CENTERPOINT ENERGY INC
Form 424B5
September 09, 2009

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Filed Pursuant to Rule 424(b)(5)
Registration No. 333-153916

SUBJECT TO COMPLETION, DATED SEPTEMBER 9, 2009

PRELIMINARY PROSPECTUS SUPPLEMENT
(To Prospectus Dated October 9, 2008)

21,000,000 Shares

CenterPoint Energy, Inc.

Common Stock

We are offering 21,000,000 shares of our common stock, par value $0.01 per share, together with the related preferred share purchase rights. We will receive all of the net proceeds from the sale of such common stock.

Our common stock is listed on the New York and Chicago Stock Exchanges and is traded under the symbol CNP. The last reported sale price of our common stock on the New York Stock Exchange on September 8, 2009 was $12.13 per share.

Investing in our common stock involves risks. See Risk Factors beginning on page S-4 of this prospectus supplement.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus supplement or the accompanying prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

	Per Share	Total
Initial Price to Public	$	$
Underwriting Discount	$	$
Proceeds, before expenses, to CenterPoint Energy, Inc.	$	$

To the extent that the underwriters sell more than 21,000,000 shares of common stock, the underwriters have the option to purchase up to an additional 3,150,000 shares from us at the initial price to public less the underwriting discount.

The underwriters expect to deliver the shares against payment therefor on or about September , 2009.

Citi **Deutsche Bank Securities** **BofA Merrill Lynch** **UBS Investment Bank**

Prospectus Supplement dated September , 2009.

You should rely only on the information contained or incorporated by reference in this prospectus supplement, the accompanying prospectus and any written communication from us or the underwriters specifying the final terms of the offering. We have not, and the underwriters have not, authorized anyone to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. We are not making an offer to sell shares of our common stock and are not soliciting an offer to buy shares of our common stock in any state where the offer or sale is not permitted. You should assume that the information we have included in this prospectus supplement or the accompanying prospectus is accurate only as of the date of this prospectus supplement or the accompanying prospectus, as the case may be, and that any information we have incorporated by reference is accurate only as of the date of the document incorporated by reference. If the information varies between this prospectus supplement and the accompanying prospectus, the information in this prospectus supplement supersedes the information in the accompanying prospectus.

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Prospectus Supplement

Prospectus

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SUMMARY

This summary highlights information from this prospectus supplement and the accompanying prospectus. It is not complete and may not contain all of the information that you should consider before investing in our common stock. We encourage you to read this prospectus supplement, the accompanying prospectus and the documents incorporated by reference in their entirety before making an investment decision, including the information set forth under the heading Risk Factors. Unless otherwise indicated, this prospectus supplement assumes no exercise of the underwriters option to purchase additional shares.

CenterPoint Energy, Inc.

We are a public utility holding company. Our operating subsidiaries own and operate electric transmission and distribution facilities, natural gas distribution facilities, interstate pipelines and natural gas gathering, processing and treating facilities. As of the date of this prospectus supplement, our principal indirect wholly owned subsidiaries include:

- CenterPoint Energy Houston Electric, LLC (CenterPoint Houston), which engages in the electric transmission and distribution business in a 5,000-square mile area of the Texas Gulf Coast that includes Houston; and

- CenterPoint Energy Resources Corp. (CERC Corp., and, together with its subsidiaries, CERC), which owns and operates natural gas distribution systems in six states. Subsidiaries of CERC Corp. own interstate natural gas pipelines and gas gathering systems and provide various ancillary services. A wholly owned subsidiary of CERC Corp. offers variable and fixed-price physical natural gas supplies primarily to commercial and industrial customers and electric and gas utilities.

Our principal executive offices are located at 1111 Louisiana, Houston, Texas 77002 (telephone number: 713-207-1111).

Recent Developments

Long-Term Gas Gathering and Treatment Agreements

CenterPoint Energy Field Services, Inc. (CEFS), a wholly-owned natural gas gathering and treating subsidiary of CERC Corp., has entered into long-term agreements with an indirect wholly-owned subsidiary of EnCana Corporation (EnCana) and an indirect wholly-owned subsidiary of Royal Dutch Shell plc (Shell) to provide gathering and treating services for their natural gas production from the Haynesville Shale and Bossier Shale formations in Texas and Louisiana. CEFS has also acquired existing jointly-owned gathering facilities from EnCana and Shell in De Soto and Red River parishes in northwest Louisiana.

Under the terms of the agreements, CEFS will commence gathering and treating services immediately utilizing the acquired facilities. CEFS will also expand the acquired facilities to gather and treat up to 700 million cubic feet per day (MMcf/day) of natural gas from their current throughput of over 100 MMcf/day. If EnCana or Shell elect, CEFS will expand the facilities in order to gather and treat additional future volumes.

New construction to reach 700 MMcf/day includes more than 200 miles of pipelines, nearly 25,500 horsepower of compression and over 800 MMcf/day of treating capacity.

The agreements include volume commitments for which CEFS has exclusive rights to gather Shell s and EnCana s natural gas production.

CEFS estimates that the purchase of existing facilities and construction to gather 700 MMcf/day will cost between $300 and $325 million and will be completed over 18 months. If EnCana and Shell elect expansion of the project to gather and process the additional future volumes, CEFS estimates that the expansion would cost as much as $250 to $300 million.

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CEFS s obligations under the agreements have been guaranteed, subject to certain maximum exposures, by CenterPoint Energy.

Hurricane Ike Recovery

On August 26, 2009, the Public Utility Commission of Texas (Texas Utility Commission) issued a financing order allowing CenterPoint Houston to recover the distribution portion of previously approved system restoration costs incurred as a result of Hurricane Ike through the issuance of system restoration bonds. The financing order will become final and non-appealable on September 10, 2009. Under the financing order, CenterPoint Houston is authorized to issue bonds totaling $643 million, plus (i) carrying charges on that amount from September 1, 2009 to the date the bonds are issued and (ii) up-front qualified costs relating to the transaction, which, subject to certain exceptions, are limited to $6.1 million. The financing order provides that the benefits from accumulated deferred federal income taxes (ADFIT) related to the system restoration costs will not be applied to reduce the amount to be securitized, but CenterPoint Houston will provide to customers a credit related to those benefits (based on a beginning balance of $207 million) over the life of the bonds issued. CenterPoint Houston expects to issue the system restoration bonds in 2009.

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The Offering

Issuer	CenterPoint Energy, Inc.
Common Stock Offered	21,000,000 shares.
Common Stock Outstanding After the Offering	386,668,056 shares. (1)
Option to Purchase Additional Shares	We have granted the underwriters a 30-day option to purchase a maximum of 3,150,000 additional shares of our common stock on the same terms and conditions and at the initial price to public less the underwriting discount set forth on the cover page of this prospectus supplement to cover over-allotments, if any.
Risk Factors	You should consider carefully all the information set forth and incorporated by reference in this prospectus supplement and the accompanying prospectus and, in particular, you should evaluate the specific factors set forth under Risk Factors beginning on page S-4 of this prospectus supplement before deciding whether to invest in our common stock.
Use of Proceeds	The net proceeds from this offering, after deducting underwriters discounts and estimated expenses of the offering, are expected to be approximately $ million, or $ million if the underwriters exercise their overallotment option in full. We intend to use the net proceeds from this offering for general corporate purposes, including, without limitation, repayment of borrowings under our revolving credit facility and our money pool and making loans to our subsidiaries, including to CERC Corp. to fund CEFS s gas gathering project described in Recent Developments Long-Term Gas Gathering and Treatment Agreements on page S-1. See Use of Proceeds on page S-16 of this prospectus supplement.
New York and Chicago Stock Exchange Symbol	CNP

(1) Based on 365,668,056 shares of our common stock outstanding at August 31, 2009.

RISK FACTORS

You should consider carefully the following information about risks, as well as risks arising from any legal proceedings identified or referenced in Part II, Item 1 Legal Proceedings of our Quarterly Report on Form 10-Q for the period ended June 30, 2009 (2nd Quarter 2009 Form 10-Q) and in Legal Proceedings in Item 3 of our Annual Report on Form 10-K for the year ended December 31, 2008 (2008 Form 10-K), together with the other information contained in this prospectus supplement and the accompanying prospectus, before making an investment in our common stock.

We are a holding company that conducts all of our business operations through subsidiaries, primarily CenterPoint Houston and CERC.

Risk Factors Affecting Our Electric Transmission & Distribution Business

CenterPoint Houston may not be successful in ultimately recovering the full value of its true-up components, which could result in the elimination of certain tax benefits and could have an adverse impact on CenterPoint Houston s results of operations, financial condition and cash flows.

In March 2004, CenterPoint Houston filed its 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 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.

CenterPoint Houston and other parties filed appeals of the True-Up Order to a district court in Travis County, Texas. In August 2005, that court issued its judgment on the various appeals. In its judgment, the district court:

- reversed the Texas Utility Commission s ruling that had denied recovery of a portion of the capacity auction true-up amounts;
- reversed the Texas Utility Commission s ruling that precluded CenterPoint Houston from recovering the interest component of the EMCs paid to retail electric providers (REPs); and
- affirmed the True-Up Order in all other respects.

The district court s decision would have had the effect of restoring approximately $650 million, plus interest, of the $1.7 billion the Texas Utility Commission had disallowed from CenterPoint Houston s initial request.

CenterPoint Houston and other parties appealed the district court s judgment to the Texas Third Court of Appeals, which issued its decision in December 2007. In its decision, the court of appeals:

- reversed the district court s judgment to the extent it restored the capacity auction true-up amounts;
- reversed the district court s judgment to the extent it upheld the Texas Utility Commission s decision to allow CenterPoint Houston to recover EMCs paid to RRI Energy, Inc. (RRI) (formerly known as Reliant Energy, Inc.

and Reliant Resources, Inc.);

ordered that the tax normalization issue described below be remanded to the Texas Utility Commission as requested by the Texas Utility Commission; and

affirmed the district court s judgment in all other respects.

In April 2008, the court of appeals denied all motions for rehearing and reissued substantially the same opinion as it had rendered in December 2007.

In June 2008, CenterPoint Houston petitioned the Texas Supreme Court for review of the court of appeals decision. In its petition, CenterPoint Houston seeks reversal of the parts of the court of appeals decision that

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(i) denied recovery of EMCs paid to RRI, (ii) denied recovery of the capacity auction true-up amounts allowed by the district court, (iii) affirmed the Texas Utility Commission s rulings that denied recovery of approximately $378 million related to depreciation and (iv) affirmed the Texas Utility Commission s refusal to permit CenterPoint Houston to utilize the partial stock valuation methodology for determining the market value of its former generation assets. Two other petitions for review were filed with the Texas Supreme Court by other parties to the appeal. In those petitions parties contend that (i) the Texas Utility Commission was without authority to fashion the methodology it used for valuing the former generation assets after it had determined that CenterPoint Houston could not use the partial stock valuation method, (ii) in fashioning the method it used for valuing the former generating assets, the Texas Utility Commission deprived parties of their due process rights and an opportunity to be heard, (iii) the net book value of the generating assets should have been adjusted downward due to the impact of a purchase option that had been granted to RRI, (iv) CenterPoint Houston should not have been permitted to recover construction work in progress balances without proving those amounts in the manner required by law and (v) the Texas Utility Commission was without authority to award interest on the capacity auction true up award.

In June 2009, the Texas Supreme Court granted the petitions for review of the court of appeals decision. Oral argument before the court is scheduled for October 2009. Although CenterPoint Energy and CenterPoint Houston believe that CenterPoint Houston s true-up request is consistent with applicable statutes and regulations and, accordingly, that it is reasonably possible that it will be successful in its appeal to the Texas Supreme Court, we can provide no assurance as to the ultimate court rulings on the issues to be considered in the appeal or with respect to the ultimate decision by the Texas Utility Commission on the tax normalization issue described below.

To reflect the impact of the True-Up Order, in 2004 and 2005, we recorded a net after-tax extraordinary loss of $947 million. No amounts related to the district court s judgment or the decision of the court of appeals have been recorded in our consolidated financial statements. However, if the court of appeals decision is not reversed or modified as a result of further review by the Texas Supreme Court, we anticipate that we would be required to record an additional loss to reflect the court of appeals decision. The amount of that loss would depend on several factors, including ultimate resolution of the tax normalization issue described below and the calculation of interest on any amounts CenterPoint Houston ultimately is authorized to recover or is required to refund beyond the amounts recorded based on the True-Up Order, but could range from $170 million to $385 million (pre-tax) plus interest subsequent to December 31, 2008.

In the True-Up Order, the Texas Utility Commission reduced CenterPoint Houston s stranded cost recovery by approximately $146 million, which was included in the extraordinary loss discussed above, for the present value of certain deferred tax benefits associated with its 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 CenterPoint Houston to pass the tax benefits back to customers without creating normalization violations. In addition, we 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.

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 us 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 our results of operations, financial condition and cash flows in addition to any potential loss resulting from final resolution of the True-Up Order. In its opinion, the court of appeals ordered that this issue be remanded to the Texas

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Utility Commission, as that commission requested. No party, in the petitions for review or briefs filed with the Texas Supreme Court, has challenged that order by the court of appeals although the Texas Supreme Court has the authority to consider all aspects of the rulings above, not just those challenged specifically by the appellants. We and CenterPoint Houston will continue to pursue a favorable resolution of this issue through the appellate and administrative process. Although the Texas Utility Commission has not previously required a company subject to its jurisdiction to take action that would result in a normalization violation, no prediction can be made as to the ultimate action the Texas Utility Commission may take on this issue on remand.

CenterPoint Houston must seek recovery of significant restoration costs arising from Hurricane Ike.

CenterPoint Houston s electric delivery system suffered substantial damage as a result of Hurricane Ike, which struck the upper Texas coast in September 2008.

CenterPoint Houston deferred the uninsured system restoration costs as management believes it is probable that such costs will be recovered through the regulatory process. As of June 30, 2009, CenterPoint Houston had balances of $163 million in property, plant and equipment and $442 million in regulatory assets related to restoration costs incurred through June 30, 2009. In April 2009, CenterPoint Houston filed with the Texas Utility Commission an application for review and approval for recovery of approximately $608 million in system restoration costs identified as of the end of February 2009, plus $2 million in regulatory expenses, $13 million in certain debt issuance costs, and $55 million in projected carrying costs, pursuant to the legislation described below. CenterPoint Houston expects to incur additional costs, currently estimated at $12 million, related to Hurricane Ike, principally related to the reconstruction of certain substations on Galveston Island, and will seek to recover those costs through the regulatory process at a later date.

In April 2009, the Texas Legislature enacted legislation that authorizes the Texas Utility Commission to conduct proceedings to determine the amount of system restoration costs and related costs associated with hurricanes or other major storms that utilities are entitled to recover, and to issue financing orders that would permit a utility like CenterPoint Houston to recover the distribution portion of those costs and related carrying costs through the issuance of non-recourse system restoration bonds similar to the securitization bonds issued previously. The legislation also allows such a utility to recover, or defer for future recovery, the transmission portion of its system restoration costs through the existing mechanisms established to recover transmission level costs. The legislation requires the Texas Utility Commission to make its determination of recoverable system restoration costs within 150 days of the filing of a utility s application and to rule on a utility s application for a financing order for the issuance of system restoration bonds within 90 days of the filing of that application. The time periods for the Texas Utility Commission to act on the two applications can run concurrently, but the Texas Utility Commission can delay issuing a financing order until it has ruled on the amount of recoverable system restoration costs. Alternatively, if securitization is not the least-cost option for rate payers, the legislation authorizes the Texas Utility Commission to allow a utility to recover those costs through a customer surcharge mechanism.

In the application it filed in April 2009, CenterPoint Houston sought approval for recovery of a total of approximately $678 million, including the $608 million in system restoration costs described above plus related regulatory expenses, certain debt issuance costs and carrying costs calculated through August 2009. On July 31, 2009, CenterPoint Houston announced that it had reached a settlement agreement (recovery settlement agreement) with the parties to the proceeding. Under the terms of the recovery settlement agreement, CenterPoint Houston will be entitled to recover a total of $663 million in costs relating to Hurricane Ike, along with carrying costs from September 1, 2009 until system restoration bonds are issued. In August 2009, the Texas Utility Commission approved CenterPoint Houston s application and the recovery settlement agreement. CenterPoint Houston expects to recover the approximately $643 million that relates to its distribution system through the issuance of system restoration bonds similar to the securitization bonds previously issued to recover transition costs. Assuming that system recovery bonds are issued, CenterPoint Houston will recover the distribution portion of approved system restoration costs out of the bond proceeds, with the bonds being repaid over time through a charge imposed on customers. CenterPoint Houston expects to recover the transmission portion of the amount authorized, approximately $20 million, through the existing transmission cost of service process.

In July 2009, CenterPoint Houston filed with the Texas Utility Commission its application for a financing order to recover the portion of approved costs related to distribution service through the issuance of system restoration bonds. On August 18, 2009, CenterPoint Houston filed a settlement agreement (financing settlement agreement) with the Texas Utility Commission that would resolve that proceeding. On August 26, 2009, the Texas Utility Commission approved the settlement agreement and issued a financing order. Under the financing order, CenterPoint Houston is authorized to issue bonds totaling $643 million, plus (i) carrying charges on that amount from September 1, 2009 to the date the bonds are issued and (ii) up-front qualified costs relating to the transaction, which, subject to certain exceptions, are limited to $6.1 million. The financing order provides that the benefits from ADFIT related to the system restoration costs will not be applied to reduce the amount to be securitized, but CenterPoint Houston will provide to customers a credit related to those benefits (based on a beginning balance of $207 million) over the life of the bonds issued.

CenterPoint Houston s failure to recover costs incurred as a result of Hurricane Ike could adversely affect our liquidity, results of operations and financial condition.

CenterPoint Houston s receivables are concentrated in a small number of retail electric providers, and any delay or default in payment could adversely affect CenterPoint Houston s cash flows, financial condition and results of operations.

CenterPoint Houston s receivables from the distribution of electricity are collected from REPs that supply the electricity CenterPoint Houston distributes to their customers. As of June 30, 2009, CenterPoint Houston did business with 83 REPs. Adverse economic conditions, structural problems in the market served by ERCOT or financial difficulties of one or more REPs could impair the ability of these REPs to pay for CenterPoint Houston s services or could cause them to delay such payments. In 2008, seven REPs selling power within CenterPoint Houston s service territory ceased to operate, and their customers were transferred to the provider of last resort or to other REPs. CenterPoint Houston depends on these REPs to remit payments on a timely basis. Applicable regulatory provisions require that customers be shifted to a provider of last resort if a REP cannot make timely payments. Applicable Texas Utility Commission regulations significantly limit the extent to which CenterPoint Houston can demand credit protection from REPs for payments not made prior to the shift to the provider of last resort. However, the Texas Utility Commission is currently considering proposed revisions to those regulations that, as currently proposed, would (i) increase the credit protections that could be required from REPs, and (ii) allow utilities to defer the loss of payments for recovery in a future rate case. Whether such revised regulations will ultimately be adopted and their terms cannot now be determined. A subsidiary of NRG Energy, Inc. is the successor to the retail electric sales business of RRI and has become the largest REP in CenterPoint Houston s service territory. Approximately 45% of CenterPoint Houston s $192 million in billed receivables from REPs at June 30, 2009 was owed by the NRG Energy, Inc. subsidiary. Any delay or default in payment by REPs such as the NRG Energy, Inc. subsidiary could adversely affect CenterPoint Houston s cash flows, financial condition and results of operations. If any of these REPs were unable to meet its obligations, it could consider, among various options, restructuring under the bankruptcy laws, in which event any such REP might seek to avoid honoring its obligations and claims might be made by creditors involving payments CenterPoint Houston had received from such REP.

Rate regulation of CenterPoint Houston s business may delay or deny CenterPoint Houston s ability to earn a reasonable return and fully recover its costs.

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

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In this regard, pursuant to the Stipulation and Settlement Agreement approved by the Texas Utility Commission in September 2006, until June 30, 2010 CenterPoint Houston is limited in its ability to request retail rate relief. For more information on the Stipulation and Settlement Agreement, please read Business Regulation State and Local Regulation Electric Transmission & Distribution CenterPoint Houston Rate Agreement in Item 1 of the 2008 Form 10-K.

Disruptions at power generation facilities owned by third parties could interrupt CenterPoint Houston s sales of transmission and distribution services.

CenterPoint Houston transmits and distributes to customers of REPs electric power that the REPs obtain from power generation facilities owned by third parties. CenterPoint Houston does not own or operate any power generation facilities. If power generation is disrupted or if power generation capacity is inadequate, CenterPoint Houston s sales of transmission and distribution services may be diminished or interrupted, and its results of operations, financial condition and cash flows could be adversely affected.

CenterPoint Houston s revenues and results of operations are seasonal.

A significant portion of CenterPoint Houston s revenues is derived from rates that it collects from each REP based on the amount of electricity it delivers on behalf of such REP. Thus, CenterPoint Houston s revenues and results of operations are subject to seasonality, weather conditions and other changes in electricity usage, with revenues being higher during the warmer months.

Risk Factors Affecting Our Natural Gas Distribution, Competitive Natural Gas Sales and Services, Interstate Pipelines and Field Services Businesses

Rate regulation of CERC s business may delay or deny CERC s ability to earn a reasonable return and fully recover its costs.

CERC s rates for its natural gas distribution business (Gas Operations) are regulated by certain municipalities and state commissions, and for its interstate pipelines by the Federal Energy Regulatory Commission, based on an analysis of its invested capital and its expenses in a test year. Thus, the rates that CERC is allowed to charge may not match its expenses at any given time. The regulatory process in which rates are determined may not always result in rates that will produce full recovery of CERC s costs and enable CERC to earn a reasonable return on its invested capital.

CERC s businesses must compete with alternate energy sources, which could result in CERC marketing less natural gas, and its interstate pipelines and field services businesses must compete directly with others in the transportation, storage, gathering, treating and processing of natural gas, which could lead to lower prices and reduced volumes, either of which could have an adverse impact on CERC s results of operations, financial condition and cash flows.

CERC competes primarily with alternate energy sources such as electricity and other fuel sources. In some areas, intrastate pipelines, other natural gas distributors and marketers also compete directly with CERC for natural gas sales to end-users. In addition, as a result of federal regulatory changes affecting interstate pipelines, natural gas marketers operating on these pipelines may be able to bypass CERC s facilities and market, sell and/or transport natural gas directly to commercial and industrial customers. Any reduction in the amount of natural gas marketed, sold or transported by CERC as a result of competition may have an adverse impact on CERC s results of operations, financial condition and cash flows.

CERC s two interstate pipelines and its gathering systems compete with other interstate and intrastate pipelines and gathering systems in the transportation and storage of natural gas. The principal elements of competition are rates, terms of service, and flexibility and reliability of service. They also compete indirectly with other forms of energy, including electricity, coal and fuel oils. The primary competitive factor is price. The actions of CERC s competitors could lead to lower prices, which may have an adverse impact on CERC s results of operations, financial condition and cash flows. Additionally, any reduction in the volume of natural gas transported or stored may have an adverse impact on CERC s results of operations, financial condition and cash flows.

CERC s natural gas distribution and competitive natural gas sales and services businesses are subject to fluctuations in natural gas prices, which could affect the ability of CERC s suppliers and customers to meet their obligations or otherwise adversely affect CERC s liquidity and results of operations.

CERC is subject to risk associated with increases in the price of natural gas. Increases in natural gas prices might affect CERC s ability to collect balances due from its customers and, for Gas Operations, could create the potential for uncollectible accounts expense to exceed the recoverable levels built into CERC s tariff rates. In addition, a sustained period of high natural gas prices could (i) apply downward demand pressure on natural gas consumption in the areas in which CERC operates thereby resulting in decreased sales volumes and revenues and (ii) increase the risk that CERC s suppliers or customers fail or are unable to meet their obligations. Additionally, increasing natural gas prices could create the need for CERC to provide collateral in order to purchase natural gas.

A decline in CERC s credit rating could result in CERC s having to provide collateral in order to purchase gas.

If CERC s credit rating were to decline, it might be required to post cash collateral in order to purchase natural gas. If a credit rating downgrade and the resultant cash collateral requirement were to occur at a time when CERC was experiencing significant working capital requirements or otherwise lacked liquidity, CERC s results of operations, financial condition and cash flows could be adversely affected.

The revenues and results of operations of CERC s interstate pipelines and field services businesses are subject to fluctuations in the supply and price of natural gas and natural gas liquids.

CERC s interstate pipelines and field services businesses largely rely on natural gas sourced in the various supply basins located in the Mid-continent region of the United States. The level of drilling and production activity in these regions is dependent on economic and business factors beyond our control. The primary factor affecting both the level of drilling activity and production volumes is natural gas pricing. A sustained decline in natural gas prices could result in a decrease in exploration and development activities in the regions served by our gathering and pipeline transportation systems and our natural gas treating and processing activities. A sustained decline could also lead producers to shut in production from their existing wells. Other factors that impact production decisions include the level of production costs relative to other available production, producers access to needed capital and the cost of that capital, the ability of producers to obtain necessary drilling and other governmental permits, access to drilling rigs and regulatory changes. Because of these factors, even if new natural gas reserves are discovered in areas served by our assets, producers may choose not to develop those reserves or to shut in production from existing reserves. To the extent the availability of this supply is substantially reduced, it could have an adverse effect on CERC s results of operations, financial condition and cash flows.

CERC s revenues from these businesses are also affected by the prices of natural gas and natural gas liquids (NGL). NGL prices generally fluctuate on a basis that correlates to fluctuations in crude oil prices. In the past, the prices of natural gas and crude oil have been extremely volatile, and we expect this volatility to continue. The markets and prices for natural gas, NGLs and crude oil depend upon factors beyond our control. These factors include supply of and demand for these commodities, which fluctuate with changes in market and economic conditions and other factors.

CERC s revenues and results of operations are seasonal.

A substantial portion of CERC s revenues is derived from natural gas sales and transportation. Thus, CERC s revenues and results of operations are subject to seasonality, weather conditions and other changes in natural gas usage, with revenues being higher during the winter months.

The actual cost of pipelines under construction, future pipeline, gathering and treating systems and related compression facilities may be significantly higher than CERC had planned.

Subsidiaries of CERC Corp. have been recently involved in significant pipeline construction projects and, depending on available opportunities, may, from time to time, be involved in additional significant pipeline construction and gathering and treating system projects in the future. The construction of new pipelines, gathering and treating systems and related compression facilities may require the expenditure of significant amounts of capital, which may exceed CERC s estimates. These projects may not be completed at the planned cost, on schedule or at all. The construction of new pipeline, gathering, treating or compression facilities is subject to construction cost overruns due to labor costs, costs of equipment and materials such as steel and nickel, labor shortages or delays, weather delays, inflation or other factors, which could be material. In addition, the construction of these facilities is typically subject to the receipt of approvals and permits from various regulatory agencies. Those agencies may not approve the projects in a timely manner or may impose restrictions or conditions on the projects that could potentially prevent a project from proceeding, lengthen its expected completion schedule and/or increase its anticipated cost. As a result, there is the risk that the new facilities may not be able to achieve CERC s expected investment return, which could adversely affect CERC s financial condition, results of operations or cash flows.

The states in which CERC provides regulated local gas distribution may, either through legislation or rules, adopt restrictions similar to or broader than those under the Public Utility Holding Company Act of 1935 regarding organization, financing and affiliate transactions that could have significant adverse impacts on CERC s ability to operate.

The Public Utility Holding Company Act of 1935, to which we and our subsidiaries were subject prior to its repeal in the Energy Policy Act of 2005, provided a comprehensive regulatory structure governing the organization, capital structure, intracompany relationships and lines of business that could be pursued by registered holding companies and their member companies. Following repeal of that Act, some states in which CERC does business have sought to expand their own regulatory frameworks to give their regulatory authorities increased jurisdiction and scrutiny over similar aspects of the utilities that operate in their states. Some of these frameworks attempt to regulate financing activities, acquisitions and divestitures, and arrangements between the utilities and their affiliates, and to restrict the level of non-utility businesses that can be conducted within the holding company structure. Additionally they may impose record keeping, record access, employee training and reporting requirements related to affiliate transactions and reporting in the event of certain downgrading of the utility s bond rating.

These regulatory frameworks could have adverse effects on CERC s ability to operate its utility operations, to finance its business and to provide cost-effective utility service. In addition, if more than one state adopts restrictions over similar activities, it may be difficult for CERC and us to comply with competing regulatory requirements.

Risk Factors Associated with Our Consolidated Financial Condition

If we are unable to arrange future financings on acceptable terms, our ability to refinance existing indebtedness could be limited.

As of June 30, 2009, we had $10.1 billion of outstanding indebtedness on a consolidated basis, which includes $2.5 billion of non-recourse transition bonds. As of June 30, 2009, approximately $857 million principal amount of this debt is required to be paid through 2011. This amount excludes principal repayments of approximately $565 million on transition bonds, for which a dedicated revenue stream exists. Our future financing activities may be significantly affected by, among other things:

the resolution of the true-up components, including, in particular, the results of appeals to the courts regarding rulings obtained to date;

CenterPoint Houston s recovery of costs arising from Hurricane Ike;

general economic and capital market conditions;

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credit availability from financial institutions and other lenders;

investor confidence in us and the markets in which we operate;

maintenance of acceptable credit ratings;

market expectations regarding our future earnings and cash flows;

market perceptions of our ability to access capital markets on reasonable terms;

our exposure to RRI in connection with its indemnification obligations arising in connection with its separation from us; and

provisions of relevant tax and securities laws.

As of June 30, 2009, CenterPoint Houston had outstanding approximately $3.1 billion aggregate principal amount of general mortgage bonds, including approximately $527 million held in trust to secure pollution control bonds for which we are obligated, $600 million securing borrowings under a credit facility which was unutilized and approximately $229 million held in trust to secure pollution control bonds for which CenterPoint Houston is obligated. Additionally, CenterPoint Houston had outstanding approximately $253 million aggregate principal amount of first mortgage bonds, including approximately $151 million held in trust to secure certain pollution control bonds for which we are obligated. CenterPoint Houston may issue additional general mortgage bonds on the basis of retired bonds, 70% of property additions or cash deposited with the trustee. Approximately $1.4 billion of additional first mortgage bonds and general mortgage bonds in the aggregate could be issued on the basis of retired bonds and 70% of property additions as of June 30, 2009. However, CenterPoint Houston has contractually agreed that it will not issue additional first mortgage bonds, subject to certain exceptions.

Our current credit ratings are discussed in Management s Discussion and Analysis of Financial Condition and Results of Operations of CenterPoint Energy, Inc. and Subsidiaries Liquidity and Capital Resources Future Sources and Uses of Cash Impact on Liquidity of a Downgrade in Credit Ratings in Item 2 of our 2nd Quarter 2009 Form 10-Q. These credit ratings may not remain in effect for any given period of time and one or more of these ratings may be lowered or withdrawn entirely by a rating agency. We note that these credit ratings are not recommendations to buy, sell or hold our securities. Each rating should be evaluated independently of any other rating. Any future reduction or withdrawal of one or more of our credit ratings could have a material adverse impact on our ability to access capital on acceptable terms.

As a holding company with no operations of our own, we will depend on distributions from our subsidiaries to meet our payment obligations, and provisions of applicable law or contractual restrictions could limit the amount of those distributions.

We derive all our operating income from, and hold all our assets through, our subsidiaries. As a result, we will depend on distributions from our subsidiaries in order to meet our payment obligations. In general, these subsidiaries are separate and distinct legal entities and have no obligation to provide us with funds for our payment obligations, whether by dividends, distributions, loans or otherwise. In addition, provisions of applicable law, such as those limiting the legal sources of dividends, limit our subsidiaries ability to make payments or other distributions to us, and our subsidiaries could agree to contractual restrictions on their ability to make distributions.

Our right to receive any assets of any subsidiary, and therefore the right of our creditors to participate in those assets, will be effectively subordinated to the claims of that subsidiary s creditors, including trade creditors. In addition, even if we were a creditor of any subsidiary, our rights as a creditor would be subordinated to any security interest in the assets of that subsidiary and any indebtedness of the subsidiary senior to that held by us.

The use of derivative contracts by us and our subsidiaries in the normal course of business could result in financial losses that could negatively impact our results of operations and those of our subsidiaries.

We and our subsidiaries use derivative instruments, such as swaps, options, futures and forwards, to manage our commodity, weather and financial market risks. We and our subsidiaries could recognize financial losses as a result of volatility in the market values of these contracts, or should a counterparty fail to perform. In the absence of actively quoted market prices and pricing information from external sources, the valuation of these financial instruments can involve management s judgment or use of estimates. As a result, changes in the underlying assumptions or use of alternative valuation methods could affect the reported fair value of these contracts.

Risks Common to Our Businesses and Other Risks

We are subject to operational and financial risks and liabilities arising from environmental laws and regulations.

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

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

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

- construct or acquire new equipment;
- acquire permits for facility operations;
- modify or replace existing and proposed equipment; and
- clean up or decommission waste disposal areas, fuel storage and management facilities and other locations and facilities.

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

Our insurance coverage may not be sufficient. Insufficient insurance coverage and increased insurance costs could adversely impact our results of operations, financial condition and cash flows.

We currently have general liability and property insurance in place to cover certain of our facilities in amounts that we consider appropriate. Such policies are subject to certain limits and deductibles and do not include business interruption coverage. Insurance coverage may not be available in the future at current costs or on commercially reasonable terms, and the insurance proceeds received for any loss of, or any damage to, any of our facilities may not be sufficient to restore the loss or damage without negative impact on our results of operations, financial condition and cash flows.

In common with other companies in its line of business that serve coastal regions, CenterPoint Houston does not have insurance covering its transmission and distribution system because CenterPoint Houston believes it to be cost prohibitive. In the future, CenterPoint Houston may not be able to recover the costs incurred in

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restoring its transmission and distribution properties following hurricanes or other natural disasters through a change in its regulated rates or otherwise, or any such recovery may not be timely granted. Therefore, CenterPoint Houston may not be able to restore any loss of, or damage to, any of its transmission and distribution properties without negative impact on its results of operations, financial condition and cash flows.

We, CenterPoint Houston and CERC could incur liabilities associated with businesses and assets that we have transferred to others.

Under some circumstances, we, CenterPoint Houston and CERC could incur liabilities associated with assets and businesses we, CenterPoint Houston and CERC no longer own. These assets and businesses were previously owned by Reliant Energy, Incorporated (Reliant Energy), a predecessor of CenterPoint Houston, directly or through subsidiaries and include:

- merchant energy, energy trading and REP businesses transferred to RRI or its subsidiaries in connection with the organization and capitalization of RRI prior to its initial public offering in 2001; and

- Texas electric generating facilities transferred to Texas Genco Holdings, Inc. (Texas Genco) in 2004 and early 2005.

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

Prior to the distribution of our ownership in RRI to our shareholders, CERC had guaranteed certain contractual obligations of what became RRI s trading subsidiary. When the companies separated, RRI agreed to secure CERC against obligations under the guaranties RRI had been unable to extinguish by the time of separation. Pursuant to such agreement, as amended in December 2007, RRI has agreed to provide to CERC cash or letters of credit as security against CERC s obligations under its remaining guaranties if and to the extent changes in market conditions expose CERC to a risk of loss on those guaranties. As of June 30, 2009, RRI was not required to provide security to CERC. If RRI should fail to perform the contractual obligations, CERC could have to honor its guarantee and, in such event, collateral provided as security may be insufficient to satisfy CERC s obligations.

The potential exposure to CERC under the guaranties relates to payment of demand charges related to transportation contracts. The present value of the demand charges under these transportation contracts, which will be effective until 2018, was approximately $102 million as of June 30, 2009. RRI continues to meet its obligations under the contracts, and on the basis of market conditions, we and CERC have not required additional security. However, if RRI should fail to perform its obligations under the contracts or if RRI should fail to provide adequate security in the event market conditions change adversely, we would retain our exposure to the counterparty under the guaranty.

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

On May 1, 2009, RRI completed the previously announced sale of its Texas retail business to NRG Retail LLC, a subsidiary of NRG Energy, Inc. In connection with the sale, RRI changed its name to RRI Energy, Inc. and no longer provides service as a REP in CenterPoint Houston s service territory. The sale does not alter RRI s contractual obligations to indemnify us and our subsidiaries, including CenterPoint Houston, for certain liabilities, including their indemnification regarding certain litigation, nor does it affect the terms of existing guaranty arrangements for certain RRI gas transportation contracts.

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

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

We or our subsidiaries 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 us, but most existing claims relate to facilities previously owned by our subsidiaries but currently owned by NRG Texas LP. We anticipate that additional claims like those received may be asserted in the future. Under the terms of the arrangements regarding separation of the generating business from us 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 we have agreed to continue to defend such claims to the extent they are covered by insurance maintained by us, subject to reimbursement of the costs of such defense by NRG Texas LP.

The global financial crisis may have impacts on our business, liquidity and financial condition that we currently cannot predict.

The continued credit crisis and related turmoil in the globa