds long-term debt	$ 283	$ 294
Current portion of other long-term debt	—	46
Accounts payable	76	66
Accounts and notes payable — affiliated companies	36	55
Taxes accrued	92	76
Interest accrued	101	108
Other	74	79
Total current liabilities	662	724
Other Liabilities:		
Accumulated deferred income taxes, net	1,428	1,428
Benefit obligations	215	211
Regulatory liabilities	417	432
Notes payable — affiliated companies	151	151
Other	297	362
Total other liabilities	2,508	2,584
Long-term Debt:		
VIE transition and system restoration bonds	2,522	2,371
Other	2,092	2,046
Total long-term debt	4,614	4,417
Commitments and Contingencies (Note 8)		
Member's Equity:		
Common stock	—	—
Paid-in capital	1,230	1,231
Retained earnings	818	921
Total member's equity	2,048	2,152
Total Liabilities and Member's Equity	$ 9,832	$ 9,877

See Notes to the Interim Condensed Consolidated Financial Statements

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

	Six Months Ended June 30,	
	2010	2011
Cash Flows from Operating Activities:		
Net income	$ 90	$ 103
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	277	274
Amortization of deferred financing costs	6	6
Deferred income taxes	(46)	60
Changes in other assets and liabilities:		
Accounts and notes receivable, net	(92)	(87)
Accounts receivable/payable, affiliates	(13)	13
Inventory	1	(3)
Accounts payable	(2)	(8)
Taxes receivable	54	63
Interest and taxes accrued	(7)	(9)
Net regulatory assets and liabilities	(6)	(20)
Other current assets	14	15
Other current liabilities	(8)	5
Other assets	(2)	—
Other liabilities	(1)	(2)
Other, net	(1)	1
Net cash provided by operating activities	264	411
Cash Flows from Investing Activities:		
Capital expenditures	(242)	(298)
Increase in notes receivable from affiliates, net	(109)	(60)
Decrease (increase) in restricted cash of transition and system restoration bond companies	1	(1)
Cash received from U.S. Department of Energy grant	33	77
Other, net	(3)	(11)
Net cash used in investing activities	(320)	(293)
Cash Flows from Financing Activities:		
Payments of long-term debt	(106)	(141)
Other, net	—	1
Net cash used in financing activities	(106)	(140)
Net Decrease in Cash and Cash Equivalents	(162)	(22)
Cash and Cash Equivalents at Beginning of Period	739	198
Cash and Cash Equivalents at End of Period	$ 577	$ 176
Supplemental Disclosure of Cash Flow Information:		
Cash Payments:		
Interest, net of capitalized interest	$ 129	$ 133
Income taxes (refunds), net	34	(83)
Non-cash transactions:		
Accounts payable related to capital expenditures	35	35

See Notes to the Interim Condensed Consolidated Financial Statements

CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(1) Background and Basis of Presentation

General. Included in this Quarterly Report on Form 10-Q (Form 10-Q) of CenterPoint Energy Houston Electric, LLC are the condensed consolidated interim financial statements and notes (Interim Condensed Financial Statements) of CenterPoint Energy Houston Electric, LLC and its subsidiaries (collectively, CenterPoint Houston). 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 CenterPoint Houston for the year ended December 31, 2010.

Background. CenterPoint Houston engages in the electric transmission and distribution business in the Texas Gulf Coast area that includes the city of Houston. CenterPoint Houston is an indirect wholly owned subsidiary of CenterPoint Energy, Inc. (CenterPoint Energy), a public utility holding company. At June 30, 2011, CenterPoint Houston had four subsidiaries, CenterPoint Energy Transition Bond Company, LLC, CenterPoint Energy Transition Bond Company II, LLC, CenterPoint Energy Transition Bond Company III, LLC and CenterPoint Energy Restoration Bond Company, LLC (collectively, the transition and system restoration bond companies). Each is a special purpose Delaware limited liability company formed for the principal purpose of purchasing and owning transition and system restoration property, issuing transition and system restoration bonds and performing activities incidental thereto. For further discussion of the transition and system restoration bond companies, see Note 4.

Basis of Presentation. The preparation of financial statements in conformity with generally accepted accounting principles (U.S. GAAP) 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.

CenterPoint Houston'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 CenterPoint Houston's Condensed Statements of Consolidated Income are not necessarily indicative of amounts expected for a full-year period due to the effects of, among other things, (a) seasonal fluctuations in demand for energy, (b) timing of maintenance and other expenditures and (c) acquisitions and dispositions of businesses, assets and other interests.

(2) New Accounting Pronouncements

In January 2010, the Financial Accounting Standards Board (FASB) issued new accounting guidance to require additional fair value related disclosures. It also clarified existing fair value disclosure guidance about the level of disaggregation, inputs and valuation techniques. This new guidance was effective for the first reporting period beginning after December 15, 2009 except for certain disclosure requirements effective for the first reporting period beginning after December 15, 2010. CenterPoint Houston's adoption of this new guidance did not have a material impact on its financial position, results of operations or cash flows. See Note 5 for the required disclosures.

In May 2011, the FASB issued new accounting guidance to achieve common fair value measurements and disclosure requirements in U.S. GAAP and International Financial Reporting Standards (IFRS). Some of the provisions of the new accounting guidance include requiring (1) that only nonfinancial assets should be valued based on a determination of their best use, (2) disclosure of quantitative information about unobservable inputs used in Level 3 fair value measurements and (3) disclosure of the level within the fair value hierarchy for each class of assets or liabilities not measured at fair value in the statement of financial position but for which the fair value is disclosed. This new guidance is effective for interim and annual periods beginning after December 15, 2011. CenterPoint Houston expects that the adoption of this new guidance will not have a material impact on its financial position, results of operations or cash flows.

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

(3) Employee Benefit Plans

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2011	2010	2011
	(in millions)			
Interest cost	$ 4	$ 4	$ 8	$ 8
Expected return on plan assets	(3)	(2)	(5)	(4)
Amortization of transition obligation	2	2	3	3
Net periodic cost	$ 3	$ 4	$ 6	$ 7

CenterPoint Houston expects to contribute approximately $8 million to its postretirement benefit plan in 2011, of which $4 million had been contributed as of June 30, 2011.

(4) Regulatory Matters

(a) Recovery of True-Up Balance

In March 2004, CenterPoint Houston filed its true-up application with the Public Utility Commission of Texas (Texas Utility Commission), requesting recovery of $3.7 billion, excluding interest, as allowed under the Texas Electric Choice Plan (Texas electric restructuring law). In December 2004, the Texas Utility Commission issued its final order (True-Up Order) allowing CenterPoint Houston to recover a true-up balance of approximately $2.3 billion, which included interest through August 31, 2004, and provided for adjustment of the amount to be recovered to include interest on the balance until recovery, along with the principal portion of additional excess mitigation credits (EMCs) returned to customers after August 31, 2004 and certain other adjustments. To reflect the impact of the True-Up Order, in 2004 and 2005, CenterPoint Houston recorded a net after-tax extraordinary loss of $947 million.

Various parties, including CenterPoint Houston, appealed the True-Up Order. These appeals were heard first by a district court in Travis County, Texas, then by the Texas Third Court of Appeals and finally by the Texas Supreme Court. On March 18, 2011, the Texas Supreme Court issued a unanimous ruling on such appeals in which it affirmed in part and reversed in part the decision of the Texas Utility Commission and remanded the matter to the Texas Utility Commission for further proceedings. The impact of the Texas Supreme Court's decision regarding the matters on appeal is summarized as follows:

- The method used by the Texas Utility Commission to calculate the market value of CenterPoint Houston's former generating assets was overturned. In its decision, the Texas Utility Commission had rejected the partial stock valuation method CenterPoint Houston utilized to establish the market value of the generating assets, and the Texas Utility Commission had fashioned its own valuation. The Texas Supreme Court ruled that the Texas Utility Commission had no authority to craft an alternative valuation methodology but instead should have valued the generating assets at the value established when CenterPoint Energy later sold its Texas Genco subsidiary. This portion of the decision requires that the valuation question be remanded to the Texas Utility Commission for a determination. CenterPoint Houston currently estimates that application of the sale of assets methodology would reduce stranded costs by an amount equal to approximately $252 million, less selling costs, plus the amount of debt assumed by the buyer of Texas Genco. This portion of the decision is unfavorable to CenterPoint Houston.

- The Texas Utility Commission's order denying recovery of approximately $440 million in capacity auction true-up amounts was reversed. This portion of the decision is favorable to CenterPoint Houston. These sums plus interest are eligible for recovery in the remand proceeding.

- The Texas Utility Commission's refusal to include approximately $378 million related to depreciation in the calculation of stranded costs was reversed. This portion of the decision is favorable to CenterPoint Houston. These sums plus interest are eligible for recovery in the remand proceeding.

- The Texas Utility Commission's order allowing recovery of EMCs that CenterPoint Houston had been ordered to pay its former affiliate was upheld. This portion of the decision is favorable to CenterPoint Houston. These sums have already been recovered and will not be addressed in the remand proceeding.

- The Texas Utility Commission decisions allowing recovery of construction work in progress balances and interest on the capacity auction true-up amounts were upheld. These decisions are favorable to CenterPoint Houston. These sums have already been recovered and will not be addressed in the remand proceeding.

The Texas Supreme Court did not address the court of appeals' decision allowing CenterPoint Houston to recover approximately $210 million representing the interest component of the EMCs. This decision, which was favorable to CenterPoint Houston, was not appealed to the Texas Supreme Court. These sums plus interest are eligible for recovery in the remand proceeding.

Among the issues to be taken up by the Texas Utility Commission on the remand from the Texas Supreme Court is the proper regulatory treatment of certain deferred tax amounts. In the True-Up Order, the Texas Utility Commission reduced CenterPoint Houston's true-up balance by approximately $146 million, which was included in the extraordinary loss discussed above, to reflect the present value of certain deferred tax amounts associated with its former electric generation assets. CenterPoint Houston believes that the Texas Utility Commission based its order on proposed regulations issued by the Internal Revenue Service (IRS) in March 2003 that would have allowed utilities owning assets that were deregulated before March 4, 2003 to make a retroactive election to pass the benefits of Accumulated Deferred Investment Tax Credits (ADITC) and Excess Deferred Federal Income Taxes (EDFIT) back to customers. However, the IRS subsequently withdrew those proposed normalization regulations and, in March 2008, adopted final regulations that would not permit utilities like CenterPoint Houston to pass the tax benefits back to customers without creating normalization violations. In addition, CenterPoint Energy received a Private Letter Ruling (PLR) from the IRS in August 2007, prior to adoption of the final regulations, that confirmed that the Texas Utility Commission's order reducing CenterPoint Houston's stranded cost recovery by $146 million for ADITC and EDFIT would cause normalization violations with respect to the ADITC and EDFIT. The Texas Utility Commission thereafter requested that this issue be remanded to that commission for further consideration, and that request was granted by the court of appeals. CenterPoint Houston plans to seek to recover $146 million plus interest related to this issue in the remand proceedings.

If the Texas Utility Commission's order relating to the ADITC reduction is not reversed or otherwise modified on remand so as to eliminate the normalization violation, the IRS could require CenterPoint Energy to pay an amount equal to CenterPoint Houston's unamortized ADITC balance as of the date that the normalization violation is deemed to have occurred. In addition, the IRS could deny CenterPoint Houston the ability to elect accelerated tax depreciation benefits beginning in the taxable year that the normalization violation is deemed to have occurred. Such treatment, if required by the IRS, could have a material adverse impact on CenterPoint Houston's results of operations, financial condition and cash flows.

After the Texas Supreme Court issued its decision, a number of parties filed motions for rehearing with the Texas Supreme Court requesting the court to reconsider its decision. In June 2011, the court denied the motions for rehearing and issued a corrected mandate remanding the case to the Texas Utility Commission for further proceedings. There is no statutory deadline by which the Texas Utility Commission must act now that the case has been remanded to it; but, in accordance with the rules of the Texas Utility Commission, interest on the unrecovered true-up balance will continue to accrue until such balance is securitized or is otherwise recovered in rates.

CenterPoint Houston expects to seek recovery of approximately $1.88 billion in the remand process before the Texas Utility Commission, which includes interest through October 31, 2011. CenterPoint Houston intends to file an application with the Texas Utility Commission for approval of a financing order authorizing the issuance of transition bonds by one or more new special purpose subsidiaries of CenterPoint Houston to securitize the recoverable amounts and certain qualified costs. Interest on the final true up balance as approved by the Texas Utility Commission will continue to accrue at approximately 8% until the bonds are issued. On July 15, 2011, certain intervenors and the staff of the Texas Utility Commission filed a request with the Texas Utility Commission to sever $1.38 billion of CenterPoint Houston's remaining true-up balance and to securitize that amount prior to completion of the pending review by the Texas Utility Commission of certain issues in the remand proceeding. The issues identified by the intervenors as requiring review include the calculation of the ADFIT benefit and the tax

normalization issue discussed above, the proper rate for interest to accrue on true-up balances, and the recoverability of certain rate case expenses and transaction costs associated with the sale of Texas Genco. In August 2011, the Texas Utility Commission denied this request.

The final resolution of the true-up proceedings and the ultimate amount and timing of recovery of the additional amounts authorized will depend upon the outcome of future actions by the Texas Utility Commission in response to rulings by the Texas Supreme Court and the court of appeals, and any future appeals thereof. CenterPoint Energy expects to record the effects of the Texas Supreme Court's decision once a final resolution of these matters is reached.

The Texas electric restructuring law allowed the amounts awarded to CenterPoint Houston in the Texas Utility Commission's True-Up Order to be recovered either through securitization or through implementation of a competition transition charge (CTC) or both. Pursuant to a financing order issued by the Texas Utility Commission in March 2005, in December 2005, a new special purpose subsidiary of CenterPoint Houston issued $1.85 billion in transition bonds with interest rates ranging from 4.84% to 5.30% and final maturity dates ranging from February 2011 to August 2020. Through issuance of the transition bonds, CenterPoint Houston recovered approximately $1.7 billion of the true-up balance determined in the True-Up Order plus interest through the date on which the bonds were issued.

In July 2005, CenterPoint Houston received an order from the Texas Utility Commission allowing it to implement a CTC designed to collect the remaining $596 million from the True-Up Order over 14 years plus interest at an annual rate of 11.075% (CTC Order). The CTC Order authorized CenterPoint Houston to impose a charge on REPs to recover the portion of the true-up balance not recovered through a financing order. The CTC Order also allowed CenterPoint Houston to collect approximately $24 million of rate case expenses over three years without a return through a separate tariff rider (Rider RCE). CenterPoint Houston implemented the CTC and Rider RCE effective September 13, 2005 and began recovering approximately $620 million. The return on the CTC portion of the true-up balance was included in CenterPoint Houston's tariff-based revenues beginning September 13, 2005. Effective August 1, 2006, the interest rate on the unrecovered true-up balance was reduced from 11.075% to 8.06% pursuant to a revised rule adopted by the Texas Utility Commission in June 2006. Recovery of rate case expenses under Rider RCE was completed in September 2008.

During the 2007 legislative session, the Texas legislature amended statutes prescribing the types of true-up balances that can be securitized by utilities and authorized the issuance of transition bonds to recover the balance of the CTC. In February 2008, pursuant to the financing order, a new special purpose subsidiary of CenterPoint Houston issued approximately $488 million of transition bonds in two tranches with interest rates of 4.192% and 5.234% and final maturity dates of February 2020 and February 2023, respectively. Contemporaneously with the issuance of those bonds, the CTC was terminated and a transition charge was implemented.

As of June 30, 2011, CenterPoint Houston has not recognized an allowed equity return of $171 million on the portion of its true-up balance that had previously been securitized because such return will be recognized as it is recovered in rates. During both the three months ended June 30, 2010 and 2011, CenterPoint Houston recognized approximately $4 million of the allowed equity return not previously recognized. During both the six months ended June 30, 2010 and 2011, CenterPoint Houston recognized approximately $7 million of the allowed equity return not previously recognized.

(b) Rate Proceedings

June 2010 Rate Proceeding. As required under the final order in its 2006 rate proceeding, in June 2010 CenterPoint Houston filed an application to change rates with the Texas Utility Commission and the cities in its service area.

Following hearings in the fall of 2010, the Texas Utility Commission issued its order on May 12, 2011. In response to motions filed by several parties, including CenterPoint Houston, on June 23, 2011, the Texas Utility Commission issued an order on rehearing, which addressed certain errors and inconsistencies identified in its prior decision. CenterPoint Houston expects revised rates based on the order on rehearing to be implemented in the third quarter of 2011. The order on rehearing could be appealed to the Texas courts.

The order on rehearing provides for a base rate increase for CenterPoint Houston of approximately $14.7 million per year for delivery charges to the REPs and a decrease to charges to wholesale transmission customers of $12.3 million per year. Further, the order adopts a mechanism to track amounts for uncertain tax positions and provide for ultimate recovery of those costs.

The order authorizes a return on equity for CenterPoint Houston of 10%, a cost of debt of 6.74%, a capital structure comprised of 55% debt and 45% common equity, and an overall rate of return of 8.21%. The decision also implements CenterPoint Houston's request to reconcile costs incurred for the advanced metering system (AMS) project and to shorten the period for collecting the AMS surcharge from twelve to six years for residential customers in order to reflect the funds received from the U.S. Department of Energy.

As a result of the Texas Utility Commission's order, CenterPoint Houston anticipates that normalized annual operating income will be reduced by approximately $30 million.

Other. In May 2009, CenterPoint Houston filed an application at the Texas Utility Commission seeking approval of certain estimated 2010 energy efficiency program costs, an energy efficiency performance bonus for 2008 programs, and carrying costs totaling approximately $10 million. The application sought to begin recovery of these costs through a surcharge effective July 1, 2010. In October 2009, the Texas Utility Commission issued its order approving recovery of the 2010 energy efficiency program costs and a partial performance bonus of approximately $8 million, plus carrying costs, but disallowed recovery of a performance bonus of $2 million on approximately $10 million in 2008 energy efficiency costs expended pursuant to the terms of a settlement agreement in a prior rate case. CenterPoint Houston began collecting the approved amounts in July 2010. CenterPoint Houston appealed the denial of the full 2008 performance bonus to the 98th district court in Travis County, Texas. In October 2010, the district court upheld the Texas Utility Commission's decision. In February 2011, CenterPoint Houston appealed the district court's judgment to the Texas Third Court of Appeals at Austin, Texas, where the case remains pending.

In April 2010, CenterPoint Houston filed an application with the Texas Utility Commission seeking approval of the recovery of $14.4 million related to estimated 2011 energy efficiency programs, an energy efficiency performance bonus for 2009 programs, and recovery of revenue losses related to the implementation of the 2009 energy efficiency program. The application sought to begin recovery of these costs through a surcharge beginning in January 2011. In November 2010, the Texas Utility Commission issued its order approving recovery of approximately $11 million of the 2011 energy efficiency program costs and a performance bonus, but disallowed recovery of a performance bonus of $2 million on the 2009 energy efficiency costs expended pursuant to the terms of the settlement agreement referenced above. The Texas Utility Commission further concluded that it does not have statutory authority to permit recovery of the approximately $1.4 million in lost revenue associated with 2009 energy efficiency programs. CenterPoint Houston began collecting the approved amounts in January 2011, but has appealed the denial of the full 2009 performance bonus and lost revenue to the 201st district court in Travis County, Texas, where the case remains pending.

In April 2011, CenterPoint Houston filed an application with the Texas Utility Commission seeking approval of the recovery in 2012 of approximately $44.3 million consisting of: (1) estimated 2012 energy efficiency program costs of approximately $35.8 million; (2) an energy efficiency performance bonus based on CenterPoint Houston's 2010 program achievements of approximately $5.8 million; (3) the amount of lost revenues due to verified and reported 2010 energy savings of approximately $2.2 million; and (4) approximately $0.5 million for under-recovery of 2010 program costs. In the preliminary order in this proceeding, the Texas Utility Commission has excluded approximately $2.1 million of the requested performance bonus for the 2010 programs and has concluded that it does not have the statutory authority to permit recovery of the requested $2.2 million of lost revenues associated with the 2010 programs. A hearing to address the application is scheduled for August 2011. The proposed rate adjustments are expected to take effect with the commencement of CenterPoint Houston's January 2012 billing month.

(5) Fair Value Measurements

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

Level 1: Inputs are unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date. The types of assets carried at Level 1 fair value are investments listed in active markets. At December 31, 2010 and June 30, 2011, CenterPoint Houston held Level 1 investments of $36 million and $39 million, respectively, which were primarily money market funds.

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. CenterPoint Houston had no Level 2 assets or liabilities at both December 31, 2010 and June 30, 2011.

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. These inputs reflect management's best estimate of the assumptions market participants would use in determining fair value. CenterPoint Houston had no Level 3 assets or liabilities at both December 31, 2010 and June 30, 2011.

CenterPoint Houston determines the appropriate level for each financial asset and liability on a quarterly basis and recognizes any transfers at the end of the reporting period. For the quarter ended June 30, 2011, there were no transfers between levels.

Estimated Fair Value of Financial Instruments

The fair values of cash and cash equivalents, short-term borrowings and the $750 million note receivable from CenterPoint Houston's parent are estimated to be equivalent to carrying amounts and have been excluded from the table below. The fair value of each debt instrument is determined by multiplying the principal amount of each debt instrument by the market price.

	December 31, 2010		June 30, 2011	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(in millions)			
Financial liabilities:				
Long-term debt (including $151 million of long-term notes payable to parent)	$ 5,048	$ 5,499	$ 4,908	$ 5,408

(6) Related Party Transactions and Major Customers

Related Party Transactions. CenterPoint Houston 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**.** CenterPoint Houston had investments in the money pool of $899 million and $959 million at December 31, 2010 and June 30, 2011, respectively, which are included in accounts and notes receivable-affiliated companies in the Condensed Consolidated Balance Sheets.

At December 31, 2010 and June 30, 2011, CenterPoint Houston had a $750 million note receivable from its parent.

CenterPoint Houston had net interest income related to affiliate borrowings of $4 million and $5 million, respectively, for the three months ended June 30, 2010 and 2011 and $9 million and $10 million, respectively, for the six months ended June 30, 2010 and 2011, included in Other Income.

CenterPoint Energy provides some corporate services to CenterPoint Houston. The costs of services have been charged directly to CenterPoint Houston 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 CenterPoint Houston not been an affiliate. Amounts charged to CenterPoint Houston for these services were $33 million and $37 million for the three months

ended June 30, 2010 and 2011, respectively, and $64 million and $71 million for the six months ended June 30, 2010 and 2011, respectively, and are included primarily in operation and maintenance expenses.

Major Customers. Sales to subsidiaries of NRG Retail LLC (NRG Retail), the successor to RRI Energy, Inc.'s (RRI) Texas retail business, in the three months ended June 30, 2010 and 2011 represented approximately $132 million and $133 million, respectively, of CenterPoint Houston's transmission and distribution revenues. Sales to subsidiaries of TXU Energy Retail Company LLC (TXU Retail) in the three months ended June 30, 2010 and 2011 represented approximately $42 million and $41 million, respectively, of CenterPoint Houston's transmission and distribution revenues. Sales to subsidiaries of NRG Retail in the six months ended June 30, 2010 and 2011 represented approximately $267 million and $259 million, respectively, of CenterPoint Houston's transmission and distribution revenues. Sales to subsidiaries of TXU Retail in the six months ended June 30, 2010 and 2011 represented approximately $84 million and $82 million, respectively, of CenterPoint Houston's transmission and distribution revenues.

(7) Long-term Debt

Revolving Credit Facility. CenterPoint Houston's $289 million credit facility's first drawn cost is the London Interbank Offered Rate (LIBOR) plus 45 basis points based on CenterPoint Houston's current credit ratings. The facility contains a debt (excluding transition and system restoration bonds) to total capitalization covenant, limiting debt to 65% of its total capitalization. Under the credit facility, an additional utilization fee of 5 basis points applies to borrowings any time more than 50% of the facility is utilized. The spread to LIBOR and the utilization fee fluctuate based on the borrower's credit rating.

As of December 31, 2010 and June 30, 2011, CenterPoint Houston had no borrowings under this credit facility. As of both December 31, 2010 and June 30, 2011, CenterPoint Houston had approximately $4 million of outstanding letters of credit under this credit facility. CenterPoint Houston was in compliance with all debt covenants as of June 30, 2011.

Other. At both December 31, 2010 and June 30, 2011, CenterPoint Houston had issued $151 million of first mortgage bonds as collateral for long-term debt of CenterPoint Energy. As of December 31, 2010 and June 30, 2011, CenterPoint Houston had issued $527 million and $508 million, respectively, of general mortgage bonds as collateral for long-term debt of CenterPoint Energy. These bonds are not reflected in the consolidated financial statements because of the contingent nature of the obligations.

(8) Commitments and Contingencies

Legal Matters

Gas Market Manipulation Cases. CenterPoint Energy, CenterPoint Houston or their predecessor, Reliant Energy, Incorporated (Reliant Energy), and certain of their former subsidiaries are named as defendants in certain lawsuits described below. Under a master separation agreement between CenterPoint Energy and a former subsidiary, RRI, CenterPoint Energy and its subsidiaries are entitled to be indemnified by RRI and its successors for any losses, including attorneys' fees and other costs, arising out of these lawsuits. In May 2009, RRI sold its Texas retail business to NRG Retail LLC, a subsidiary of NRG Energy, Inc. and changed its name to RRI Energy, Inc. In December 2010, Mirant Corporation merged with and became a wholly owned subsidiary of RRI Energy, Inc., and RRI Energy, Inc. changed its name to GenOn Energy, Inc. (GenOn). Neither the sale of the retail business nor the merger with Mirant Corporation 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 guaranty 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's former affiliate, RRI, was a participant in gas trading in the California and Western markets. These lawsuits, many of which have been filed as class actions, allege violations of state and federal antitrust laws. Plaintiffs in these lawsuits are seeking a variety of forms of relief, including, among others, recovery of compensatory damages (in some cases in excess of $1 billion), a trebling of compensatory damages, full consideration damages and attorneys'

fees. CenterPoint Energy and/or Reliant Energy were named in approximately 30 of these lawsuits, which were instituted between 2003 and 2009. CenterPoint Energy and its affiliates have been released or dismissed from all but two of such cases. CenterPoint Energy Services, Inc. (CES), an indirect subsidiary of CenterPoint Energy, 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 the 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. Additionally, CenterPoint Energy was a defendant in a lawsuit filed in state court in Nevada that was dismissed in 2007, but in March 2010 the plaintiffs appealed the dismissal to the Nevada Supreme Court. CenterPoint Energy believes that neither it nor CES is a proper defendant in these remaining cases and will continue to pursue dismissal from those cases. CenterPoint Houston does not expect the ultimate outcome of these remaining matters to have a material impact on its financial condition, results of operations or cash flows.

Environmental Matters

Asbestos. Some facilities owned by CenterPoint Energy contain or have contained asbestos insulation and other asbestos-containing materials. CenterPoint Energy or its subsidiaries, including CenterPoint Houston, 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 CenterPoint Energy or CenterPoint Houston, but most existing claims relate to facilities previously owned by CenterPoint Energy's subsidiaries. CenterPoint Energy anticipates that additional claims like those received may be asserted in the future. In 2004, CenterPoint Energy sold its generating business, to which most of these claims relate, to Texas Genco LLC, which is now known as NRG Texas LP. Under the terms of the arrangements regarding separation of the generating business from CenterPoint Energy and its sale to NRG Texas LP, ultimate financial responsibility for uninsured losses from claims relating to the generating business has been assumed by NRG Texas LP, but CenterPoint Energy has agreed to continue to defend such claims to the extent they are covered by insurance maintained by CenterPoint Energy, subject to reimbursement of the costs of such defense from NRG Texas LP. Although their ultimate outcome cannot be predicted at this time, CenterPoint Houston or CenterPoint Energy, as appropriate, intends to continue vigorously contesting claims that are not considered to have merit and CenterPoint Houston 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 Environmental. From time to time CenterPoint Houston has received notices from regulatory authorities or others regarding its status as a potentially responsible party in connection with sites found to require remediation due to the presence of environmental contaminants. In addition, CenterPoint Houston 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, CenterPoint Houston 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

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

(9) Income Taxes

During both the three and six months ended June 30, 2010, the effective tax rate was 36%. During the three and six months ended June 30, 2011, the effective tax rate was 35% and 36%, respectively.

As a result of the enactment in March 2010 of the Patient Protection and Affordable Care Act and the related Health Care and Education Reconciliation Act of 2010, a portion of retiree health care costs that are reimbursed by Medicare Part D subsidies will no longer be tax deductible effective for tax years beginning after

December 31, 2012. Based upon the actuarially determined net present value of lost future retiree health care deductions related to the subsidies, CenterPoint Houston reduced its deferred tax asset related to future retiree health care deductions by approximately $7 million in March 2010. The entire reduction in the deferred tax asset was recorded as an adjustment to regulatory assets because CenterPoint Houston believes it will be recovered through the regulatory process. Additionally, the regulatory assets were adjusted in March 2010 by approximately $4 million related to the recovery of CenterPoint Houston's income taxes.

The following table summarizes CenterPoint Houston's unrecognized tax benefits at December 31, 2010 and June 30, 2011:

	December 31, 2010	June 30, 2011
	(in millions)	
Unrecognized tax benefits	$ 232	$ 295
Portion of unrecognized tax benefits that, if recognized, would reduce the effective income tax rate	14	15
Interest accrued on unrecognized tax benefits	17	21

It is reasonably possible that the total amount of unrecognized tax benefits could decrease by an amount between $30 million and $281 million over the next 12 months primarily as a result of the anticipated resolution of the tax normalization issue described in Note 4(a) and CenterPoint Energy's administrative appeal relating to the IRS's disallowance of CenterPoint Houston's casualty loss deduction associated with the damage caused by Hurricane Ike. Additionally, the tax normalization issue and the casualty loss deduction are temporary differences and, therefore, any increase or decrease in the balance of unrecognized tax benefits related thereto would not affect the effective tax rate.

In January 2011, the IRS commenced its examination of CenterPoint Energy's 2008 and 2009 consolidated federal income tax returns, of which CenterPoint Houston is a member.

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

The following narrative analysis should be read in combination with our Interim Condensed Financial Statements contained in this Form 10-Q and our Annual Report on Form 10-K for the year ended December 31, 2010 (2010 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), Item 3 (Quantitative and Qualitative Disclosures About Market Risk) of Part I and the following Part II items of Form 10-Q: Item 2 (Unregistered Sales of Equity Securities and Use of Proceeds), Item 3 (Defaults Upon Senior Securities) and Item 4 (Submission of Matters to a Vote of Security Holders). The following discussion explains material changes in our results of operations between the three and six months ended June 30, 2010 and the three and six months ended June 30, 2011. Reference is made to "Management's Narrative Analysis of Results of Operations" in Item 7 of our 2010 Form 10-K.

Recent Events

Texas Supreme Court Ruling on True-Up Appeal

On March 18, 2011, the Texas Supreme Court issued a unanimous ruling on the appeals of the final order (True-Up Order) issued in 2004 by the Public Utility Commission of Texas (Texas Utility Commission) in connection with our stranded cost and true-up application. The Texas Supreme Court affirmed in part and reversed in part the decision of the Texas Utility Commission and remanded the matter to the Texas Utility Commission for further proceedings.

We originally filed our True-Up Application with the Texas Utility Commission requesting recovery of $3.7 billion, excluding interest, as allowed under the Texas Electric Choice Plan (Texas electric restructuring law). In December 2004, the Texas Utility Commission issued its True-Up Order allowing us to recover a true-up balance of approximately $2.3 billion, which included interest through August 31, 2004, and provided for certain other adjustments. To reflect the impact of the True-Up Order, in 2004 and 2005, we recorded a net after-tax extraordinary loss of $947 million. We and a number of other parties appealed the Texas Utility Commission's decision to a district court in Travis County, Texas, the Texas Third Court of Appeals (court of appeals) and, ultimately, to the Texas Supreme Court.

The impact of the Texas Supreme Court's decision regarding the matters on appeal with respect to the True-Up Order is summarized as follows:

- The method used by the Texas Utility Commission to calculate the market value of our former generating assets was overturned. In its decision, the Texas Utility Commission had rejected the partial stock valuation method we utilized to establish the market value of the generating assets, and the Texas Utility Commission had fashioned its own valuation. The Texas Supreme Court ruled that the Texas Utility Commission had no authority to craft an alternative valuation methodology but instead should have valued the generating assets at the value established when CenterPoint Energy, Inc. (CenterPoint Energy) later sold its Texas Genco subsidiary. This portion of the decision requires that the valuation question be remanded to the Texas Utility Commission for a determination. We currently estimate that application of the sale of assets methodology would reduce stranded costs by an amount equal to approximately $252 million, less selling costs, plus the amount of debt assumed by the buyer of Texas Genco. This portion of the decision is unfavorable to us.

- The Texas Utility Commission's order denying recovery of approximately $440 million in capacity auction true-up amounts was reversed. This portion of the decision is favorable to us. These sums plus interest are eligible for recovery in the remand proceeding.

- The Texas Utility Commission's refusal to include approximately $378 million related to depreciation in the calculation of stranded costs was reversed. This portion of the decision is favorable to us. These sums plus interest are eligible for recovery in the remand proceeding.

- The Texas Utility Commission's order allowing recovery of excess mitigation credits (EMCs) that we had been ordered to pay our former affiliate was upheld. This portion of the decision is favorable to us. These sums have already been recovered and will not be addressed in the remand proceeding.

- The Texas Utility Commission decisions allowing recovery of construction work in progress balances and interest on the capacity auction true-up amounts were upheld. These decisions are favorable to us. These sums have already been recovered and will not be addressed in the remand proceeding.

The Texas Supreme Court did not address the court of appeals' decision allowing us to recover approximately $210 million representing the interest component of the EMCs. This decision, which was favorable to us, was not appealed to the Texas Supreme Court. These sums plus interest are eligible for recovery in the remand proceeding.

Among the issues to be taken up by the Texas Utility Commission on the remand from the Texas Supreme Court is the proper regulatory treatment of certain deferred tax amounts. In the True-Up Order, the Texas Utility Commission reduced our true-up balance by approximately $146 million, which was included in the extraordinary loss discussed above, to reflect the present value of certain deferred tax amounts associated with our former electric generation assets. We believe that the Texas Utility Commission based its order on proposed regulations issued by the Internal Revenue Service (IRS) in March 2003 that would have allowed utilities owning assets that were deregulated before March 4, 2003 to make a retroactive election to pass the benefits of Accumulated Deferred Investment Tax Credits (ADITC) and Excess Deferred Federal Income Taxes (EDFIT) back to customers. However, the IRS subsequently withdrew those proposed normalization regulations and, in March 2008, adopted final regulations that would not permit utilities like us to pass the tax benefits back to customers without creating normalization violations. In addition, CenterPoint Energy received a Private Letter Ruling (PLR) from the IRS in August 2007, prior to adoption of the final regulations, that confirmed that the Texas Utility Commission's order reducing our stranded cost recovery by $146 million for ADITC and EDFIT would cause normalization violations with respect to the ADITC and EDFIT. The Texas Utility Commission thereafter requested that this issue be remanded to that commission for further consideration, and that request was granted by the court of appeals. We plan to seek to recover $146 million plus interest related to this issue in the remand proceedings.

If the Texas Utility Commission's order relating to the ADITC reduction is not reversed or otherwise modified on remand so as to eliminate the normalization violation, the IRS could require CenterPoint Energy to pay an amount equal to our unamortized ADITC balance as of the date that the normalization violation is deemed to have occurred. In addition, the IRS could deny us the ability to elect accelerated tax depreciation benefits beginning in the taxable year that the normalization violation is deemed to have occurred. Such treatment, if required by the IRS, could have a material adverse impact on our results of operations, financial condition and cash flows.

After the Texas Supreme Court issued its decision, a number of parties filed motions for rehearing with the Texas Supreme Court requesting the court to reconsider its decision. In June 2011, the court denied the motions for rehearing and issued a corrected mandate remanding the case to the Texas Utility Commission for further proceedings. There is no statutory deadline by which the Texas Utility Commission must act now that the case has been remanded to it; but, in accordance with the rules of the Texas Utility Commission, interest on the unrecovered true-up balance will continue to accrue until such balance is securitized or is otherwise recovered in rates.

We expect to seek recovery of approximately $1.88 billion in the remand process before the Texas Utility Commission, which includes interest through October 31, 2011. We intend to file an application with the Texas Utility Commission for approval of a financing order authorizing the issuance of transition bonds by one or more new special purpose subsidiaries of ours to securitize the recoverable amounts and certain qualified costs. Interest on the final true up balance as approved by the Texas Utility Commission will continue to accrue at approximately 8% until the bonds are issued. On July 15, 2011, certain intervenors and the staff of the Texas Utility Commission filed a request with the Texas Utility Commission to sever $1.38 billion of our remaining true-up balance and to securitize that amount prior to completion of the pending review by the Texas Utility Commission of certain issues in the remand proceeding. The issues identified by the intervenors as requiring review include the calculation of the ADFIT benefit and the tax normalization issue discussed above, the proper rate for interest to accrue on true-up balances, and the recoverability of certain rate case expenses and transaction costs associated with the sale of Texas Genco. In August 2011, the Texas Utility Commission denied this request.

The final resolution of the true-up proceedings and the ultimate amount and timing of recovery of the additional amounts authorized will depend upon the outcome of future actions by the Texas Utility Commission in response to rulings by the Texas Supreme Court and the court of appeals, and any future appeals thereof. We expect to record the effects of the Texas Supreme Court's decision once a final resolution of these matters is reached.

Advanced Metering System and Distribution Grid Automation (Intelligent Grid)

In October 2009, the U.S. Department of Energy (DOE) selected us for a $200 million grant for our advanced metering system (AMS) and intelligent grid (IG) projects. In March 2010, we and the DOE completed negotiations and finalized the agreement. Under the terms of agreement, the DOE has agreed to reimburse us for 50% of our eligible costs until the total amount of the grant has been paid. Through June 30, 2011, we have requested $167 million of grant funding from the DOE, all of which has been received. We estimate that capital expenditures of approximately $645 million for the installation of the advanced meters and corresponding communication and data management systems will be incurred over the deployment period. We are using $150 million of the grant funding to accelerate completion of our deployment of advanced meters to 2012, instead of 2014 as originally scheduled. We will use the other $50 million from the grant for an initial deployment of an IG in a portion of our service territory to be completed in 2013. It is expected that the portion of the IG project subject to funding by the DOE will cost approximately $115 million. We believe the IG has the potential to provide an improvement in grid planning, operations, maintenance and customer service for our distribution system.

In March 2010, the IRS announced through the issuance of Revenue Procedure 2010-20 that it was providing a safe harbor to corporations that receive a Smart Grid Investment Grant. The IRS stated that it would not challenge a corporation's treatment of the grant as a non-taxable non-shareholder contribution to capital as long as the corporation properly reduced the tax basis of specified property acquired.

2010 Rate Case

As required under the final order in our 2006 rate proceeding, in June 2010 we filed an application to change rates with the Texas Utility Commission and the cities in our service area.

Following hearings in the fall of 2010, the Texas Utility Commission issued its order on May 12, 2011. In response to motions filed by several parties, including us, on June 23, 2011, the Texas Utility Commission issued an order on rehearing, which addressed certain errors and inconsistencies identified in its prior decision. We expect revised rates based on the order on rehearing to be implemented in the third quarter of 2011. The order on rehearing could be appealed to the Texas courts.

The order on rehearing provides for a base rate increase for us of approximately $14.7 million per year for delivery charges to the retail electric providers (REPs) and a decrease to charges to wholesale transmission customers of $12.3 million per year. Further, the order adopts a mechanism to track amounts for uncertain tax positions and provide for ultimate recovery of those costs.

The order authorizes a return on equity for us of 10%, a cost of debt of 6.74%, a capital structure comprised of 55% debt and 45% common equity, and an overall rate of return of 8.21%. The decision also implements our request to reconcile costs incurred for the AMS project and to shorten the period for collecting the AMS surcharge from twelve to six years for residential customers in order to reflect the funds received from the DOE.

As a result of the Texas Utility Commission's order, we anticipate that normalized annual operating income will be reduced by approximately $30 million.

CONSOLIDATED RESULTS OF OPERATIONS

Our results of operations are affected by seasonal fluctuations in the demand for electricity. Our results of operations are also affected by, among other things, the actions of various governmental authorities having jurisdiction over rates we charge, debt service costs, income tax expense, our ability to collect receivables from REPs and our ability to recover our stranded costs and regulatory assets. For more information regarding factors that may affect the future results of operations of our business, please read "Risk Factors" in Item 1A of Part I of our

2010 Form 10-K and Item 1A of Part II of our Quarterly Report on Form 10-Q for the quarter ended March 31, 2011 (First Quarter Form 10-Q).

The following table sets forth our consolidated results of operations for the three and six months ended June 30, 2010 and 2011, followed by a discussion of our consolidated results of operations based on operating income.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2011	2010	2011
	(in millions, except customer data)			
Revenues:				
Electric transmission and distribution utility	$ 449	$ 489	$ 841	$ 889
Transition and system restoration bond companies	113	117	209	206
Total revenues	562	606	1,050	1,095
Expenses:				
Operation and maintenance, excluding transition and system restoration bond companies	204	219	394	427
Depreciation and amortization, excluding transition and system restoration bond companies	71	66	144	137
Taxes other than income taxes	52	51	104	104
Transition and system restoration bond companies	77	85	137	141
Total expenses	404	421	779	809
Operating income	158	185	271	286
Interest and other finance charges	(37)	(38)	(74)	(75)
Interest on transition and system restoration bonds	(36)	(32)	(72)	(65)
Other income, net	9	7	16	15
Income before income taxes	94	122	141	161
Income tax expense	34	43	51	58
Net income	$ 60	$ 79	$ 90	$ 103
Operating Income:				
Electric transmission and distribution utility	$ 122	$ 153	$ 199	$ 221
Transition and system restoration bond companies [(1)]	36	32	72	65
Total operating income	$ 158	$ 185	$ 271	$ 286
Throughput (in gigawatt-hours (GWh)):				
Residential	7,064	7,785	12,237	12,656
Total	20,174	21,077	36,610	37,845
Number of metered customers at period end:				
Residential	1,866,699	1,895,852	1,866,699	1,895,852
Total	2,113,695	2,145,979	2,113,695	2,145,979

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

Three months ended June 30, 2011 compared to three months ended June 30, 2010

We reported operating income of $185 million for the three months ended June 30, 2011, consisting of $153 million from the regulated electric transmission and distribution utility (TDU) and $32 million related to transition and system restoration bond companies. For the three months ended June 30, 2010, operating income totaled $158 million, consisting of $122 million from the TDU and $36 million related to transition and system restoration bond companies. TDU revenues increased $40 million due to increased usage ($16 million), primarily due to favorable weather, higher transmission-related revenues ($13 million), higher revenues due to customer growth ($4 million) from the addition of over 32,000 new customers and revenues from implementation of the AMS ($3 million). Operation and maintenance expenses increased $15 million due to higher transmission costs billed by

transmission providers ($6 million), increased contracts and services ($3 million), increased AMS project expenses ($1 million) and other operating expense increases ($5 million). Depreciation expense decreased by $5 million.

Six months ended June 30, 2011 compared to six months ended June 30, 2010

We reported operating income of $286 million for the six months ended June 30, 2011, consisting of $221 million from the TDU and $65 million related to transition and system restoration bond companies. For the six months ended June 30, 2010, operating income totaled $271 million, consisting of $199 million from the TDU and $72 million related to transition and system restoration bond companies. TDU revenues increased $48 million due to higher transmission-related revenues ($25 million), increased usage ($9 million), primarily due to favorable weather, revenues from implementation of the AMS ($9 million) and higher revenues due to customer growth ($7 million) from the addition of over 32,000 new customers. Operation and maintenance expenses increased $33 million due to higher transmission costs billed by transmission providers ($17 million), increased contracts and services ($5 million), increased AMS project expenses ($4 million) and other operating expense increases ($7 million). Depreciation expense decreased by $7 million.

Income Tax Expense. During both the three and six months ended June 30, 2010, our effective tax rate was 36%. During the three and six months ended June 30, 2011, our effective tax rate was 35% and 36%, respectively.

As a result of the enactment in March 2010 of the Patient Protection and Affordable Care Act and the related Health Care and Education Reconciliation Act of 2010, a portion of retiree health care costs that are reimbursed by Medicare Part D subsidies will no longer be tax deductible effective for tax years beginning after December 31, 2012. Based upon the actuarially determined net present value of lost future retiree health care deductions related to the subsidies, we reduced our deferred tax asset related to future retiree health care deductions by approximately $7 million in March 2010. The entire reduction in the deferred tax asset was recorded as an adjustment to regulatory assets because we believe it will be recovered through the regulatory process. Additionally, the regulatory assets were adjusted in March 2010 by approximately $4 million related to the recovery of our income taxes.

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 2010 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 2010 Form 10-K, “Risk Factors” in Item 1A of Part II of our First Quarter Form 10-Q and “Cautionary Statement Regarding Forward-Looking Information” in this Form 10-Q.

LIQUIDITY AND CAPITAL RESOURCES

Our liquidity and capital requirements are affected primarily by our results of operations, capital expenditures, debt service requirements, tax payments, working capital needs, various regulatory actions and appeals relating to such regulatory actions. Substantially all of our capital expenditures are expected to be used for investment in infrastructure to maintain the reliability and safety of our operations. Our principal cash requirements for the remaining six months of 2011 include approximately $375 million of capital expenditures and $143 million of scheduled principal payments on transition and system restoration bonds.

We expect that borrowings under our credit facility, anticipated cash flows from operations and funds from the liquidation of temporary money pool investments will be sufficient to meet our anticipated cash needs in the remaining six months of 2011. Cash needs or discretionary financing or refinancing may result in the issuance of debt securities in the capital markets or the arrangement of additional credit facilities. Issuances of debt in the capital markets and additional credit facilities may not, however, be available to us on acceptable terms.

Off-Balance Sheet Arrangements. Other than first mortgage bonds and general mortgage bonds issued as collateral for long-term debt of CenterPoint Energy as discussed below and operating leases, we have no off-balance sheet arrangements.

In May 2009, RRI Energy, Inc. (RRI) (formerly known as Reliant Energy, Inc. and Reliant Resources, Inc.) sold its Texas retail business to NRG Retail LLC, a subsidiary of NRG Energy, Inc. In December 2010, Mirant

Corporation merged with and became a wholly owned subsidiary of RRI and RRI changed its name from RRI Energy, Inc. to GenOn Energy, Inc. (GenOn). Neither the sale of the retail business nor the merger with Mirant Corporation alters GenOn's contractual obligations to indemnify us for certain liabilities, including its indemnification obligations regarding certain litigation.

Credit Facility. Our $289 million credit facility's first drawn cost is the London Interbank Offered Rate (LIBOR) plus 45 basis points based on our current credit ratings. The facility contains a debt (excluding transition and system restoration bonds) to total capitalization covenant, limiting debt to 65% of our total capitalization. Under our credit facility, an additional utilization fee of 5 basis points applies to borrowings any time more than 50% of the facility is utilized. The spread to LIBOR and the utilization fee fluctuate based on our credit rating.

Borrowings under our credit facility are subject to customary terms and conditions. However, there is no requirement that we make representations prior to borrowing as to the absence of material adverse changes or litigation that could be expected to have a material adverse effect. Borrowings under our credit facility are subject to acceleration upon the occurrence of events of default that we consider customary. We are currently in compliance with the various business and financial covenants contained in our credit facility.

As of July 15, 2011, we had the following facility (in millions):

Date Executed	Type of Facility	Size of Facility	Amount Utilized at July 15, 2011	Termination Date
June 29, 2007	Revolver	$ 289	$ 4(1)	June 29, 2012

(1) Represents outstanding letters of credit.

In the third quarter of 2011, we expect to replace our credit facility that terminates in 2012 with a new five-year credit facility having a similar borrowing capacity.

Securities Registered with the SEC. We have registered an indeterminate principal amount of our general mortgage bonds under a joint registration statement with CenterPoint Energy and CenterPoint Energy Resources Corp.

Temporary Investments. As of July 15, 2011, we had no external temporary investments.

Money Pool. We participate in a money pool through which we and certain of our affiliates can borrow or invest on a short-term basis. Funding needs are aggregated and external borrowing or investing is based on the net cash position. The net funding requirements of the money pool are expected to be met with borrowings by CenterPoint Energy under its revolving credit facility or the sale by CenterPoint Energy of its commercial paper. At July 15, 2011, we had $977 million invested in the money pool. The money pool may not provide sufficient funds to meet our cash needs.

Long-term Debt. Our long-term debt consists of our obligations and the obligations of our subsidiaries, including transition and system restoration bonds issued by our wholly owned subsidiaries. The following table shows future maturity dates of long-term debt issued by us to third parties and affiliates and scheduled future payment dates of transition and system restoration bonds issued by our subsidiaries: CenterPoint Energy Transition Bond Company, LLC, CenterPoint Energy Transition Bond Company II, LLC, CenterPoint Energy Transition Bond Company III, LLC and CenterPoint Energy Restoration Bond Company, LLC as of June 30, 2011. Amounts are expressed in millions.

Year	Third-Party	Affiliate	Sub-Total	Transition and System Restoration Bonds	Total
2011	$ —	$ —	$ —	$ 143	$ 143
2012	46	—	46	307	353
2013	450	—	450	330	780
2014	800	—	800	235	1,035
2015	—	151	151	249	400
2016	—	—	—	266	266
2017	127	—	127	283	410
2018	—	—	—	303	303
2019	—	—	—	323	323
2020	—	—	—	91	91
2021	102	—	102	66	168
2022	—	—	—	69	69
2023	200	—	200	—	200
2027	56	—	56	—	56
2033	312	—	312	—	312
Total	$ 2,093	$ 151	$ 2,244	$ 2,665	$ 4,909

As of June 30, 2011, outstanding first mortgage bonds and general mortgage bonds aggregated approximately $2.8 billion as shown in the following table. Amounts are expressed in millions.

	Issued Directly to Third Parties	Issued as Collateral for Our Debt	Issued as Collateral for CenterPoint Energy's Debt	Total
First Mortgage Bonds	$ 102	$ —	$ 151	$ 253
General Mortgage Bonds	1,762	229	508(1)	2,499
Total	$ 1,864	$ 229	$ 659	$ 2,752

(1) Of such amount, $290 million collateralizes bonds purchased by CenterPoint Energy in January 2010, which may be remarketed by CenterPoint Energy.

The lien of the general mortgage indenture is junior to that of the mortgage pursuant to which the first mortgage bonds are issued. We may issue additional general mortgage bonds on the basis of retired bonds, 70% of property additions or cash deposited with the trustee. Approximately $2.4 billion of additional first mortgage bonds and general mortgage bonds could be issued on the basis of retired bonds and 70% of property additions as of June 30, 2011. However, we have contractually agreed not to issue additional first mortgage bonds, subject to certain exceptions.

The following table shows the maturity dates of the $659 million of first mortgage bonds and general mortgage bonds that we have issued as collateral for long-term debt of CenterPoint Energy. These bonds are not reflected in our consolidated financial statements because of the contingent nature of the obligations. Amounts are expressed in millions.

Year	First Mortgage Bonds	General Mortgage Bonds	Total
2015	$ 151	$ —	$ 151
2018	—	50	50
2019	—	200(1)	200
2020	—	90(1)	90
2026	—	100	100
2028	—	68	68
Total	$ 151	$ 508	$ 659

(1) These mortgage bonds collateralize bonds purchased by CenterPoint Energy in January 2010, which may be remarketed by CenterPoint Energy.

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 15, 2011, Moody's Investors Service, Inc. (Moody's), Standard & Poor's Ratings Services, a division of The McGraw Hill Companies (S&P), and Fitch, Inc. (Fitch) had assigned the following credit ratings to our senior debt.

	Moody's		S&P		Fitch	
Instrument	Rating	Outlook (1)	Rating	Outlook (2)	Rating	Outlook (3)
Senior Secured Debt	A3	Stable	BBB+	Positive	A-	Positive

(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 encompasses a one- to two-year horizon as to the likely ratings direction.

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 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, 2011, 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 certain capital market transactions.

Cross Defaults. Under CenterPoint Energy's $1.2 billion revolving credit facility, a payment default on, or a non-payment default that permits acceleration of, any indebtedness exceeding $50 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, 2011, 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 bank credit facility.

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

- increases in interest expense in connection with debt refinancings and borrowings under our credit facility;
- various legislative or regulatory actions;
- the ability of GenOn and its subsidiaries to satisfy their obligations in respect of GenOn's indemnity obligations to us;
- the ability of REPs, including REP subsidiaries of NRG Retail LLC and REP subsidiaries of TXU Energy Retail Company LLC, which are our two largest customers, to satisfy their obligations to us and our subsidiaries;
- 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 2010 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 credit facility limits our debt (excluding transition and system restoration bonds) as a percentage of our total capitalization to 65%. Additionally, we have contractually agreed that we will not issue additional first mortgage bonds, subject to certain exceptions.

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

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, 2011 to provide assurance that information required to be disclosed in our reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms 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, 2011 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 discussion of certain legal and regulatory proceedings affecting us, please read Notes 4 and 8 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 2010 Form 10-K.

Item 1A. RISK FACTORS

There have been no material changes from the risk factors disclosed in our 2010 Form 10-K and First Quarter Form 10-Q.

Item 5. OTHER INFORMATION

Our ratio of earnings to fixed charges for the six months ended June 30, 2010 and 2011 was 1.95 and 2.12, 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 of CenterPoint Houston or CenterPoint Energy as indicated.

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

Exhibit Number	Description	Report or Registration Statement	SEC File or Registration Number	Exhibit References
+3.1	Restated Certificate of Formation of CenterPoint Houston			
+3.2	Amended and Restated Limited Liability Company Agreement of CenterPoint Houston			
4.1	$300,000,000 Second Amended and Restated Credit Agreement, dated as of June 29, 2007, among CenterPoint Houston, as Borrower, and the banks named therein	CenterPoint Houston's Form 10-Q for the quarter ended June 30, 2007	1-3187	4.1
4.2	First Amendment to Exhibit 4.1, dated as of November 18, 2008, among CenterPoint Houston, as Borrower, and the banks named therein	CenterPoint Energy's Form 8-K dated November 18, 2008	1-31447	4.2
+12	Computation of Ratios of Earnings to Fixed Charges			

Exhibit Number	Description	Report or Registration Statement	SEC File or Registration Number	Exhibit References
+31.1	Rule 13a-14(a)/15d-14(a) Certification of David M. McClanahan			
+31.2	Rule 13a-14(a)/15d-14(a) Certification of Gary L. Whitlock			
+32.1	Section 1350 Certification of David M. McClanahan			
+32.2	Section 1350 Certification of Gary L. Whitlock			
+101.INS	XBRL Instance Document (1)			
+101.SCH	XBRL Taxonomy Extension Schema Document (1)			
+101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document (1)			
+101.LAB	XBRL Taxonomy Extension Labels Linkbase Document (1)			
+101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document (1)			

(1) Furnished, not filed.

SIGNATURES

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

CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC

By: /s/ WALTER L. FITZGERALD
Walter L. Fitzgerald
Senior Vice President and Chief Accounting Officer

Date: August 4, 2011

Index to Exhibits

The following exhibits are filed herewith:

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

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

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Exhibit Number	Description	Report or Registration Statement	SEC File or Registration Number	Exhibit References
+101.LAB	XBRL Taxonomy Extension Labels Linkbase Document (1)			
+101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document (1)			

(1) Furnished, not filed.

Exhibit 3.1

RESTATED CERTIFICATE OF FORMATION

OF

CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC

CenterPoint Energy Houston Electric, LLC, a Texas limited liability company (the "Company"), pursuant to the provisions of Section 3.059 of the Texas Business Organizations Code, hereby adopts this Restated Certificate of Formation.

1. This Restated Certificate of Formation accurately copies the provisions of the existing Articles of Organization of the Company and all amendments thereto that are in effect on the date hereof (the "Articles of Organization"), as further amended by this Restated Certificate of Formation as hereinafter set forth, and contains no other change in any provisions thereof. The amendments to the Articles of Organization effected by this Restated Certificate of Formation (collectively, the "Amendments") (i) update statutory references and terminology to reflect the adoption of the Texas Business Organizations Code, (ii) remove former Article II, which is not required under the Texas Business Organizations Code, (iii) insert a new Article II stating that the Company is a limited liability company and (iv) update the names and addresses of the Company's registered agent and manager. The full text of each provision altered by the Amendments is as set forth below.

2. The Amendments have been made in accordance with the Texas Business Organizations Code, and this Restated Certificate of Formation and the Amendments effected hereby have been approved in the manner required under the Texas Business Organizations Code and the governing documents of the Company.

3. The Articles of Organization are hereby superseded by the following Restated Certificate of Formation, which accurately copies the entire text thereof, as amended hereby:

ARTICLE I

The name of the limited liability company is CenterPoint Energy Houston Electric, LLC (the "Company").

ARTICLE II

The Company is a limited liability company.

ARTICLE III

The purpose of the Company is the transaction of any or all business for which a limited liability company may be organized under the Texas Business Organizations Code.

ARTICLE IV

The address of the Company's registered office is 350 North St. Paul Street, Suite 2900, Dallas, TX 75201, and the name of the Company's registered agent at such address is CT Corporation System.

ARTICLE V

The Company shall have managers. The name and address of the sole manager of the Company is:

David M. McClanahan
1111 Louisiana
Houston, Texas 77002

ARTICLE VI

The Company was formed pursuant to a plan of conversion in accordance with Texas law.

ARTICLE VII

The name and address of the converting entity (the "Converting Entity") were as follows:

Reliant Energy, Incorporated
1111 Louisiana
Houston, Texas 77002

The Converting Entity was a corporation incorporated under the laws of the State of Texas. The Converting Entity was incorporated on January 9, 1906 under the name Houston Lighting & Power Company.

IN WITNESS WHEREOF, the undersigned has executed this Restated Certificate of Formation this first day of August, 2011

CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC

By: /s/ Richard B. Dauphin
Richard B. Dauphin
Assistant Secretary

Exhibit 3.2

AMENDED AND RESTATED

LIMITED LIABILITY COMPANY AGREEMENT

OF

CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC

Effective as of August 2, 2011

AMENDED AND RESTATED LIMITED LIABILITY COMPANY AGREEMENT

This Amended and Restated Limited Liability Company Agreement (this "Agreement") of CenterPoint Energy Houston Electric, LLC (the "Company") is made and executed as of August 2, 2011, by Utility Holding, LLC, a Delaware limited liability company ("Utility Holding").

WHEREAS, the Company's original Limited Liability Company Regulations (the "Original LLC Agreement") were executed August 31, 2002, by Utility Holding and Reliant Energy FinanceCo II LP, a Delaware limited partnership ("Finco"), in connection with the conversion of Reliant Energy, Incorporated, a Texas corporation (the "Corporation"), into the Company under the laws of the State of Texas;

WHEREAS, the Original LLC Agreement designated common shares and Series A preferred shares as the initial classes of Shares of the Company and reflected Finco's ownership of 3,160 shares of Series A preferred shares;

WHEREAS, the Series A preferred shares have been redeemed and cancelled and Utility Holding is the sole Member; and

WHEREAS, Utility Holding desires to amend and restate the Original LLC Agreement;

NOW, THEREFORE, the undersigned hereby agrees that the terms set forth herein shall apply to the Company:

ARTICLE I

DEFINITIONS

The following terms used in this Agreement shall have the following meanings (unless otherwise expressly provided herein):

"Additional Member" shall mean any Person admitted to the Company as an Additional Member pursuant to Section 4.3 of this Agreement.

"Adjusted Capital Account Deficit" shall mean, with respect to any Member, the deficit balance, if any, in such Member's Capital Account as of the end of the relevant fiscal year, after giving effect to the following adjustments: (i) crediting to such Capital Account any amounts that such Member is obligated to restore or is deemed to be obligated to restore pursuant to Regulations sections 1.704-1(b)(2)(ii)(b)(3), 1.704-1(b)(2)(ii)(c), 1.704-2(g)(1), and 1.704-2(i)(5), and (ii) debiting to such Capital Account the items described in Regulations section 1.704-1(b)(2)(ii)(d)(4), (5), and (6). The foregoing definition of Adjusted Capital Account Deficit is intended to comply with the provisions of Regulations section 1.704-1(b)(2)(ii)(d) and shall be interpreted consistently therewith.

"Affiliate," with respect to a specified Person, shall mean a Person that directly, or indirectly through one or more intermediaries, controls or is controlled by, or is under common control with, the Person specified. For purposes of this definition, "control" shall mean the

possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of a Person, whether through the ownership of voting securities, by contract or otherwise.

"Agreement" shall mean this Agreement as originally executed and as it may be amended from time to time hereafter.

"Capital Account" shall mean a financial account to be established and maintained by the Company for each Member as computed from time to time in accordance with Section 10.3 hereof. A transferee of a Member's Shares shall succeed to the transferor's Capital Account with respect to the transferred Shares.

"Capital Contribution" shall mean any contribution to the capital of the Company in cash or property by a Member whenever made.

"Capital Percentage" shall mean a Member's ownership interest in the Company expressed as a percentage as set forth on Exhibit A hereto.

"Certificate of Formation" shall mean the Certificate of Formation of the Company filed with and endorsed by the Secretary of State of the State of Texas, as such certificate may be amended from time to time hereafter.

"Code" shall mean the Internal Revenue Code of 1986, as amended, or corresponding provisions of subsequent superseding federal revenue laws.

"Designated Professional Capacity" shall include, but not be limited to, an employee acting in his capacity as a physician, nurse, psychologist or therapist, registered surveyor, registered engineer, registered architect, attorney, certified public accountant or other person who renders such professional services within the course and scope of his employment, who is licensed by appropriate regulatory authorities to practice such profession and who, while acting in the course of such employment, committed or is alleged to have committed any negligent acts, errors or omissions in rendering such professional services at the request of the Company or pursuant to his employment (including, without limitation, rendering written or oral opinions to third parties).

"Entity" shall mean any foreign or domestic general partnership, limited partnership, limited liability company, corporation, sole proprietorship, joint enterprise, trust, business trust, employee benefit plan, cooperative or association.

"Expenses" shall include any judgment, penalty, settlement, fine, excise or similar tax and all reasonable attorneys' fees, retainers, court costs, transcript costs, fees of experts, witness fees, travel expenses, duplicating costs, printing and binding costs, telephone charges, postage, delivery service fees, and all other disbursements or expenses of the types customarily incurred in connection with prosecuting, defending, preparing to prosecute or defend, investigating, or being or preparing to be a witness in a Proceeding.

"Fiscal Year" shall mean the Company's fiscal year, which shall be determined by the Managers.

"Indemnitee" shall have the meaning given such term in Section 8.1.

"Manager" shall mean any of the managers of the Company duly appointed or elected to serve in such capacity under Texas law and this Agreement.

"Member" shall mean each Person who executes a counterpart of this Agreement as a Member and each Person who may hereafter become an Additional Member pursuant to Section 4.3 or a Substituted Member pursuant to Section 13.3; but shall not include any Member that ceases to be a Member.

"Member Nonrecourse Debt" shall have the meaning ascribed to the term "partner nonrecourse debt" in Regulations section 1.704-2(b)(4).

"Member Nonrecourse Debt Minimum Gain" shall have the meaning ascribed to the term "partner nonrecourse debt minimum gain" in Regulations section 1.704-2(i)(2).

"Member Nonrecourse Deductions" shall mean any item of partnership loss, deduction, or expenditure under section 705(a)(2)(B) of the Code that is attributable to a Member Nonrecourse Debt, as determined pursuant to Regulations section 1.704-2(i)(2).

"Minimum Gain" shall have the meaning set forth in Regulations section 1.704-2(d)(1) and shall mean the amount determined by (i) computing for each nonrecourse liability of the Company any gain the Company would realize if it disposed of the property subject to that liability for no consideration other than full satisfaction of the liability and (ii) aggregating the separately computed gains. If, pursuant to Regulations sections 1.704-1(b)(2)(iv)(d) or 1.704-1(b)(2)(iv)(f), Company property is properly reflected on the books of the Company at a book value that differs from the adjusted tax basis of such property, the calculation of Minimum Gain pursuant to the preceding sentence shall be made by reference to such book value. For purposes hereof, a liability of the Company is a nonrecourse liability to the extent that no Member or related person bears the economic risk of loss for that liability within the meaning of Regulations section 1.752-2.

"Net Income" shall mean for a taxable year of the Company or other period the excess of (i) the income and gain of the Company for such year or period, over (ii) the deductions and losses of the Company for such year or period.

"Net Loss" shall mean for a taxable year of the Company or other period the excess of (i) the deductions and losses of the Company for such year or period, over (ii) the income and gain of the Company for such year or period.

"Nonrecourse Deductions" shall have the meaning ascribed to such term in Regulations section 1.704-2(b)(1).

"Person" shall mean any individual or Entity, and any heir, executor, administrator, legal representative, successor or assign of such "Person" where the context so admits.

"Proceeding" includes (i) any threatened, pending or completed action, suit, arbitration, alternate dispute resolution proceeding, investigation, administrative hearing and any other

proceeding, whether civil, criminal, administrative, arbitrative, investigative or other, (ii) any appeal of an action or proceeding described in (i), or (iii) any inquiry or investigation, whether conducted by or on behalf of the Company, a subsidiary of the Company or any other party, formal or informal, that the Indemnitee in good faith believes might lead to the institution of an action or proceeding described in (i).

"Regulations" shall mean the Treasury Regulations promulgated pursuant to the Code.

"Regulatory Allocations" shall have the meaning set forth in Section 10.4(g).

"Requisite Interest" shall mean, as the case may be, the (i) Members holding more than 50% of the issued and outstanding Shares of a particular class held by Members at any given time or (ii) Members holding more than the percentage of a class of outstanding Shares held by Members at any given time specified in the instrument defining the rights of such class of Shares and, in either case, entitled to vote on the matter being considered.

"Share" shall mean an undivided portion of all or a specified category of the rights, duties, obligations, and ownership interests in the Company.

"Substituted Member" shall mean any transferee or assignee of Shares that is admitted to the Company as a Member pursuant to Section 13.3.

"Texas Code" shall mean the Texas Business Organizations Code, as the same may be amended from time to time hereafter.

ARTICLE II

FORMATION OF THE COMPANY

2.1 *Formation*. The Articles of Organization of the Company became effective as of 11:54 p.m., Houston time, on August 31, 2002, and were amended by the Restated Certificate of Formation which was filed with the Secretary of State of the State of Texas effective as of August 2, 2011.

2.2 *Name*. The name of the Company is CenterPoint Energy Houston Electric, LLC. If the Company shall conduct business in any jurisdiction other than the State of Texas, it shall register the Company or its trade name with the appropriate authorities in such state in order to have the legal existence of the Company recognized.

2.3 *Place of Business*. The principal place of business of the Company is currently located at 1111 Louisiana, Houston, Texas 77002. The Company may locate its places of business and registered office at any place or places as the Managers may from time to time deem advisable.

2.4 *Registered Office and Registered Agent*. The Company's registered office shall be at the office of its registered agent at 350 North St. Paul Street, Suite 2900, Dallas, TX 75201, and the name of its registered agent at such address shall be CT Corporation System.

2.5 *Term*. The Company and this Agreement shall continue until the earlier of (a) such time as all of the Company's assets have been sold or otherwise disposed of, or (b) such time as the Company's existence has been terminated as otherwise provided herein or in the Texas Code.

2.6 *Purpose of the Company*. The purpose of the Company shall be to engage in any lawful business activities in which a limited liability company formed under the Texas Code may engage or participate, including, but not limited to, continuing its operations and business activities as a transmission and distribution utility in the State of Texas. The Company shall have any and all powers necessary or desirable to carry out the purpose and business of the Company to the extent the same may be legally exercised by limited liability companies under the Texas Code. The Company shall carry out the foregoing activities pursuant to the Restated Certificate of Formation and this Agreement.

ARTICLE III

MEMBERS

The names and places of business of each Member are set forth on Exhibit A hereto.

ARTICLE IV

CAPITAL OF THE COMPANY

4.1 *Shares and Initial Contributions.*

(a) A class of Shares denominated "Common Shares" is hereby designated. Each Common Share shall entitle any Member holding the same to one vote in respect of all matters coming before the Members for consideration and to an undivided portion of all of the other rights, duties, obligations and ownership interests in the Company.

(b) The Members and the number and type of Shares held by each Member shall be set forth opposite its name on Exhibit A hereto. The Members' corresponding capital percentages (the "Capital Percentages") shall be as set forth opposite their respective names or Exhibit A hereto.

4.2 *Additional Contributions*. No Member shall be required to make additional Capital Contributions unless, and except on such terms as, the Managers and the Members unanimously agree. All additional Capital Contributions shall be evidenced by the issuance of additional Shares to each contributing Member pursuant to Section 4.3.

4.3 *Additional Issuances of Shares and Other Securities*

(a) In the event of any additional Capital Contributions, and in order to raise additional capital or to acquire assets, to redeem or retire Company debt or for any other purpose, the Company is authorized, subject to Section 6.11, to issue Shares and other securities in addition to those issued pursuant to Section 4.1 from time to time to Members or to other Persons. The Company may assume liabilities in connection with any such issuance. The

Managers shall determine the consideration and terms and conditions with respect to any such issuance of Shares. The Managers shall do all things necessary to comply with the Texas Code and are authorized and directed to do all things they deem to be necessary or advisable in connection with any such issuance, including, without limitation, compliance with any statute, rule, regulation or guideline of any federal, state or other governmental agency.

(b) Shares to be issued by the Company shall be issuable from time to time in one or more classes with such voting rights, designations, preferences, limitations, restrictions and relative rights (including rights senior to existing classes of Shares) as may be fixed by the Managers, including without limitation (i) the allocation, for federal income and other tax purposes, to such class of Shares of items of income, gain, loss, deduction and credit; (ii) the rights of such class of Shares to share in distributions by the Company; (iii) the rights of such class of Shares upon dissolution and liquidation of the Company; (iv) whether such class of Shares is redeemable by the Company and, if so, the price at, and the terms and conditions on, which such class of Shares may be redeemed by the Company; (v) whether such class of Shares is issued with the privilege of conversion and, if so, the rate at and the terms and conditions upon which such class of Shares may be converted into any other class of Shares; (vi) the terms and conditions of the issuance of such class of Shares; and (vii) the rights of such class of Shares to vote on matters relating to the Company and this Agreement. The Managers are also authorized to cause the issuance of any other type of security of the Company from time to time to Members or other Persons on terms and conditions established by the Managers. Such securities may include, without limitation, unsecured and secured debt obligations of the Company, debt obligations of the Company convertible into any class of Shares that may be issued by the Company, options, rights or warrants to purchase any such class of Shares or any combination of any of the foregoing.

(c) Upon the issuance of any additional Common Shares or any other Shares or class of Shares, the Managers, without the approval at the time of any Member, may amend any provision of this Agreement, and any Manager, upon the affirmative vote of at least a majority of the Managers, may execute, swear to, verify, acknowledge, deliver, file and record, if required, an amended Certificate of Formation and any other documents that may be required in connection therewith, as shall be necessary or desirable to reflect the authorization and issuance of such Shares and the relative rights of such Shares as to the matters set forth in Section 4.3(b).

(i) For issuances of additional Common Shares to any Person, this Agreement shall be deemed amended with regard to such issuance upon the completion and execution of the form attached hereto as Exhibit B by a Manager and each Person receiving the Common Shares.

(ii) For issuances to any person of additional Shares or classes of Shares that are not Common Shares, this Agreement shall be deemed amended with regard to such issuance upon the completion and execution of the form attached hereto as Exhibit B by a Manager and each Person receiving such Shares, except that the form of this Agreement must in such case be further amended to set forth the rights, obligations and terms of such Shares.

(iii) Whenever this Agreement is amended pursuant to Section 4.3(c)(i) or (ii) above, Exhibit A shall be accordingly amended to reflect the issuance of such Shares.

(d) Upon (i) the execution and delivery to the Company of this Agreement, as it may be amended as provided in subparagraph (c) of this Section 4.3, by a Manager and any Person who is to be issued Shares of any class, (ii) receipt by the Company of the Capital Contribution of such Person made in connection with the issuance of such Shares and (iii) any other action required by Texas law, such Person shall be admitted as an Additional Member of the Company.

4.4 *Record of Contributions*. The books and records of the Company shall include true and full information regarding the amount of cash and cash equivalents and designation and statement of the value of any other property contributed by each Member to the Company.

4.5 *No Fractional Common Shares*. No fractional Common Shares shall be issued by the Company unless otherwise determined by the Managers; instead, each fractional Common Share shall be rounded to the nearest whole Common Share.

4.6 *Interest*. No interest shall be paid by the Company on Capital Contributions.

4.7 *Loans from Members*. Loans by a Member to the Company shall not be considered Capital Contributions.

4.8 *Withdrawal or Reduction of Members' Capital Contributions.*

(a) A Member shall not be entitled to withdraw any part of his Capital Contribution or to receive any distribution from the Company, except as otherwise provided in this Agreement.

(b) Except as otherwise provided in this Agreement, a Member shall not receive out of the Company's property or other assets any part of his Capital Contributions until all liabilities of the Company, except liabilities to Members on account of their Capital Contributions, have been paid or there remains property or other assets of the Company sufficient to pay all such liabilities.

(c) A Member, irrespective of the nature of its Capital Contribution, has only the right to demand and receive cash in return for his Capital Contribution.

4.9 *Loans to Company*. Nothing in this Agreement shall prevent any Member from making secured or unsecured loans to the Company by agreement with the Company.

4.10 *Borrowing*. In the event that the Company, in order to discharge costs, expenses or indebtedness, requires funds in excess of the funds provided by Capital Contributions of the Members and by revenues, the Managers shall be authorized, at any time and from time to time, to cause the Company to borrow additional funds, as shall in the judgment of the Managers be sufficient for such purposes and upon such terms as the Managers may deem advisable.

4.11 *No Further Obligation*. Except as expressly provided for in or contemplated by this Article IV, no Member shall have any obligation to provide funds to the Company, whether by Capital Contributions, loans, return of monies received pursuant to the terms of this Agreement or otherwise.

ARTICLE V

RIGHTS AND OBLIGATIONS OF MEMBERS

5.1 *Limitation of Members' Responsibility, Liability*. A Member shall not be personally liable for any amount in excess of its Capital Contribution, and shall not be liable for any of the debts or losses of the Company, except to the extent that a liability of the Company is founded upon or results from an unauthorized act or activity of such Member. In addition, each Member's liability shall be limited as set forth in the Texas Code and other applicable law.

5.2 *Return of Distributions*. In accordance with Section 101.206 of the Texas Code, a Member will be obligated to return any distribution from the Company only as provided by applicable law.

5.3 *Priority and Return of Capital*. Except as may be provided in this Agreement, no Member shall have priority over any other Member, either as to the return of Capital Contributions or as to profits, losses or distributions; provided that this Section 5.3 shall not apply to loans (as distinguished from Capital Contributions) that a Member has made to the Company.

ARTICLE VI

MEETINGS OF MEMBERS; AMENDMENTS

6.1 *Meetings*. Meetings of the Members, for any purpose or purposes, unless otherwise prescribed by statute, may be called by any Manager or by any Member or group of Members holding, in the aggregate, 25% or more of the Capital Percentages.

6.2 *Place of Meetings*. The Members may designate any place as the place of meeting for any meeting of the Members. If no designation is made, the meeting shall be held at the principal offices of the Company.

6.3 *Notice of Meetings*. Except as provided in Section 6.4, written notice stating the place, day and hour of the meeting and the purpose or purposes for which the meeting is called shall be delivered not less than ten nor more than 60 days before the date of the meeting, either personally or by mail, by or at the direction of the Manager or Person calling the meeting, to each Member entitled to vote at such meeting. If mailed, such notice shall be deemed to be delivered when deposited in the United States mail, addressed to the Member at his address as it appears on the books of the Company, with postage thereon prepaid. If transmitted by way of facsimile or electronic message, such notice shall be deemed to be delivered on the date of such facsimile transmission or electronic message to the fax number or electronic message address, if

any, for the respective Member that has been supplied by such Member to the Managers and identified as such Member's facsimile number or electronic message address, as applicable.

6.4 *Meeting of All Members*. If all of the Members shall meet at any time and place and consent to the holding of a meeting at such time and place, such meeting shall be valid without call or notice, and at such meeting lawful action may be taken.

6.5 *Record Date*. For the purpose of determining Members entitled to notice of or to vote at any meeting of Members, the Managers may set a record date. When a determination of Members entitled to vote at any meeting of Members has been made as provided in this Section, such determination shall apply to any adjournment thereof.

6.6 *Quorum*. Members holding at least a majority of the outstanding Shares entitled to vote, represented in person or by proxy, shall constitute a quorum at any meeting of Members. In the absence of a quorum at any such meeting, Members holding a majority of the Shares so represented may adjourn the meeting from time to time for a period not to exceed 60 days without further notice. However, if the adjournment is for more than 60 days, or if after the adjournment a new record date is fixed for the adjourned meeting, a notice of the adjourned meeting shall be given to each Member of record entitled to vote at the meeting.

At such adjourned meeting at which a quorum shall be present or represented, any business may be transacted that might have been transacted at the meeting as originally noticed. The Members present at a duly organized meeting may continue to transact business until adjournment, notwithstanding the withdrawal during such meeting of Members holding that number of Shares whose absence would cause less than a quorum.

6.7 *Manner of Acting*. If a quorum is present, the affirmative vote of the Requisite Interest on the subject matter shall be the act of the Members, unless the vote of a greater or lesser proportion or number is otherwise required by the Texas Code, by the Certificate of Formation or by this Agreement.

6.8 *Proxies*. At all meetings of Members, a Member may vote in person or by proxy executed in writing by the Member or by a duly authorized attorney-in-fact. Such proxy shall be filed with the Managers of the Company before or at the time of the meeting. No proxy shall be valid after 11 months from the date of its execution, unless otherwise provided in the proxy.

6.9 *Action by Members Without a Meeting*. Action required or permitted to be taken at a meeting of Members may be taken without a meeting, without prior notice and without a vote if the action is evidenced by one or more written consents describing the action taken, signed by Members entitled to vote thereon holding not fewer than the minimum number of Shares that would be necessary to take the action at a meeting at which all Members entitled to vote on the action were present and voted, and delivered to the Managers of the Company for inclusion in the minutes or for filing with the Company records. Action taken under this Section 6.9 is effective when all Members entitled to vote thereon holding not fewer than the minimum number of Shares that would be necessary to take such action have signed the consent, unless the consent specifies a different effective date. The record date for determining Members

entitled to take action without a meeting shall be the date the first Member signs a written consent.

6.10 *Waiver of Notice*. When any notice is required to be given to any Member, a waiver thereof in writing signed by the Person entitled to such notice, whether before, at or after the time stated therein, shall be equivalent to the giving of such notice.

6.11 *Special Prohibitions and Limitations*. Without the prior approval of the Requisite Interest, the Company shall not (i) sell, exchange or otherwise dispose of all or substantially all of the assets of the Company outside the ordinary course of business of the Company (provided, however, that this provision shall not be interpreted to preclude or limit the mortgage, pledge, hypothecation or grant of a security interest in all or substantially all of the assets of the Company and shall not apply to any forced sale of any or all of the assets of the Company pursuant to the foreclosure of (or in lieu of foreclosure), or other realization upon, any such encumbrance), (ii) merge, consolidate or combine with any other Person, or (iii) issue additional Common Shares.

6.12 *Amendments to be Adopted Solely by the Managers*. The Managers, without the consent at the time of any Member, may amend any provision of this Agreement and execute, swear to, acknowledge, deliver, file and record whatever documents may be required in connection therewith, to reflect:

(a) a change in the name of the Company or the location of the principal place of business of the Company;

(b) the admission, substitution or withdrawal of Members in accordance with this Agreement;

(c) a change that is necessary or advisable in the opinion of the Managers to qualify the Company as a company in which members have limited liability under the laws of any state or other jurisdiction or to ensure that the Company will not be treated as an association taxable as a corporation for federal income tax purposes;

(d) a change that (i) in the sole discretion of the Managers does not adversely affect the Members in any material respect, (ii) is necessary or desirable to satisfy any requirements, conditions or guidelines contained in any opinion, directive, order, ruling or regulation of any federal or state agency or contained in any federal or state statute or (iii) is required or contemplated by this Agreement;

(e) a change in any provision of this Agreement that requires any action to be taken by or on behalf of the Company or the Members pursuant to the requirements of Texas law if the provisions of Texas law are amended, modified or revoked so that the taking of such action is no longer required; provided that this Section 6.12(e) shall be applicable only if such changes are not materially adverse to the Members;

(f) a change that is necessary or desirable in connection with the issuance of any class of Shares pursuant to Section 4.3; or

(g) any other amendments similar to the foregoing.

Each Member hereby appoints each Manager as its attorney-in-fact to execute any amendment permitted by this Section 6.12.

6.13 *Amendments*. A proposed amendment to this Agreement (other than one permitted by Section 6.12) shall be effective upon its adoption by Members holding at least 80% of the issued and outstanding Shares entitled to vote on such amendment. The Company shall notify all Members upon final adoption or rejection of any proposed amendment to this Agreement.

ARTICLE VII

RIGHTS AND DUTIES OF MANAGERS

7.1 *Management*. The powers of the Company shall be exercised by or under the authority of, and the business and affairs of the Company shall be managed under, its Managers. In addition to the powers and authorities expressly conferred by this Agreement upon the Managers, the Managers may exercise all such powers of the Company and do all such lawful acts and things as are not directed or required to be exercised or done by the Members by the Texas Code, the Certificate of Formation or this Agreement.

7.2 *Number and Qualifications*. The number of Managers of the Company shall initially be one; but the number of Managers may be changed by unanimous agreement of the Members. Managers need not be residents of the State of Texas or Members of the Company. The Managers, in their discretion, may elect a chairman of the Managers who shall preside at any meetings of the Managers.

7.3 *Powers of the Managers*. Without limiting the generality of Section 7.1, the Managers shall have power and authority, acting in accordance with this Agreement, to cause the Company to do and perform all acts as may be necessary or appropriate to the conduct of the Company's business.

7.4 *Managers*. The Manager is currently David M. McClanahan. The Members shall have the right to take action pursuant to a meeting of the Members or unanimous written consent of the Members to designate one or more Managers and to remove, replace or fill any vacancy occurring for any reason of any Manager.

7.5 *Place of Meetings*. All meetings of the Managers of the Company or committees thereof may be held either within or without the State of Texas. Any Manager may participate in a meeting by means of conference telephone or similar equipment, and participation by such means shall constitute presence in person at the meeting.

7.6 *Meetings of Managers*. Meetings of the Managers may be called by any Manager on two days' notice to each Manager, either personally or by mail, telephone or electronic message.

7.7 *Quorum*. At all meetings of the Managers, the presence of a majority of the Managers shall be necessary and sufficient to constitute a quorum for the transaction of business unless a greater number is required by law. The act of a majority of the Managers present at a meeting at which a quorum is present shall be the act of the Managers, except as otherwise provided by law, the Certificate of Formation or this Agreement. If a quorum shall not be present at any meeting of the Managers, the Managers present at the meeting may adjourn the meeting from time to time, without notice other than announcement at the meeting, until a quorum shall be present.

7.8 *Attendance and Waiver of Notice*. Attendance of a Manager at any meeting shall constitute a waiver of notice of such meeting, except where a Manager attends a meeting for the express purpose of objecting to the transaction of any business on the ground that the meeting is not lawfully called or convened. Neither the business to be transacted at, nor the purpose of, any regular or special meeting of the Managers need be specified in the notice or waiver of notice of such meeting.

7.9 *Action by Managers Without a Meeting*. Action required or permitted to be taken at a meeting of Managers may be taken without a meeting, without prior notice and without a vote if the action is evidenced by one or more written consents describing the action taken, signed by the Managers having not fewer than the minimum number of votes that would be necessary to take the action at a meeting at which all Managers entitled to vote on the action were present and voted, and included in the Company minutes or records. Action taken under this Section 7.9 is effective when the requisite number of the Managers have signed the consent, unless the consent specifies a different effective date. The record date for determining Managers entitled to take action without a meeting shall be the date the first Manager signs a written consent.

7.10 *Compensation of Managers*. Managers, as such, shall not receive any stated salary for their services, but shall receive such compensation for their services as may be from time to time approved by the Members, provided that nothing contained in this Agreement shall preclude any Manager from serving the Company in any other capacity and receiving compensation for service. In addition, a fixed sum and expenses of attendance, if any, may be allowed for attendance at each meeting of the Managers.

7.11 *Committees*. The Managers may, by resolution, designate from among the Managers one or more committees, each of which shall be comprised of one or more Managers, and may designate one or more of the Managers as alternate members of any committee, who may, subject to any limitations imposed by the Managers, replace absent or disqualified Managers at any meeting of that committee. Such committee shall have and may exercise all of the authority of the Managers, subject to the limitations set forth in this Agreement and under the Texas Code.

7.12 *Liability of Managers*. A Manager shall not be liable under any judgment, decree or order of a court, or in any other manner, for any debt, obligation or liability of the Company by reason of his acting as a Manager of the Company. A Manager of the Company shall not be personally liable to the Company or its Members for monetary damages for breach of fiduciary duty as a Manager, except for liability for any acts or omissions that involve intentional

misconduct, fraud or a knowing violation of law or for a distribution in violation of Texas law as a result of the willful or grossly negligent act or omission of the Manager. If the laws of the State of Texas are amended after the date of this Agreement to authorize action further eliminating or limiting the personal liability of Managers, then the liability of a Manager of the Company, in addition to the limitation on personal liability provided herein, shall be limited to the fullest extent permitted by the amended laws of the State of Texas. Any repeal or modification of this Section 7.12 by the Members of the Company shall be prospective only, and shall not adversely affect any limitation on the personal liability of a Manager of the Company existing at the time of such repeal or modification or thereafter arising as a result of acts or omissions prior to the time of such repeal or modification.

7.13 *Officers*. The Managers of the Company may elect the officers of the Company, who shall hold offices specified by the Managers for such terms and shall exercise such powers and perform such duties as shall be determined from time to time by the Managers; and each officer of the Company shall hold office until his successor is chosen and qualified or until his earlier resignation or removal. Any officer elected by the Managers may be removed at any time by the affirmative vote of at least a majority of the Managers. Any vacancy occurring in any office of the Company may be filled by the affirmative vote of at least a majority of the Managers. The salaries of all officers of the Company shall be fixed by the Managers but must be approved by the Members.

ARTICLE VIII

INDEMNIFICATION

8.1 *Indemnification*. Subject to the approvals required by Sections 8.5 and 8.6, each Person who at any time shall be, or shall have been, a Member, Manager or officer of the Company, or any such Person who is or was serving at the request of the Company as a director, member, manager, officer, partner, venturer, proprietor, trustee, employee (including an employee acting in his Designated Professional Capacity), administrator, agent or similar functionary of an Entity (but excluding Persons providing trustee, fiduciary or custodial services on a fee-for-services basis), shall be entitled to indemnification as provided herein and to the fullest extent permitted by the applicable provisions of Texas law, as from time to time amended (any such Person serving in any of the aforesaid capacities who was or is or is threatened to be made a party or a witness to any action or proceeding as described in Sections 8.2, 8.3 or 8.5 by reason of his status as such, being hereinafter referred to as an “Indemnitee”). Any repeal of this Section 8.1 shall be prospective only, and shall not adversely affect any right of indemnification existing at the time of such repeal or modification or thereafter arising as a result of acts or omissions prior to the time of such repeal or modification. If any provision or provisions of this Agreement relating to indemnification shall be held to be invalid, illegal or unenforceable for any reason whatsoever, the validity, legality and enforceability of the remaining provisions shall not in any way be affected or impaired thereby; and, to the fullest extent possible, the provisions of this Agreement shall be construed so as to give effect to the intent manifested by the provision held invalid, illegal or unenforceable, including, without limitation, by allowing indemnification by vote of the Members or Managers or the disinterested minority thereof.

8.2 *Power to Indemnify in Actions, Suits or Proceedings Other Than Those by or in the Right of the Company*. Without limiting the provisions of Section 8.1 and subject to the approvals required by Sections 8.5 and 8.6, the Company shall indemnify an Indemnitee who was or is a party or is threatened to be made a party to any Proceeding (other than an action by or in the right of the Company) by reason of the Indemnitee's status as such against Expenses actually and reasonably incurred by the Indemnitee in connection with such Proceeding, if the Indemnitee acted in good faith and in a manner the Indemnitee reasonably believed to be in or not opposed to the best interests of the Company, and, with respect to any criminal action or proceeding, had no reasonable cause to believe the Indemnitee's conduct was unlawful. The termination of any Proceeding by judgment, order, settlement, conviction, or upon a plea of nolo contendere or its equivalent, shall not, of itself, create a presumption that the Indemnitee did not act in good faith and in a manner that the Indemnitee reasonably believed to be in or not opposed to the best interests of the Company, and, with respect to any criminal action or proceeding, had reasonable cause to believe that the Indemnitee's conduct was unlawful.

8.3 *Power to Indemnify in Actions, Suits or Proceedings by or in the Right of the Company*. Without limiting the provisions of Section 8.1 and subject to the approvals required by Sections 8.5 and 8.6, the Company shall indemnify an Indemnitee who was or is a party or is threatened to be made a party to any Proceeding by or in the right of the Company to procure a judgment in its favor by reason of the Indemnitee's status as such against Expenses actually and reasonably incurred by the Indemnitee in connection with such Proceeding, if the Indemnitee acted in good faith and in a manner the Indemnitee reasonably believed to be in or not opposed to the best interests of the Company; except that no indemnification shall be made in respect of any claim, issue or matter as to which the Indemnitee shall have been found to be liable to the Company unless and only to the extent that the authority before which such Proceeding was brought shall determine upon application that, despite the finding of liability but in view of all the circumstances of the case, the Indemnitee is fairly and reasonably entitled to indemnification for such expenses that such authority shall deem proper.

8.4 *Good Faith Defined*. For purposes of any determination under this Article VIII, an Indemnitee shall be deemed to have acted in good faith and in a manner such Indemnitee reasonably believed to be in or not opposed to the best interests of the Company, or, with respect to any criminal action or proceeding, to have had no reasonable cause to believe such Indemnitee's conduct was unlawful, if such Indemnitee's action is based upon the records of the Company and upon such information, opinions, reports or statements presented to the Company by any of the Members, Managers, officers, employees or committees of the Company or by any other Person as to matters the Indemnitee reasonably believes are within such Person's professional or expert competence and who has been selected with reasonable care by or on behalf of the Company, including information, opinions, reports or statements as to the value and amount of assets, liabilities, profits or losses of the Company or any other facts pertinent to the existence and amount of assets from which distributions to the Members might properly be paid. The provisions of this Section 8.4 shall not be deemed to be exclusive or to limit in any way the circumstances in which an Indemnitee may be deemed to have met the applicable standards of conduct set forth in any applicable provisions of Texas law, or in Section 8.2 or Section 8.3, as the case may be.

8.5 *Advancement or Reimbursement of Expenses*. The Company may pay in advance or reimburse Expenses actually or reasonably incurred or anticipated by an Indemnitee in connection with an appearance as a witness or other participation in a Proceeding whether or not such Indemnitee is a named defendant or a respondent in the Proceeding. To obtain reimbursement or an expense advance, the requesting Indemnitee shall submit to the Company a written request with such information as is reasonably available. If the expense advance is to be paid prior to final disposition of the Proceeding, there shall be included a written statement of such Indemnitee's good faith belief that such indemnification is appropriate under the circumstances and that such Indemnitee has met the necessary standard of conduct under Section 8.2 or Section 8.3 as applicable or otherwise has met any applicable standard of conduct under any applicable provisions of Texas law and an undertaking to repay any amount paid if it is ultimately determined that those conduct requirements were not met. Upon receipt of the request, the Managers (by unanimous agreement), shall determine whether such Indemnitee is entitled to such reimbursement or an advance. If the request is rejected, the Company shall notify such Indemnitee of the reason therefor. If, within sixty days of the Company's receipt of the request, the request for payment is not acted on, such Indemnitee shall have the right to an adjudication in any court of competent jurisdiction of such Indemnitee's entitlement to such indemnification or advance.

8.6 *Nonexclusivity and Survival of Indemnification*. The indemnification and advancement of Expenses provided by, or granted pursuant to, the other subsections of this Article VIII shall not be deemed exclusive of any other rights to which an Indemnitee may be entitled under applicable law, this Agreement, any other agreement, by vote of the disinterested Members or Managers or otherwise, both as to action in an official capacity and as to action in any other capacity while an Indemnitee, it being the policy of the Company that, if the Managers unanimously approve, indemnification specified in this Article VIII shall be made to the fullest extent permitted by law. The provisions of this Article VIII shall not be deemed to preclude the indemnification of any Person who is not specified in this Article VIII but whom the Company has the power or obligation to indemnify.

8.7 *Insurance*. The Company may purchase and maintain insurance on behalf of any Person who is or was a Member, Manager, officer, employee or agent of the Company, or any other Person, as the Managers may determine, against any liability that may be asserted against and incurred by such Person in connection with the Company's activities or such Person's activities on behalf of the Company, whether or not the Company would have the power or the obligation to indemnify such Person against such liability under the provisions of this Article VIII.

8.8 *Interested Party Transactions*. Without limiting the generality of any other provision hereof, the Company may (except as otherwise specifically provided for in this Agreement) enter into any contract, arrangement or transaction between the Company and one or more Members, Managers or officers, or between the Company and an Entity that is an Affiliate of one or more Members, Managers or officers or in which a Member, Manager or officer has an interest or serves as a director, member, manager, officer, partner, venturer, proprietor, trustee, employee, agent or similar functionary and such contract, arrangement or transaction shall not, because of such interest by or position of a Member, Manager or officer, be void or voidable nor impose on any such Person any burden or obligation to show the fairness of the contract,

arrangement or transaction, but shall instead be accorded the same treatment as a contract, arrangement or understanding between the Company and an unrelated party.

ARTICLE IX

ISSUANCE OF CERTIFICATES

9.1 *Issuance of Certificates*. Upon the issuance of Shares, the Company shall issue one or more certificates in the name of the Members owning such Shares. Upon the transfer of a Share, the Company shall issue replacement certificates according to such procedures as the Company may reasonably establish.

9.2 *Lost, Stolen or Destroyed Certificates*. The Company shall issue a new certificate in place of any certificate previously issued if the registered owner of the certificate:

(a) makes proof by affidavit, in form and substance satisfactory to the Company, that a previously issued certificate has been lost, destroyed or stolen;

(b) requests the issuance of a new certificate before the Company has notice that the certificate has been acquired by a purchaser for value in good faith and without notice of an adverse claim;

(c) if requested by the Company, delivers to the Company a bond, in form and substance satisfactory to the Company, with such surety or sureties and with fixed or open penalty as the Company may direct to indemnify the Company against any claim that may be made on account of the alleged loss, destruction or theft of the certificate; and

(d) satisfies any other reasonable requirements imposed by the Company.

When a certificate has been lost, destroyed or stolen, and the Member fails to notify the Company within a reasonable time after he has notice of it, and a transfer of the Shares represented by the certificate is registered before the Company receives such notification, the Member shall be precluded from making any claim against the Company for such transfer or for a new certificate.

9.3 *Registered Owners*. The Company shall be entitled to treat the registered owner of any Shares as the Person that owns such Shares and, accordingly, shall not be bound to recognize any equitable or other claim to or interest in such Shares on the part of any other Person, regardless of whether it shall have actual or other notice thereof, except as otherwise provided by law.

ARTICLE X

DISTRIBUTIONS AND ALLOCATIONS

10.1 *Distributions*. Except as provided in Section 14.3, from time to time the Managers by unanimous agreement may determine to what extent (if any) the Company's cash on hand exceeds its current and anticipated needs, including, without limitation, for operating

expenses, debt service, acquisitions, and a reasonable contingency reserve, and if such an excess exists, cause the Company to distribute an amount in cash equal to that excess to the Members in accordance with their respective Capital Percentages.

10.2 *Allocations*.

(a) Net Income shall be allocated to the Members in accordance with their respective Capital Percentages.

(b) Net Loss shall be allocated to the Members in accordance with their respective Capital Percentages.

10.3 *Capital Accounts*.

(a) A Capital Account shall be maintained for each Member, which account shall be increased (credited) by (i) the amount of money and the fair market value of property contributed and deemed contributed by such Member to the Company (net of liabilities secured by such property that the Company is considered to assume or take subject to under section 752 of the Code), and (ii) the amount of income and gain (or items thereof) of the Company allocated to such Member, including income and gain exempt from tax and gain described in Regulations section 1.704-1(b)(2)(iv)(g), but excluding income and gain described in Regulations section 1.704-1(b)(4)(i); and decreased (debited) by (iii) the amount of money and the fair market value of property distributed to such Member (net of liabilities secured by such property that such Member is considered to assume or take subject to under section 752 of the Code), (iv) such Member's distributive share of expenditures of the Company described in section 705(a)(2)(B) of the Code, and (v) the amount of loss and deduction (or items thereof) of the Company allocated to such Member, including loss and deduction described in Regulations section 1.704-1(b)(2)(iv)(g), but excluding items described in clause (iv) above and loss and deduction described in Regulations sections 1.704-1(b)(4)(i) or 1.704-1(b)(4)(iii), and otherwise adjusted in accordance with the additional rules set forth in Regulations section 1.704-1(b)(2)(iv). In addition, a Member's Capital Account may be adjusted as provided in Section 14.3(b)(2) hereof. The Capital Accounts of all Members shall be adjusted as required under Regulations sections 1.704-1(b)(2)(iv)(f) or 1.704-1(b)(2)(iv)(m), as applicable, to reflect any aggregate net adjustment to the values of Company assets as permitted by the Code or the relevant Regulations.

(b) A single Capital Account shall be maintained for each Member, which Capital Account shall reflect all allocations, distributions, or other adjustments required by this Article X with respect to Company interests owned by such Member, regardless of whether such Member owns more than one class of Company interest.

(c) If, pursuant to Regulations sections 1.704-1(b)(2)(iv)(d) or 1.704-1(b)(2)(iv)(f), Company property is reflected on the books of the Company at a book value that differs from the adjusted tax basis of such property, the Members' Capital Accounts shall be adjusted in accordance with Regulations section 1.704-1(b)(2)(iv)(g) for allocations of depreciation, depletion, amortization, and gain or loss, as computed for book purposes, with respect to such property.

(d) Upon any transfer of all or part of a Company interest, as permitted by this Agreement, the Capital Account (or portion thereof) of the transferor that is attributable to the transferred interest (or portion thereof) shall carry over to the transferee, as prescribed by Regulations section 1.704-1(b)(2)(iv)(l).

10.4 *Regulatory Allocations*. Notwithstanding the provisions of Section 10.2, Net Income and Net Loss of the Company (or items of income, gain, loss, deduction or credit, as the case may be) shall be allocated in accordance with the following provisions of this Section 10.4 to the extent such provisions shall be applicable.

(a) Notwithstanding any other provision of Section 10.2 hereof, but subject to the exceptions set forth in Regulations section 1.704-2(f)(2), (3), (4) or (5), if there is a net decrease in the Minimum Gain of the Company during any Company fiscal year, each Member shall be specially allocated items of Company income and gain for such year (and, if necessary, subsequent years) in proportion to, and to the extent of, an amount equal to that Member's share of the net decrease in Minimum Gain, within the meaning of Regulations section 1.704-2(g)(2). The Minimum Gain chargeback shall consist first of income and gain from the disposition of Company assets subject to nonrecourse liabilities of the Company, with the remainder of the Minimum Gain chargeback, if any, made up of a pro rata portion of the Company's other items of income and gain for such year, and shall be determined in accordance with Regulations sections 1.704-2(f)(6), 1.704-2(g)(2) and 1.704-2(j)(2)(i), or any successor provisions. If such income and gain from the disposition of Company assets exceeds the amount of the Minimum Gain chargeback, a proportionate share of each item of such income and gain shall constitute a part of the Minimum Gain chargeback. The provisions of this Section 10.4(a) are intended to comply with the minimum gain chargeback requirement of Regulations section 1.704-2(f) and shall be interpreted in accordance therewith for all purposes under this Agreement.

(b) Notwithstanding any other provision of Section 10.2 hereof or this Section 10.4 other than Section 10.3(a), but subject to the exceptions referenced in Regulations section 1.704-2(i)(4), if there is a net decrease in Member Nonrecourse Debt Minimum Gain during any fiscal year, each Member that has a share of such Member Nonrecourse Debt Minimum Gain, determined in accordance with Regulations section 1.704-2(i)(5), as of the beginning of such year shall be specially allocated items of Company income and gain for such year (and, if necessary, for succeeding years) equal to such Member's share of the net decrease in Member Nonrecourse Debt Minimum Gain. The items to be so allocated shall be determined in accordance with Regulations section 1.704-2(i)(4) or any successor provision. The provisions of this Section 10.4(b) are intended to comply with the Member Nonrecourse Debt Minimum Gain chargeback requirement of Regulations section 1.704-2(i)(4) and shall be interpreted in accordance therewith for all purposes under this Agreement.

(c) If any Member receives any adjustments, allocations, or distributions described in Regulations sections 1.704-1(b)(2)(ii)(d)(4), (5) or (6), items of Company income and gain (consisting of a pro rata portion of each item of Company income, including gross income, and gain for such year) shall be specially allocated to such Member in an amount and manner sufficient to eliminate as quickly as possible the Adjusted Capital Account Deficit of such Member, if any, to the extent required by the Regulations. The provisions of this Section 10.3(c) are intended to comply with the "qualified income offset" requirement of Regulations

section 1.704-1(b)(2)(ii)(d)(3) and shall be interpreted in accordance therewith for all purposes under this Agreement.

(d) Nonrecourse Deductions of the Company for any fiscal year shall be specially allocated to the Members in accordance with the allocation of Net Income or Net Loss for such fiscal year pursuant to Section 10.2 of this Agreement. Member Nonrecourse Deductions of the Company for any fiscal year shall be specially allocated to the Member who bears the economic risk of loss for the liability in question. The provisions of this Section 10.4(d) are intended to satisfy the requirements of Regulations sections 1.704-2(e)(2) and 1.704-2(i)(1) and shall be interpreted in accordance therewith for all purposes under this Agreement.

(e) No net loss shall be allocated to a Member pursuant to Section 10.2 hereof to the extent that such loss would cause such Member to have an Adjusted Capital Account Deficit at the end of any fiscal year. Instead, any such loss shall be allocated to each other Member to the extent that such allocation would not cause such other Member to have an Adjusted Capital Account Deficit.

(f) Net Income and Net Loss of the Company shall not be allocated in accordance with Section 10.2 hereof or any paragraph of this Section 10.4 other than this paragraph (f) if and to the extent that any such allocation would cause the Company's allocations not to have substantial economic effect for purposes of section 704(b)(2) of the Code under the economic effect equivalence test set forth in Regulations section 1.704-1(b)(2)(ii)(i), and any such Net Income and Net Loss shall instead be allocated to and among the Members in the amounts and in the manner necessary to cause the Company's allocations to comply with such economic effect equivalence test. For purposes of this Section 10.4(f) only, it shall be assumed that no Member is obligated to contribute to the Company any cash or property to eliminate the deficit balance existing in its Capital Account upon the liquidation of the Company except to the extent that such Member is personally liable under law or by contract to satisfy a Company liability.

(g) The allocations set forth in this Section 10.4 (the "Regulatory Allocations") are intended to comply with certain requirements of Regulations sections 1.704-1(b) and 1.704-2. Notwithstanding any other provision of this Article X (other than the Regulatory Allocations), the Regulatory Allocations shall be taken into account in making allocations among the Members of Net Income and Net Loss (and items thereof) of the Company other than the Regulatory Allocations such that, to the extent possible, the net amount of such allocations of Net Income and Net Loss (and items thereof) other than the Regulatory Allocations, together with the Regulatory Allocations, shall equal the net amount that would have been allocated to and among the Members had the Regulatory Allocations not occurred.

(h) It is intended that the allocations set forth in Section 10.2 satisfy the substantial economic effect requirement of section 704(b) of the Code. However, in the event that counsel to the Company or any Member determines that such requirements are not satisfied, the Members shall modify such allocations in order to comply with such requirements.

10.5 *Limitation on Distributions*. Notwithstanding anything herein to the contrary, no distribution may be made to the Members if such distribution would violate the terms of Section 101.206 of the Texas Code.

ARTICLE XI

ACCOUNTING PERIOD, RECORDS AND REPORTS

11.1 *Accounting Period*. The Company's accounting period shall be the Fiscal Year.

11.2 *Records, Audits and Reports*. At the expense of the Company, the Managers shall maintain records and accounts of all operations and expenditures of the Company.

11.3 *Inspection*. The books and records of the Company shall be maintained at the principal place of business of the Company and shall be open to inspection by the Members at all reasonable times during any business day.

ARTICLE XII

TAX MATTERS

12.1 *Tax Returns and Elections*. The Managers or their designees shall cause the preparation and timely filing of all tax returns required to be filed by the Company pursuant to the Code, if any, and all other tax returns and other tax filings and elections that the Managers or their designees deem necessary. Copies of such returns, or pertinent information therefrom, shall be furnished to the Members as promptly as practicable after filing.

12.2 *State, Local or Foreign Income Taxes*. In the event state or foreign income taxes are applicable, any references to federal income taxes or to "income taxes" contained herein shall refer to federal, state, local and foreign income taxes. References to the Code or Regulations shall be deemed to refer to corresponding provisions that may become applicable under state, local or foreign income tax statutes and regulations.

12.3 *Assignments and Issuance of Additional Shares*. The Company shall allocate taxable items attributable to a Share that is assigned or newly issued during a Fiscal Year between the assignor and the assignee of such Share or the existing Members and the new Members by closing the books of the Company as of the end of the day prior to the day in which such Shares are assigned or issued.

ARTICLE XIII

RESTRICTIONS ON TRANSFERABILITY; ADMISSION OF SUBSTITUTE MEMBERS

13.1 *Generally*. All Shares at any time and from time to time outstanding shall be held subject to the conditions and restrictions set forth in this Article XIII, which conditions and restrictions shall apply equally to the Members and their respective transferees (except as otherwise expressly stated), and each Member by executing this Agreement or by accepting a

certificate or other indicia of ownership therefor from the Company agrees with the Company and with each other Member to such conditions and restrictions. Without limiting the generality of the foregoing, the Company shall require as a condition to the transfer of record ownership of Shares that the transferee of such Shares execute and deliver the form attached hereto as Exhibit B as evidence that such Shares are held subject to the terms, conditions and restrictions set forth herein.

13.2 *Restriction on Transfer*. No Shares shall be sold, assigned, given, transferred, exchanged, devised, bequeathed, pledged or otherwise disposed of to any Person except in accordance with the terms of this Agreement. All certificates representing the respective Shares shall contain conspicuous notation on such certificate indicating that the transfer of such Shares is subject to the terms and restrictions of this Agreement, and each Member consents to the placement of such legend on the certificate or certificates representing the Shares owned by such Member.

13.3 *Substituted Members*. Any Person that acquires any Common Shares that is not already a Member shall not have the right to participate in the management of the business and affairs of the Company, to vote such Shares, or to become a Member of the Company unless the Members of the Company unanimously consent to such Person becoming a Member of the Company. Any Person that acquires any Shares (other than Common Shares) that is not already a Member shall not have the right (if any such right is provided pursuant to the terms of such Shares): (i) to participate in the management of the business and affairs of the Company, (ii) to vote such Shares, or (iii) to become a Member of the Company unless such Person and a Manager execute and deliver the form attached as Exhibit B. If such Person is not admitted as a Member of the Company, such Person only is entitled to receive the share of profits, distributions, and allocations of income, gain, loss, deduction, credit, or similar item to which the Person would be entitled if such Person were a Member of the Company.

ARTICLE XIV

WINDING UP AND TERMINATION

14.1 *Events Requiring Winding Up.*. The Company shall be wound up upon the occurrence of any of the following events:

(a) if all of the Members so agree in writing;

(b) if the Requisite Interest votes to wind up the Company; or

(c) as provided in Section 2.5 hereto.

14.2 *Effect of Winding Up*. If an event requiring the winding up of the Company (a "Winding Up Event") occurs, the Company shall cease to carry on its business, except insofar as may be necessary to wind up its business, but its separate existence shall continue until a Certificate of Termination has been issued by the Secretary of State of the State of Texas or until a decree terminating the Company has been entered by a court of competent jurisdiction.

14.3 *Winding Up, Liquidating and Distribution of Assets*.

(a) Upon the occurrence of a Winding Up Event, an accounting shall be made of the accounts of the Company and of the Company's assets, liabilities and operations, from the date of the last previous accounting until the date of termination. The Managers shall immediately proceed to wind up the affairs of the Company.

(b) If the Company and its affairs are to be wound up, the Managers shall (1) sell or otherwise liquidate all of the Company's assets as promptly as practicable (except to the extent the Managers may determine to distribute any assets in kind to the Members), (2) allocate any income or loss resulting from such sales to the Members in accordance with this Agreement, (3) discharge all liabilities to creditors in the order of priority as provided by law; provided, however, that if the Company's assets are not sufficient to satisfy or discharge all of the Company's liabilities and obligations, the Managers shall apply them so far as they will go to the just and equitable payment of the liabilities and obligations of the Company, (4) discharge all liabilities of the Members (other than liabilities to Members or to the Company for Capital Contributions to the extent unpaid in breach of an obligation to do so), including all costs relating to the winding up and liquidation and distribution of assets, (5) establish such reserves as the Managers may determine to be reasonably necessary to provide for contingent liabilities of the Company, (6) discharge any liabilities of the Company to the Members other than on account of their interests in Company capital or profits and (7) distribute the remaining assets to the Members, either in cash or in kind, as determined by the Managers, in accordance with their respective Capital Percentages. If any assets of the Company are to be distributed in kind, the net fair market value of such assets as of the date of termination shall be determined by independent appraisal or by agreement of the Managers.

(c) Notwithstanding anything to the contrary in this Agreement, upon a winding up of the Company no Member shall have any obligation to make any contribution to the capital of the Company other than any Capital Contributions such Member agreed to make in accordance with this Agreement.

(d) Upon completion of the winding up, liquidation and distribution of the assets, the Company shall be deemed terminated.

(e) The Managers shall comply with any applicable requirements of applicable law pertaining to the winding up of the affairs of the Company and the final distribution of its assets.

14.4 *Certificate of Termination*. When all debts, liabilities and obligations have been paid and discharged or adequate provisions have been made therefor, or if the Company's assets are not sufficient to satisfy or discharge all of the Company's liabilities and obligations, the Managers have applied them so far as they would go to the just and equitable payment of the liabilities and obligations of the Company, and, if applicable, all of the remaining property and assets have been distributed to the Members, a Certificate of Termination shall be executed and filed with the Secretary of State of the State of Texas, which certificate shall set forth the information required by the Texas Code.

14.5 *Return of Contribution Non-recourse to Other Members*. Except as provided by law, upon termination, each Member shall look solely to the assets of the Company for the return of the Member's Capital Contribution. If the Company property remaining after the payment or discharge of the debts and liabilities of the Company is insufficient to return the cash or other property contribution of one or more Members, such Member or Members shall have no recourse against any other Member.

ARTICLE XV

MISCELLANEOUS PROVISIONS

15.1 *Notices*. Any notice, demand or communication required or permitted to be given by any provision of this Agreement shall be deemed to have been sufficiently given or served for all purposes if delivered personally to the party or to an executive officer of the party to whom the same is directed or if sent by registered or certified mail, postage and charges prepaid, addressed to the Member's and/or Company's address, as appropriate, which is set forth in this Agreement. If mailed, any such notice shall be deemed to be delivered two calendar days after being deposited in the United States mail with postage thereon prepaid, addressed and sent as aforesaid.

15.2 *Books of Account and Records*. Proper and complete records and books of account in which shall be entered fully and accurately all transactions and other matters relating to the Company's business in such detail and completeness as is customary and usual for businesses of the type engaged in by the Company shall be kept or shall be caused to be kept by the Company. Such books and records shall be maintained as provided in Section 11.3.

15.3 *Application of Texas Law*. This Agreement, and the application of interpretation hereof, shall be governed exclusively by its terms and by the laws of the State of Texas, and specifically the Texas Code.

15.4 *Waiver of Action for Partition*. Each Member irrevocably waives, during the term of the Company, any right that such Member may have to maintain any action for partition with respect to the property and assets of the Company.

15.5 *Execution of Additional Instruments*. Each Member hereby agrees to execute such other and further statements of interest and holdings, designations, powers of attorney and other instruments necessary to comply with any laws, rules or regulations.

15.6 *Gender and Number*. Whenever required by the context, as used in this Agreement, the singular number shall include the plural and the neuter shall include the masculine or feminine gender, and vice versa.

15.7 *Headings*. The headings in this Agreement are inserted for convenience only and are in no way intended to describe, interpret, define or limit the scope, extent or intent of this Agreement or any provision hereof.

15.8 *Waivers*. No waiver of any right under this Agreement shall be effective unless evidenced in writing and executed by the Person entitled to the benefits thereof. The failure of any party to seek redress for violation of or to insist upon the strict performance of any covenant

or condition of this Agreement shall not prevent another act or omission, which would have originally constituted a violation, from having the effect of an original violation.

15.9 *Rights and Remedies Cumulative*. The rights and remedies provided by this Agreement are cumulative and the use of any one right or remedy by any party shall not preclude or waive the right to use any or all other rights or remedies. Said rights and remedies are given in addition to any other rights the parties may have by law, rule, regulation or otherwise.

15.10 *Severability*. If any provision of this Agreement or the application thereof to any Person or circumstance shall be invalid, illegal or unenforceable to any extent, the remainder of this Agreement and the application thereof shall not be affected and shall be enforceable to the fullest extent permitted by law.

15.11 *Heirs, Successors and Assigns*. Each and all of the covenants, terms, provisions and agreements herein contained shall be binding upon and inure to the benefit of the parties hereto and, to the extent permitted by this Agreement, their respective heirs, legal representatives, successors and assigns.

15.12 *Creditors*. None of the provisions of this Agreement shall be for the benefit of or enforceable by any creditor of the Company or any creditor of any Member of the Company.

15.13 *Counterparts*. This Agreement may be executed in counterparts, each of which shall be deemed an original but all of which shall constitute one and the same instrument.

[Remainder of page intentionally left blank.]

EXECUTED to be effective as of the date first above written.

UTILITY HOLDING, LLC

By: /s/ David M. McClanahan
Name: David M. McClanahan
Title: Chairman and CEO and Sole Manager

EXHIBIT A

Member	Shares Held	Class of Shares	Capital Percentage
Utility Holding, LLC 1111 Louisiana Houston, Texas 77002	1,000	Common	100.0%

EXHIBIT B

AMENDMENT TO THE AMENDED AND RESTATED
LIMITED LIABILITY COMPANY AGREEMENT FOR
CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC
PROVIDING FOR THE ISSUANCE OF ADDITIONAL SHARES

Simultaneously with the execution of this Amendment to the Amended and Restated Limited Liability Company Agreement for CenterPoint Energy Houston Electric, LLC Providing for the Issuance of Additional Shares (this "Amendment"), the Person executing this Amendment below as "Additional Member" (the "Additional Member") is making a Capital Contribution to the Company in the form and amount set forth below in exchange for Shares of the type and amount set forth below. By execution of this Amendment, the Additional Member agrees to become (or, if such person is already a Member of the Company receiving additional Shares, to continue to be) a Member of the Company and to be bound as such by all of the terms and provisions of the Limited Liability Company Agreement for CenterPoint Energy Houston Electric, LLC, as amended and hereafter amended (the "Agreement"). Attached hereto is an amended Exhibit A to the Agreement giving effect to this Amendment and the admittance of the undersigned as an Additional Member holding the Shares issued pursuant to this Amendment.

Unless otherwise defined, all capitalized terms in this Amendment shall have the meanings given such terms in the Agreement.

Capital Contribution	Shares Issued	
	No.	Type

Date:

IN WITNESS WHEREOF, the undersigned have executed this Amendment as of the date set forth immediately above.

ADDITIONAL MEMBER

Signature block for entities:

_____

[print or type name of entity receiving Shares]

By: _____

Name: _____

Title: _____

Signature for individuals:

_____

[print or type name of individual receiving Shares]

MANAGER, PURSUANT TO SECTION 4.3(c) OF THE AGREEMENT

_____

Name:

CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC 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,	
	2010 (1)	2011 (1)
Net Income	$ 90	$ 103
Income taxes	51	58
Capitalized interest	(1)	(2)
	140	159
Fixed charges, as defined:		
Interest	146	140
Capitalized interest	1	2
Interest component of rentals charged to operating expense	—	—
Total fixed charges	147	142
Earnings, as defined	$ 287	$ 301
Ratio of earnings to fixed charges	1.95	2.12

(1) Excluded from the computation of fixed charges for the six months ended June 30, 2010 and 2011 is interest expense of $3 million and $4 million, respectively, which is included in income tax expense.

Exhibit 31.1

CERTIFICATIONS

I, David M. McClanahan, certify that:

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

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

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

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) 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 4, 2011

/s/ David M. McClanahan
David M. McClanahan
Chairman (Principal 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 Houston Electric, LLC;

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

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

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

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

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

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

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

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

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

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

Date: August 4, 2011

/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 Houston Electric, LLC (the "Company") on Form 10-Q for the quarter ended June 30, 2011 (the "Report"), as filed with the Securities and Exchange Commission on the date hereof, I, David M. McClanahan, Chairman (Principal Executive Officer), certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, to the best of my knowledge, that:

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

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

/s/ David M. McClanahan
David M. McClanahan
Chairman (Principal Executive Officer)
August 4, 2011

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 Houston Electric, LLC (the "Company") on Form 10-Q for the quarter ended June 30, 2011 (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 4, 2011