CENTERPOINT ENERGY INC
Form 10-Q
August 03, 2018

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

FORM 10-Q
(Mark One)
þ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2018
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	Registrant, State or Other Jurisdiction of Incorporation or Organization Address of Principal Executive Offices, Zip Code and Telephone Number	I.R.S. Employer Identification No.
1-31447	CenterPoint Energy, Inc. (a Texas corporation) 1111 Louisiana Houston, Texas 77002 (713-207-1111)	74-0694415
1-3187	CenterPoint Energy Houston Electric, LLC (a Texas limited liability company) 1111 Louisiana Houston, Texas 77002 (713-207-1111)	22-3865106
1-13265	CenterPoint Energy Resources Corp. (a Delaware corporation) 1111 Louisiana Houston, Texas 77002 (713-207-1111)	76-0511406

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.

CenterPoint Energy, Inc. Yes þ No o
CenterPoint Energy Houston Electric, LLC Yes þ No o
CenterPoint Energy Resources Corp. Yes þ No o

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files).

CenterPoint Energy, Inc.	Yes þ No o
CenterPoint Energy Houston Electric, LLC	Yes þ No o
CenterPoint Energy Resources Corp.	Yes þ No o

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

CenterPoint Energy, Inc.	Large accelerated filer þ	Accelerated filer o	Non-accelerated filer o	Smaller reporting company o	Emerging growth company o
CenterPoint Energy Houston Electric, LLC	Large accelerated filer o	Accelerated filer o	Non-accelerated filer þ	Smaller reporting company o	Emerging growth company o
CenterPoint Energy Resources Corp.	Large accelerated filer o	Accelerated filer o	Non-accelerated filer þ	Smaller reporting company o	Emerging growth company o

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

CenterPoint Energy, Inc. Yes o No þ
CenterPoint Energy Houston Electric, LLC Yes o No þ
CenterPoint Energy Resources Corp. Yes o No þ

Indicate the number of shares outstanding of each of the issuers’ classes of common stock as of July 23, 2018:

CenterPoint Energy, Inc.	431,553,691 shares of common stock outstanding, excluding 166 shares held as treasury stock
CenterPoint Energy Houston Electric, LLC	1,000 common shares outstanding, all held by Utility Holding, LLC, a wholly-owned subsidiary of CenterPoint Energy, Inc.
CenterPoint Energy Resources Corp.	1,000 shares of common stock outstanding, all held by Utility Holding, LLC, a wholly-owned subsidiary of CenterPoint Energy, Inc.

This combined Form 10-Q is filed separately by three registrants: CenterPoint Energy, Inc., CenterPoint Energy Houston Electric, LLC and CenterPoint Energy Resources Corp. Information contained herein relating to any individual registrant is filed by such registrant solely on its own behalf. Each registrant makes no representation as to information relating exclusively to the other registrants.

Except as discussed in the last paragraph in Note 12 to the Registrants’ Condensed Consolidated Financial Statements, no registrant has an obligation in respect of any other Registrant’s debt securities, and holders of such debt securities should not consider the financial resources or results of operations of any Registrant other than the obligor in making a decision with respect to such securities.

CenterPoint Energy Houston Electric, LLC and CenterPoint Energy Resources Corp. meet the conditions set forth in General Instructions H(1)(a) and (b) of Form 10-Q and are therefore filing this form with the reduced disclosure format specified in General Instruction H(2) of Form 10-Q.

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GLOSSARY

AEM	Atmos Energy Marketing, LLC, previously a wholly-owned subsidiary of Atmos Energy Holdings, Inc., a wholly-owned subsidiary of Atmos Energy Corporation
AMA	Asset Management Agreement
AMS	Advanced Metering System
APSC	Arkansas Public Service Commission
ARAM	Average rate assumption method
ARP	Alternative revenue program
ASC	Accounting Standards Codification
ASU	Accounting Standards Update
AT&T	AT&T Inc.
AT&T Common	AT&T common stock
Bcf	Billion cubic feet
Bond Companies	Bond Company II, Bond Company III, Bond Company IV and Restoration Bond Company, each a wholly-owned, bankruptcy remote entity formed solely for the purpose of purchasing and owning transition or system restoration property through the issuance of Securitization Bonds
Bond Company II	CenterPoint Energy Transition Bond Company II, LLC, a wholly-owned subsidiary of Houston Electric
Bond Company III	CenterPoint Energy Transition Bond Company III, LLC, a wholly-owned subsidiary of Houston Electric
Bond Company IV	CenterPoint Energy Transition Bond Company IV, LLC, a wholly-owned subsidiary of Houston Electric
Brazos Valley Connection	A portion of the Houston region transmission project between Houston Electric’s Zenith substation and the Gibbons Creek substation owned by the Texas Municipal Power Agency
Bridge Facility	A $5 billion 364-day senior unsecured bridge term loan facility
CenterPoint Energy	CenterPoint Energy, Inc., and its subsidiaries
CERC Corp.	CenterPoint Energy Resources Corp.
CERC	CERC Corp., together with its subsidiaries
CES	CenterPoint Energy Services, Inc., a wholly-owned subsidiary of CERC Corp.
Charter Common	Charter Communications, Inc. common stock
CIP	Conservation Improvement Program
COLI	Corporate-owned life insurance
Continuum	The retail energy services business of Continuum Retail Energy Services, LLC, including its wholly-owned subsidiary Lakeshore Energy Services, LLC and the natural gas wholesale assets of Continuum Energy Services, LLC
DCRF	Distribution Cost Recovery Factor
EDIT	Excess deferred income taxes
EECR	Energy Efficiency Cost Recovery
EECRF	Energy Efficiency Cost Recovery Factor
Enable	Enable Midstream Partners, LP
EPA	Environmental Protection Agency
ERCOT	Electric Reliability Council of Texas
FCC	Federal Communications Commission
FERC	Federal Energy Regulatory Commission
Fitch	Fitch, Inc.
Form 10-Q	Quarterly Report on Form 10-Q
FRP	Formula Rate Plan

GLOSSARY

FTC	Federal Trade Commission
Gas Daily	Platts gas daily indices
GenOn	GenOn Energy, Inc.
GRIP	Gas Reliability Infrastructure Program
GWh	Gigawatt-hours
Houston Electric	CenterPoint Energy Houston Electric, LLC and its subsidiaries
HSR	Hart-Scott-Rodino
Interim Condensed Financial Statements	Unaudited condensed consolidated interim financial statements and combined notes
IRS	Internal Revenue Service
kV	Kilovolt
LIBOR	London Interbank Offered Rate
Meredith	Meredith Corporation
Merger	The merger of Merger Sub with and into Vectren on the terms and subject to the conditions set forth in the Merger Agreement, with Vectren continuing as the surviving corporation and as a wholly-owned subsidiary of CenterPoint Energy, Inc.
Merger Agreement	Agreement and Plan of Merger, dated as of April 21, 2018, among CenterPoint Energy, Vectren and Merger Sub
Merger Sub	Pacer Merger Sub, Inc., an Indiana corporation and wholly-owned subsidiary of CenterPoint Energy
MGP	Manufactured gas plant
MLP	Master Limited Partnership
MMBtu	One million British thermal units
Moody’s	Moody’s Investors Service, Inc.
MPSC	Mississippi Public Service Commission
MPUC	Minnesota Public Utilities Commission
NGD	Natural gas distribution business
NGLs	Natural gas liquids
NOPR	Notice of Proposed Rulemaking
NRG	NRG Energy, Inc.
NYMEX	New York Mercantile Exchange
NYSE	New York Stock Exchange
OCC	Oklahoma Corporation Commission
OGE	OGE Energy Corp.
PBRC	Performance Based Rate Change
PRPs	Potentially responsible parties
PUCT	Public Utility Commission of Texas
Railroad Commission	Railroad Commission of Texas
Registrants	CenterPoint Energy, Houston Electric and CERC, collectively
Reliant Energy	Reliant Energy, Incorporated
REP	Retail electric provider
Restoration Bond Company	CenterPoint Energy Restoration Bond Company, LLC, a wholly-owned subsidiary of Houston Electric
Revised Policy Statement	Revised Policy Statement on Treatment of Income Taxes
ROE	Return on equity
RRA	Rate Regulation Adjustment
RRI	Reliant Resources, Inc.
RSP	Rate Stabilization Plan

SEC	Securities and Exchange Commission

GLOSSARY

Securitization Bonds	Transition and system restoration bonds
Series A Preferred Units	Enable's 10% Series A Fixed-to-Floating Non-Cumulative Redeemable Perpetual Preferred Units, representing limited partner interests in Enable
S&P	Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies
TBD	To be determined
TCEH Corp.	Formerly Texas Competitive Electric Holdings Company LLC, predecessor to Vistra Energy Corp. whose major subsidiaries include Luminant and TXU Energy
TCJA	Tax reform legislation informally called the Tax Cuts and Jobs Act of 2017
TCOS	Transmission Cost of Service
TDU	Transmission and distribution utility
Time	Time Inc.
Time Common	Time common stock
Transition Agreements	Services Agreement, Employee Transition Agreement, Transitional Seconding Agreement and other agreements entered into in connection with the formation of Enable
TW	Time Warner Inc.
TW Common	TW common stock
Vectren	Vectren Corporation, an Indiana corporation
VIE	Variable interest entity
Vistra Energy Corp.	Texas-based energy company focused on the competitive energy and power generation markets
ZENS	2.0% Zero-Premium Exchangeable Subordinated Notes due 2029
ZENS-Related Securities	As of June 30, 2018, consisted of AT&T Common and Charter Common and as of December 31, 2017, consisted of Charter Common, Time Common and TW Common
2017 Form 10-K	Annual Report on Form 10-K for the fiscal year ended December 31, 2017

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

From time to time the Registrants make statements concerning their 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 forward-looking statements by the words "anticipate," "believe," "continue," "could," "estimate," "expect," "forecast," "intend," "may," "objective," "plan," "potential," "predict," "projection," "should," "target," "will" or other similar words.

The Registrants have based their forward-looking statements on management's beliefs and assumptions based on information reasonably available to management at the time the statements are made. The Registrants caution you that assumptions, beliefs, expectations, intentions and projections about future events may and often do vary materially from actual results. Therefore, the Registrants cannot assure you that actual results will not differ materially from those expressed or implied by the Registrants' forward-looking statements. In this Form 10-Q, unless context requires otherwise, the terms "our," "we" and "us" are used as abbreviated references to CenterPoint Energy, Inc. together with its consolidated subsidiaries.

The following are some of the factors that could cause actual results to differ from those expressed or implied by the Registrants' forward-looking statements and apply to all Registrants unless otherwise indicated:

- the performance of Enable, the amount of cash distributions CenterPoint Energy and CERC receive from Enable, Enable's ability to redeem the Series A Preferred Units in certain circumstances and the value of CenterPoint Energy's and CERC's interest in Enable, and factors that may have a material impact on such performance, cash distributions and value, including factors such as:

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

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

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

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

recording of non-cash goodwill, long-lived asset or other than temporary impairment charges by or related to Enable;

changes in tax status;

access to debt and equity capital; and

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

- industrial, commercial and residential growth in our service territories and changes in market demand, including the demand for our non-rate regulated products and services and effects of energy efficiency measures and demographic patterns;

- timely and appropriate rate actions that allow recovery of costs and a reasonable return on investment;
- future economic conditions in regional and national markets and their effect on sales, prices and costs;
- weather variations and other natural phenomena, including the impact of severe weather events on operations and capital;
- state and federal legislative and regulatory actions or developments affecting various aspects of our businesses (including the businesses of Enable), including, among others, energy deregulation or re-regulation, pipeline integrity and safety and changes in regulation and legislation pertaining to trade, health care, finance and actions regarding the rates charged by our regulated businesses;
- CenterPoint Energy’s expected timing, likelihood and benefits of completion of the Merger, including the timing, receipt and terms and conditions of any required approvals by Vectren’s shareholders and governmental and regulatory agencies or the outcome of shareholder litigation filed against Vectren that could reduce anticipated benefits or cause the parties to delay or abandon the Merger, as well as the ability to successfully integrate the businesses and realize anticipated benefits, the possibility that long-term financing for the Merger may not be put in place before the closing of the Merger or that financing terms may not be as expected and the risk that the credit ratings of the combined company or its subsidiaries may be different from what CenterPoint Energy expects;

- tax legislation, including the effects of the TCJA (which includes any potential changes to interest deductibility) and uncertainties involving state commissions' and local municipalities' regulatory requirements and determinations regarding the treatment of EDIT and our rates;

- CenterPoint Energy's and CERC's ability to mitigate weather impacts through normalization or rate mechanisms, and the effectiveness of such mechanisms;

- the timing and extent of changes in commodity prices, particularly natural gas, and the effects of geographic and seasonal commodity price differentials on CERC and Enable;

- actions by credit rating agencies, including any potential downgrades to credit ratings;

- changes in interest rates and their impact on costs of borrowing and the valuation of CenterPoint Energy's pension benefit obligation;

- problems with regulatory approval, construction, implementation of necessary technology or other issues with respect to major capital projects that result in delays or in cost overruns that cannot be recouped in rates;

- local, state and federal legislative and regulatory actions or developments relating to the environment, including those related to global climate change;

- the impact of unplanned facility outages;

- any direct or indirect effects on our or Enable's facilities, operations and financial condition resulting from terrorism, cyber-attacks, data security breaches or other attempts to disrupt our businesses or the businesses of third parties, or other catastrophic events such as fires, earthquakes, explosions, leaks, floods, droughts, hurricanes, pandemic health events or other occurrences;

- our ability to invest planned capital and the timely recovery of our investment in capital;

- our ability to control operation and maintenance costs;

- the sufficiency of our insurance coverage, including availability, cost, coverage and terms and ability to recover claims;

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

- 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;

- changes in rates of inflation;

- inability of various counterparties to meet their obligations to us;

- non-payment for our services due to financial distress of our customers;

- the extent and effectiveness of our and Enable's risk management and hedging activities, including, but not limited to financial and weather hedges and commodity risk management activities;

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timely and appropriate regulatory actions, which include actions allowing securitization, for any future hurricanes or natural disasters or other recovery of costs, including costs associated with Hurricane Harvey;

- CenterPoint Energy, CERC or Enable's potential business strategies and strategic initiatives, including restructurings, joint ventures and acquisitions or dispositions of assets or businesses (including a reduction of CenterPoint Energy's and CERC's interests in Enable, if any, whether through their decision to sell all or a portion of the Enable common units they own in the public equity markets or otherwise, subject to certain limitations), which CenterPoint Energy, CERC and Enable cannot assure you will be completed or will have the anticipated benefits to us or Enable;

- acquisition and merger activities involving us or our competitors, including the ability to successfully complete merger, acquisition and divestiture plans;

- our or Enable's ability to recruit, effectively transition and retain management and key employees and maintain good labor relations;

- the outcome of litigation;

- the ability of REPs, including REP affiliates of NRG and Vistra Energy Corp., formerly known as TCEH Corp., to satisfy their obligations to CenterPoint Energy and Houston Electric;

- the ability of GenOn (formerly known as RRI Energy, Inc., Reliant Energy and RRI), a wholly-owned subsidiary of NRG, and its subsidiaries, currently the subject of bankruptcy proceedings, to satisfy their obligations to us, including indemnity obligations;

- changes in technology, particularly with respect to efficient battery storage or the emergence or growth of new, developing or alternative sources of generation;
- the timing and outcome of any audits, disputes and other proceedings related to taxes;
- the effective tax rates;
- the effect of changes in and application of accounting standards and pronouncements; and
- other factors discussed in “Risk Factors” in Item 1A of Part I of each of the Registrants’ 2017 Form 10-K and in Item 1A of Part II of CenterPoint Energy’s First Quarter 2018 Form 10-Q, which are incorporated herein by reference, and other reports the Registrants file from time to time with the SEC.

You should not place undue reliance on forward-looking statements. Each forward-looking statement speaks only as of the date of the particular statement, and the Registrants undertake no obligation to update or revise any forward-looking statements. Investors should note that the Registrants announce material financial information in SEC filings, press releases and public conference calls. Based on guidance from the SEC, the Registrants may use the Investors section of CenterPoint Energy’s website (www.centerpointenergy.com) to communicate with investors about the Registrants. It is possible that the financial and other information posted there could be deemed to be material information. The information on CenterPoint Energy’s website is not part of this combined Form 10-Q.

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PART I. FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

CENTERPOINT ENERGY, INC. AND SUBSIDIARIES
CONDENSED STATEMENTS OF CONSOLIDATED INCOME
(In Millions, Except Per Share Amounts)
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Revenues:				
Utility revenues	$1,341	$1,222	$3,235	$2,768
Non-utility revenues	845	921	2,106	2,110
Total	2,186	2,143	5,341	4,878
Expenses:				
Utility natural gas	188	150	825	600
Non-utility natural gas	790	882	2,063	2,011
Operation and maintenance	578	518	1,147	1,061
Depreciation and amortization	342	254	656	480
Taxes other than income taxes	101	99	212	195
Total	1,999	1,903	4,903	4,347
Operating Income	187	240	438	531
Other Income (Expense):				
Gain on marketable securities	22	23	23	67
Loss on indexed debt securities	(254)	(13)	(272)	(23)
Interest and other finance charges	(91)	(77)	(169)	(155)
Interest on Securitization Bonds	(14)	(20)	(30)	(40)
Equity in earnings of unconsolidated affiliate, net	58	59	127	131
Other, net	4	(1)	7	(1)
Total	(275)	(29)	(314)	(21)
Income (Loss) Before Income Taxes	(88)	211	124	510
Income tax expense (benefit)	(13)	76	34	183
Net Income (Loss)	$(75)	$135	$90	$327
Basic Earnings (Loss) Per Share	$(0.17)	$0.31	$0.21	$0.76
Diluted Earnings (Loss) Per Share	$(0.17)	$0.31	$0.21	$0.75
Dividends Declared Per Share	$0.2775	$0.2675	$0.2775	$0.5350
Weighted Average Shares Outstanding, Basic	432	431	431	431

Weighted Average Shares Outstanding, Diluted	432	434	434	434

See Combined Notes to Unaudited Condensed Consolidated Financial Statements

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CENTERPOINT ENERGY, INC. AND SUBSIDIARIES
CONDENSED STATEMENTS OF CONSOLIDATED COMPREHENSIVE INCOME
(In Millions)
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Net income (loss)	$(75)	$135	$90	$327
Other comprehensive income:				
Adjustment to pension and other postretirement plans (net of tax of $-0-, $1, $1 and $2)	2	1	3	2
Net deferred gain (loss) from cash flow hedges (net of tax of $-0-, $-0-, $1 and $-0-)	(1)	—	3	(1)
Total	1	1	6	1
Comprehensive income (loss)	$(74)	$136	$96	$328

See Combined Notes to Unaudited Condensed Consolidated Financial Statements

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CENTERPOINT ENERGY, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(In Millions)
(Unaudited)

ASSETS

	June 30, 2018	December 31, 2017
Current Assets:		
Cash and cash equivalents ($253 and $230 related to VIEs, respectively)	$328	$ 260
Investment in marketable securities	584	960
Accounts receivable ($112 and $73 related to VIEs, respectively), less bad debt reserve of $21 and $19, respectively	958	1,000
Accrued unbilled revenues	207	427
Natural gas inventory	152	222
Materials and supplies	192	175
Non-trading derivative assets	74	110
Taxes receivable	39	—
Prepaid expenses and other current assets ($37 and $35 related to VIEs, respectively)	167	241
Total current assets	2,701	3,395
Property, Plant and Equipment:		
Property, plant and equipment	19,585	19,031
Less: accumulated depreciation and amortization	6,188	5,974
Property, plant and equipment, net	13,397	13,057
Other Assets:		
Goodwill	867	867
Regulatory assets ($1,293 and $1,590 related to VIEs, respectively)	2,067	2,347
Non-trading derivative assets	46	44
Investment in unconsolidated affiliate	2,451	2,472
Preferred units – unconsolidated affiliate	363	363
Other	216	191
Total other assets	6,010	6,284
Total Assets	$22,108	$ 22,736

See Combined Notes to Unaudited Condensed Consolidated Financial Statements

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CENTERPOINT ENERGY, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS – (continued)
(In Millions, except share amounts)
(Unaudited)

LIABILITIES AND SHAREHOLDERS' EQUITY

	June 30, 2018	December 31, 2017
Current Liabilities:		
Short-term borrowings	$—	$ 39
Current portion of VIE Securitization Bonds long-term debt	446	434
Indexed debt, net	26	122
Current portion of other long-term debt	50	50
Indexed debt securities derivative	641	668
Accounts payable	706	963
Taxes accrued	103	181
Interest accrued	118	104
Dividends accrued	—	120
Non-trading derivative liabilities	26	20
Due to ZENS note holders	382	—
Other	344	368
Total current liabilities	2,842	3,069
Other Liabilities:		
Deferred income taxes, net	3,168	3,174
Non-trading derivative liabilities	12	4
Benefit obligations	723	785
Regulatory liabilities	2,521	2,464
Other	412	357
Total other liabilities	6,836	6,784
Long-term Debt:		
VIE Securitization Bonds, net	1,193	1,434
Other long-term debt, net	6,567	6,761
Total long-term debt, net	7,760	8,195
Commitments and Contingencies (Note 14)		
Shareholders' Equity:		
Cumulative preferred stock, $0.01 par value, 20,000,000 shares authorized, none issued or outstanding	—	—
Common stock, $0.01 par value, 1,000,000,000 shares authorized, 431,547,782 shares and 431,044,845 shares outstanding, respectively	4	4
Additional paid-in capital	4,215	4,209
Retained earnings	513	543
Accumulated other comprehensive loss	(62)	(68)
Total shareholders' equity	4,670	4,688

Total Liabilities and Shareholders' Equity	$22,108	$ 22,736

See Combined Notes to Unaudited Condensed Consolidated Financial Statements

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CENTERPOINT ENERGY, INC. AND SUBSIDIARIES
CONDENSED STATEMENTS OF CONSOLIDATED CASH FLOWS
(In Millions)
(Unaudited)

	Six Months Ended June 30,	
	2018	2017
Cash Flows from Operating Activities:		
Net income	$90	$327
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	656	480
Amortization of deferred financing costs	18	12
Deferred income taxes	(12)	95
Unrealized gain on marketable securities	(23)	(67)
Loss on indexed debt securities	272	23
Write-down of natural gas inventory	1	—
Equity in earnings of unconsolidated affiliate, net of distributions	(9)	(131)
Pension contributions	(64)	(18)
Changes in other assets and liabilities, excluding acquisitions:		
Accounts receivable and unbilled revenues, net	232	234
Inventory	52	(20)
Taxes receivable	(39)	30
Accounts payable	(246)	(158)
Fuel cost recovery	69	(12)
Non-trading derivatives, net	64	(49)
Margin deposits, net	(9)	(43)
Interest and taxes accrued	(64)	(17)
Net regulatory assets and liabilities	57	(34)
Other current assets	(4)	10
Other current liabilities	(13)	(29)
Other assets	(3)	(1)
Other liabilities	60	27
Other, net	8	18
Net cash provided by operating activities	1,093	677
Cash Flows from Investing Activities:		
Capital expenditures	(697)	(649)
Acquisitions, net of cash acquired	—	(132)
Distributions from unconsolidated affiliate in excess of cumulative earnings	30	149
Proceeds from sale of marketable securities	398	—
Other, net	2	(8)
Net cash used in investing activities	(267)	(640)
Cash Flows from Financing Activities:		
Decrease in short-term borrowings, net	(39)	(11)
Proceeds from (payments of) commercial paper, net	(1,188)	284
Proceeds from long-term debt, net	997	298
Payments of long-term debt	(230)	(469)
Debt issuance costs	(35)	(6)
Payment of dividends on common stock	(240)	(230)

Distribution to ZENS note holders	(16)	—
Other, net	(5)	(4)
Net cash used in financing activities	(756)	(138)
Net Increase (Decrease) in Cash, Cash Equivalents and Restricted Cash	70	(101)
Cash, Cash Equivalents and Restricted Cash at Beginning of Period	296	381
Cash, Cash Equivalents and Restricted Cash at End of Period	$366	$280

See Combined Notes to Unaudited Condensed Consolidated Financial Statements

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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,	
	2018	2017	2018	2017
Revenues	$854	$752	$1,609	$1,390
Expenses:				
Operation and maintenance	351	343	693	684
Depreciation and amortization	262	180	495	332
Taxes other than income taxes	60	58	121	118
Total	673	581	1,309	1,134
Operating Income	181	171	300	256
Other Income (Expense):				
Interest and other finance charges	(36)	(32)	(69)	(65)
Interest on Securitization Bonds	(14)	(20)	(30)	(40)
Other, net	(3)	(2)	(6)	(6)
Total	(53)	(54)	(105)	(111)
Income Before Income Taxes	128	117	195	145
Income tax expense	27	42	42	52
Net Income	$101	$75	$153	$93

See Combined Notes to Unaudited Condensed Consolidated Financial Statements

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Net income	$ 101	$ 75	$ 153	$ 93
Other comprehensive income:				
Net deferred gain (loss) from cash flow hedges (net of tax of $-0-, $-0-, $1 and $-0-)	—	—	4	(1)
Total	—	—	4	(1)
Comprehensive income	$ 101	$ 75	$ 157	$ 92

See Combined Notes to Unaudited Condensed Consolidated Financial Statements

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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

	June 30, 2018	December 31, 2017
Current Assets:		
Cash and cash equivalents ($253 and $230 related to VIEs, respectively)	$253	$ 238
Accounts and notes receivable ($112 and $73 related to VIEs, respectively), less bad debt reserve of $1 and $1, respectively	389	284
Accounts and notes receivable–affiliated companies	32	7
Accrued unbilled revenues	122	120
Materials and supplies	125	119
Taxes receivable	23	—
Prepaid expenses and other current assets ($37 and $35 related to VIEs, respectively)	59	62
Total current assets	1,003	830
Property, Plant and Equipment:		
Property, plant and equipment	11,812	11,496
Less: accumulated depreciation and amortization	3,741	3,633
Property, plant and equipment, net	8,071	7,863
Other Assets:		
Regulatory assets ($1,293 and $1,590 related to VIEs, respectively)	1,321	1,570
Other	35	29
Total other assets	1,356	1,599
Total Assets	$10,430	$ 10,292

See Combined Notes to Unaudited Condensed Consolidated Financial Statements

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

LIABILITIES AND MEMBER’S EQUITY

	June 30, 2018	December 31, 2017
Current Liabilities:		
Current portion of VIE Securitization Bonds long-term debt	$446	$ 434
Accounts payable	208	243
Accounts and notes payable–affiliated companies	121	104
Taxes accrued	61	116
Interest accrued	75	65
Other	93	120
Total current liabilities	1,004	1,082
Other Liabilities:		
Deferred income taxes, net	1,025	1,059
Benefit obligations	143	146
Regulatory liabilities	1,265	1,263
Other	56	54
Total other liabilities	2,489	2,522
Long-term Debt:		
VIE Securitization Bonds, net	1,193	1,434
Other, net	3,280	2,885
Total long-term debt, net	4,473	4,319
Commitments and Contingencies (Note 14)		
Member’s Equity:		
Common stock	—	—
Paid-in capital	1,697	1,696
Retained earnings	763	673
Accumulated other comprehensive income	4	—
Total member’s equity	2,464	2,369
Total Liabilities and Member’s Equity	$10,430	$ 10,292

See Combined Notes to Unaudited Condensed Consolidated Financial Statements

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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,	
	2018	2017
Cash Flows from Operating Activities:		
Net income	$153	$93
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	495	332
Amortization of deferred financing costs	6	6
Deferred income taxes	(38)	23
Changes in other assets and liabilities:		
Accounts and notes receivable, net	(107)	(63)
Accounts receivable/payable–affiliated companies	78	(35)
Inventory	(6)	(1)
Accounts payable	(6)	57
Taxes receivable	(23)	(38)
Interest and taxes accrued	(45)	(41)
Net regulatory assets and liabilities	(59)	(59)
Other current assets	4	2
Other current liabilities	(11)	(7)
Other assets	2	4
Other liabilities	2	1
Other, net	(2)	5
Net cash provided by operating activities	443	279
Cash Flows from Investing Activities:		
Capital expenditures	(441)	(414)
Decrease (increase) in notes receivable–affiliated companies	(26)	5
Other, net	(1)	(9)
Net cash used in investing activities	(468)	(418)
Cash Flows from Financing Activities:		
Proceeds from long-term debt, net	398	298
Payments of long-term debt	(230)	(219)
Decrease in notes payable–affiliated companies	(60)	—
Dividend to parent	(63)	(42)
Debt issuance costs	(4)	(3)
Other, net	1	1
Net cash provided by financing activities	42	35
Net Increase (Decrease) in Cash, Cash Equivalents and Restricted Cash	17	(104)
Cash, Cash Equivalents and Restricted Cash at Beginning of Period	274	381
Cash, Cash Equivalents and Restricted Cash at End of Period	$291	$277

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Revenues:				
Utility revenues	$487	$470	$1,630	$1,377
Non-utility revenues	841	917	2,098	2,103
Total	1,328	1,387	3,728	3,480
Expenses:				
Utility natural gas	188	150	825	600
Non-utility natural gas	790	882	2,063	2,011
Operation and maintenance	217	190	455	405
Depreciation and amortization	72	68	145	134
Taxes other than income taxes	39	38	87	72
Total	1,306	1,328	3,575	3,222
Operating Income	22	59	153	258
Other Income (Expense):				
Interest and other finance charges	(33)	(31)	(62)	(60)
Equity in earnings of unconsolidated affiliate, net	58	59	127	131
Other, net	(1)	(4)	(5)	(9)
Total	24	24	60	62
Income Before Income Taxes	46	83	213	320
Income tax expense	10	29	47	119
Net Income	$36	$54	$166	$201

See Combined Notes to Unaudited Condensed Consolidated Financial Statements

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Net income	$36	$ 54	$166	$201
Comprehensive income	$36	$ 54	$166	$201

See Combined Notes to Unaudited Condensed Consolidated Financial Statements

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

ASSETS

	June 30, 2018	December 31, 2017
Current Assets:		
Cash and cash equivalents	$ 1	$ 12
Accounts receivable, less bad debt reserve of $20 and $18, respectively	566	713
Accrued unbilled revenues	85	307
Accounts and notes receivable–affiliated companies	15	6
Materials and supplies	67	56
Natural gas inventory	152	222
Non-trading derivative assets	74	110
Prepaid expenses and other current assets	80	166
Total current assets	1,040	1,592
Property, Plant and Equipment:		
Property, plant and equipment	7,104	6,888
Less: accumulated depreciation and amortization	2,136	2,036
Property, plant and equipment, net	4,968	4,852
Other Assets:		
Goodwill	867	867
Regulatory assets	173	181
Non-trading derivative assets	46	44
Investment in unconsolidated affiliate	2,451	2,472
Other	97	104
Total other assets	3,634	3,668
Total Assets	$ 9,642	$ 10,112

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

LIABILITIES AND STOCKHOLDER’S EQUITY

	June 30, 2018	December 31, 2017
Current Liabilities:		
Short-term borrowings	$ —	$ 39
Accounts payable	434	669
Accounts and notes payable–affiliated companies	36	611
Taxes accrued	48	75
Interest accrued	38	32
Customer deposits	75	76
Non-trading derivative liabilities	26	20
Other	152	137
Total current liabilities	809	1,659
Other Liabilities:		
Deferred income taxes, net	1,330	1,289
Non-trading derivative liabilities	12	4
Benefit obligations	98	97
Regulatory liabilities	1,256	1,201
Other	352	297
Total other liabilities	3,048	2,888
Long-Term Debt	2,722	2,457
Commitments and Contingencies (Note 14)		
Stockholder’s Equity:		
Common stock	—	—
Paid-in capital	2,528	2,528
Retained earnings	529	574
Accumulated other comprehensive income	6	6
Total stockholder’s equity	3,063	3,108
Total Liabilities and Stockholder’s Equity	$ 9,642	$ 10,112

See Combined Notes to Unaudited Condensed Consolidated Financial Statements

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

	Six Months Ended June 30,	
	2018	2017
Cash Flows from Operating Activities:		
Net income	$166	$201
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	145	134
Amortization of deferred financing costs	4	4
Deferred income taxes	41	115
Write-down of natural gas inventory	1	—
Equity in earnings of unconsolidated affiliate, net of distributions	(9)	(131)
Changes in other assets and liabilities, excluding acquisitions:		
Accounts receivable and unbilled revenues, net	339	295
Accounts receivable/payable–affiliated companies	(14)	(1)
Inventory	58	(18)
Accounts payable	(248)	(203)
Fuel cost recovery	69	(12)
Interest and taxes accrued	(21)	(27)
Non-trading derivatives, net	61	(49)
Margin deposits, net	(9)	(43)
Net regulatory assets and liabilities	92	(1)
Other current assets	7	12
Other current liabilities	8	(14)
Other assets	4	5
Other liabilities	52	10
Other, net	—	1
Net cash provided by operating activities	746	278
Cash Flows from Investing Activities:		
Capital expenditures	(230)	(223)
Distributions from unconsolidated affiliate in excess of cumulative earnings	30	149
Acquisitions, net of cash acquired	—	(132)
Other, net	3	1
Net cash used in investing activities	(197)	(205)
Cash Flows from Financing Activities:		
Decrease in short-term borrowings, net	(39)	(11)
Proceeds from (payments of) commercial paper, net	(333)	149
Proceeds from long-term debt	599	—
Dividends to parent	(211)	(248)
Debt issuance costs	(5)	(1)
Decrease in notes payable–affiliated companies	(570)	—
Contribution from parent	—	38
Other, net	(1)	—
Net cash used in financing activities	(560)	(73)

Net Decrease in Cash and Cash Equivalents	(11)	—
Cash and Cash Equivalents at Beginning of Period	12	1
Cash and Cash Equivalents at End of Period	$1	$1

See Combined Notes to Unaudited Condensed Consolidated Financial Statements

CENTERPOINT ENERGY, INC. AND SUBSIDIARIES
CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC AND SUBSIDIARIES
CENTERPOINT ENERGY RESOURCES CORP. AND SUBSIDIARIES

COMBINED NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(1) Background and Basis of Presentation

No Registrant makes any representations as to the information related solely to CenterPoint Energy or the subsidiaries of CenterPoint Energy other than itself.

General. Included in this combined Form 10-Q are the Interim Condensed Financial Statements of CenterPoint Energy, Houston Electric and CERC, which are referred to collectively as the Registrants. The Combined Notes to the Unaudited Condensed Consolidated Financial Statements apply to all Registrants unless otherwise indicated. The Interim Condensed Financial Statements are unaudited, omit certain financial statement disclosures and should be read with each of the Registrants' 2017 Form 10-K.

Background. CenterPoint Energy, Inc. is a public utility holding company. CenterPoint Energy's operating subsidiaries, Houston Electric and CERC, own and operate electric transmission and distribution and natural gas distribution facilities, supply natural gas to commercial and industrial customers and electric and natural gas utilities and own interests in Enable as described below.

- Houston Electric engages in the electric transmission and distribution business in the Texas Gulf Coast area that includes the city of Houston; and

- CERC Corp. (i) owns and operates natural gas distribution systems in six states and (ii) obtains and offers competitive variable and fixed-price physical natural gas supplies and services primarily to commercial and industrial customers and electric and natural gas utilities in 33 states through its wholly-owned subsidiary, CES. As of June 30, 2018, CERC Corp. owned approximately 54.0% of the common units representing limited partner interests in Enable, which owns, operates and develops natural gas and crude oil infrastructure assets.

As of June 30, 2018, CenterPoint Energy also owned an aggregate of 14,520,000 Series A Preferred Units in Enable.

As of June 30, 2018, CenterPoint Energy and Houston Electric had VIEs consisting of the Bond Companies, which are consolidated. The consolidated VIEs are wholly-owned, bankruptcy-remote, special purpose entities that were formed specifically for the purpose of securitizing transition and system restoration-related property. Creditors of CenterPoint Energy and Houston Electric have no recourse to any assets or revenues of the Bond Companies. The bonds issued by these VIEs are payable only from and secured by transition and system restoration property, and the bondholders have no recourse to the general credit of CenterPoint Energy or Houston Electric.

Basis of Presentation. The preparation of financial statements in conformity with generally accepted accounting principles 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.

The 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 the Condensed Statements of Consolidated Income are not necessarily indicative of amounts expected for a full-year period due to the effects of, among other things, (a) seasonal fluctuations in demand for energy and energy services, (b) changes in energy commodity prices, (c) timing of maintenance and other expenditures and (d) acquisitions and dispositions of businesses, assets and other interests. Certain prior year amounts have been reclassified to conform to the current year presentation.

For a description of the Registrants’ reportable business segments, see Note 16.

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(2) New Accounting Pronouncements

The following table provides an overview of recently adopted or issued accounting pronouncements applicable to all the Registrants, unless otherwise noted.

Recently Adopted Accounting Standards

ASU Number and Name	Description	Date of Adoption	Financial Statement Impact upon Adoption
ASU 2014-09- Revenue from Contracts with Customers (Topic 606) and related amendments	This standard provides a comprehensive new revenue recognition model that requires revenue to be recognized in a manner that depicts the transfer of goods or services to a customer at an amount that reflects the consideration expected to be received in exchange for those goods or services. Transition method: modified retrospective	January 1, 2018	Note 4 addresses the disclosure requirements. Adoption of the standard did not result in significant changes to revenue recognition. A substantial amount of the Registrants' revenues are tariff and/or derivative based, which were not significantly impacted by these ASUs.
ASU 2017-05- Other Income-Gains and Losses from the Derecognition of Nonfinancial Assets (Subtopic 610-20): Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets	This standard clarifies when and how to apply ASC 610-20, which was issued as part of ASU 2014-09. It amends or supersedes the guidance in ASC 350 and ASC 360 on determining a gain or loss recognized upon the derecognition of nonfinancial assets. Transition method: modified retrospective	January 1, 2018	ASU 2017-05 eliminates industry specific guidance, including ASC 360-20 Property, Plant, and Equipment - Real Estate Sales, for the recognition of gains or losses upon the sale of in-substance real estate. CenterPoint Energy and CERC elected to apply the practical expedient upon adoption to only evaluate transactions that were not determined to be complete as of the date of adoption. Subsequent to adoption, gains or losses on sales or dilution events in CenterPoint Energy's or CERC's investment in Enable may result in gains or losses recognized in earnings. See Note 9 for further discussion.
ASU 2016-01-Financial Instruments-Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities ASU 2018-03-Technical Corrections and Improvements to Financial Instruments-Overall	This standard requires equity investments that do not result in consolidation and are not accounted for under the equity method to be measured at fair value and to recognize any changes in fair value in net income unless the investments qualify for the new practicability exception. It does not change the guidance for classifying and measuring investments in debt securities and loans. It also changes certain disclosure requirements and other aspects related to recognition and	January 1, 2018	The adoption of this standard did not have an impact on the Registrants' financial position, results of operations or cash flows. The Registrants elected the practicability exception for investments without a readily determinable fair value to be measured at cost. This includes the Series A Preferred Units in Enable, which were previously accounted for under the cost

(Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities	measurement of financial assets and financial liabilities. Transition method: cumulative-effect adjustment to beginning retained earnings, and two features prospective		method. See Note 9 for further discussion.
ASU 2016-15- Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments	This standard provides clarifying guidance on the classification of certain cash receipts and payments in the statement of cash flows and eliminates the variation in practice related to such classifications. Transition method: retrospective	January 1, 2018	The adoption did not have a material impact on the Registrants' financial position, results of operations or disclosures. However, CenterPoint Energy's and Houston Electric's Condensed Statements of Consolidated Cash Flows reflect an increase in investing activities and a corresponding decrease in operating activities of $1 million and $3 million for the six months ended June 30, 2018 and 2017, respectively, due to the requirement that cash proceeds from COLI policies be classified as cash inflows from investing activity.
ASU 2016-18- Statement of Cash Flows (Topic 230): Restricted Cash	This standard requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, restricted cash and restricted cash equivalents. As a result, the statement of cash flows will no longer present transfers between cash and cash equivalents and restricted cash and restricted cash equivalents. When cash, cash equivalents, restricted cash and restricted cash equivalents are presented in more than one line item on the balance sheet, the new guidance requires a reconciliation of the totals in the statement of cash flows to the related captions in the balance sheet. Transition method: retrospective	January 1, 2018	The adoption of this standard did not have an impact on the Registrants' financial position, results of operations or disclosures. However, CenterPoint Energy's and Houston Electric's Condensed Statements of Consolidated Cash Flows are reconciled to cash, cash equivalents and restricted cash, resulting in a decrease in investing activities of $2 million and an increase in investing activities of $8 million for the six months ended June 30, 2018 and 2017, respectively.

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Recently Adopted Accounting Standards

ASU Number and Name	Description	Date of Adoption	Financial Statement Impact upon Adoption
ASU 2017-01- Business Combinations (Topic 805): Clarifying the Definition of a Business	This standard revises the definition of a business. If substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or a group of similar identifiable assets, then under ASU 2017-01, the asset or group of assets is not a business. The guidance also requires a business to include at least one substantive process and narrows the definition of outputs to be more closely aligned with how outputs are described in ASC 606. Transition method: prospective	January 1, 2018	The adoption of this revised definition will reduce the number of transactions that are accounted for as a business combination, and therefore may have a potential impact on the Registrants' accounting for future acquisitions.
ASU 2017-04- Intangibles-Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment	This standard eliminates Step 2 of the goodwill impairment test, which required a hypothetical purchase price allocation. A goodwill impairment will now be the amount by which a reporting unit's carrying value exceeds its fair value, not to exceed the carrying amount of goodwill. Transition method: prospective	January 1, 2018	The adoption of this standard will have an impact on CenterPoint Energy's and CERC's future calculation of goodwill impairments if an impairment is identified.
ASU 2017-07- Compensation-Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost	This standard requires an employer to report the service cost component of the net periodic pension cost and postretirement benefit cost in the same line item(s) as other employee compensation costs arising from services rendered during the period; all other components will be presented separately from the line item(s) that includes the service cost and outside of any subtotal of operating income. In addition, only the service cost component will be eligible for capitalization in assets. Transition method: retrospective for the presentation of the service cost component and other components; prospective for the capitalization of the service cost component	January 1, 2018	The adoption of this standard did not have a material impact on the Registrants' financial position, results of operations, cash flows or disclosures; however, it resulted in the increases to operating income and corresponding decreases to other income reported in the table below. Other components previously capitalized in assets will be recorded as regulatory assets in the Registrants' rate-regulated businesses, prospectively.
ASU 2017-09- Compensation-Stock Compensation (Topic 718): Scope of Modification	This standard clarifies when changes to the terms or conditions of a share-based payment award must be accounted for as a modification. Entities will apply the	January 1, 2018	The adoption of this standard will have an impact on CenterPoint Energy's accounting for future changes

Accounting	modification accounting guidance if the value, vesting conditions or classification of the award changes. Transition method: prospective	to share-based payment awards.

The table below reflects the impact of adoption of ASU 2017-07:

	Three Months Ended June 30,					
	2018			2017		
	CenterPoint Energy	Houston Electric	CERC	CenterPoint Energy	Houston Electric	CERC
	(in millions)					
Increase to operating income	$15	$ 8	$ 4	$17	$ 7	$ 6
Decrease to other income	15	8	4	17	7	6

	Six Months Ended June 30,					
	2018			2017		
	CenterPoint Energy	Houston Electric	CERC	CenterPoint Energy	Houston Electric	CERC
	(in millions)					
Increase to operating income	$29	$ 15	$ 8	$34	$ 15	$ 11
Decrease to other income	29	15	8	34	15	11

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Issued, Not Yet Effective Accounting Standards

ASU Number and Name	Description	Date of Adoption	Financial Statement Impact upon Adoption
ASU 2016-02- Leases (Topic 842) and related amendments	ASU 2016-02 provides a comprehensive new lease model that requires lessees to recognize assets and liabilities for most leases and would change certain aspects of lessor accounting. Transition method: modified retrospective	January 1, 2019 Early adoption is permitted	The Registrants will elect the practical expedient on existing easements provided by ASU 2018-01 and are evaluating other available transitional practical expedients. The Registrants are in the process of reviewing contracts to identify leases as defined in ASU 2016-02 and expect to recognize on the statements of financial position right-of-use assets and lease liabilities for the majority of their respective leases that are currently classified as operating leases. The Registrants are continuing to assess the impact that adoption of these standards will have on their financial position, results of operations, cash flows and disclosures.
ASU 2018-01- Leases (Topic 842) Land Easement Practical Expedient for Transition to Topic 842	ASU 2018-01 allows entities to elect not to assess whether existing land easements that were not previously accounted for in accordance with ASC 840 Leases under ASC 842 Leases when transitioning to the new leasing standard.		
ASU 2017-12- Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities	This standard expands an entity's ability to hedge nonfinancial and financial risk components and reduce complexity in fair value hedges of interest rate risk. The guidance eliminates the requirement to separately measure and report hedge ineffectiveness, eases certain documentation and assessment requirements and updates the presentation and disclosure requirements. Transition method: cumulative-effect adjustment for elimination of the separate measurement of ineffectiveness; prospective for presentation and disclosure	January 1, 2019 Early adoption is permitted	The Registrants are currently assessing the impact that adoption of this standard will have on their financial position, results of operations, cash flows and disclosures.
ASU 2018-02-Income Statement-Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income	This standard allows a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the TCJA and requires entities to provide certain disclosures regarding stranded tax effects.	January 1, 2019 Early adoption is permitted	The adoption of this standard will allow the Registrants to reclass stranded deferred tax adjustments primarily related to benefit plans from other comprehensive income to retained earnings. The Registrants are currently assessing the impact that adoption of this standard will have on their financial position and disclosures.

Transition method: either in the period of adoption or retrospective

Management believes that other recently adopted standards and recently issued standards that are not yet effective will not have a material impact on the Registrants' financial position, results of operations or cash flows upon adoption.

(3) Proposed Merger with Vectren (CenterPoint Energy)

On April 21, 2018, CenterPoint Energy entered into the Merger Agreement. Under the terms of the Merger Agreement, CenterPoint Energy will acquire Vectren for approximately $6 billion in cash. Upon closing, Vectren will become a wholly-owned subsidiary of CenterPoint Energy.

Pursuant to the Merger Agreement, upon the closing of the Merger, each share of Vectren common stock issued and outstanding immediately prior to the closing will be converted automatically into the right to receive $72.00 in cash per share. CenterPoint Energy expects to finance the Merger with a combination of debt, equity-linked and equity issuances and has obtained commitments by lenders for a Bridge Facility to provide flexibility for the timing of the long-term acquisition financing and fund, in part, amounts payable by CenterPoint Energy in connection with the Merger. All outstanding debt held by Vectren and its subsidiaries will be assumed by CenterPoint Energy at the closing of the Merger. As of June 30, 2018, Vectren and its subsidiaries had outstanding $248 million of short-term debt and $2.0 billion of long-term debt, including current maturities. It is anticipated that Vectren and its subsidiaries will have approximately $2.5 billion of outstanding short-term and long-term debt as of December 31, 2018.

Consummation of the Merger is conditioned upon approval by federal regulatory commissions, orders from state regulatory commissions, expiration or termination of the applicable HSR waiting period and approval of the Merger by Vectren shareholders. In June 2018, CenterPoint Energy and Vectren (i) submitted their filings with the FERC and the FCC and pursuant to the HSR Act and (ii) initiated informational proceedings with regulators in Indiana and Ohio. On June 26, 2018, CenterPoint Energy and Vectren received notice from the FTC granting early termination of the waiting period under the HSR Act in connection with the Merger. On July 16, 2018, Vectren filed its definitive proxy statement, as supplemented, with the SEC for a special meeting of its shareholders to be held on August 28, 2018 in connection with the Merger.

The Merger Agreement contains termination rights for both CenterPoint Energy and Vectren, and provides that, upon termination of the Merger Agreement under specified circumstances, CenterPoint Energy would be required to pay a termination fee of $210 million to Vectren and Vectren would be required to pay CenterPoint Energy a termination fee of $150 million. Subject

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to receipt of required regulatory and statutory approvals and satisfaction and/or waiver of the closing conditions, CenterPoint Energy continues to anticipate closing the Merger in the first quarter of 2019.

(4) Revenue Recognition

The Registrants adopted ASC 606 and all related amendments on January 1, 2018 using the modified retrospective method for those contracts that were not completed as of the date of adoption. Application of the new revenue standard did not result in a cumulative effect adjustment to the opening balance of retained earnings. The comparative information has not been restated and continues to be reported under the accounting standards in effect for those periods. The adoption of the new standard did not have a material impact on the Registrants' financial position, results of operations or cash flows.

In accordance with ASC 606, revenue is recognized when a customer obtains control of promised goods or services. The amount of revenue recognized reflects the consideration to which the Registrants expect to be entitled to receive in exchange for these goods or services. Contract assets and liabilities are not material.

The following tables disaggregate revenues by reportable business segment and major source:

CenterPoint Energy

	Three Months Ended June 30,									
	2018					2017				
	Electric Transmission & Distribution (1)	Natural Gas Distribution (1)	Energy Services (2)	Other Operations (2)	Total	Electric Transmission & Distribution (1)	Natural Gas Distribution (1)	Energy Services (2)	Other Operations (2)	Total
	(in millions)									
Revenue from contracts	$860	$ 509	$78	$ 2	$1,449	$758	$ 463	$116	$ 1	$1,338
Derivatives income	—	—	782	—	782	—	—	815	—	815
Other (3)	(6)	(14)	—	2	(18)	(6)	14	—	2	10
Eliminations	—	(8)	(19)	—	(27)	—	(7)	(13)	—	(20)
Total revenues	$854	$ 487	$841	$ 4	$2,186	$752	$ 470	$918	$ 3	$2,143

	Six Months Ended June 30,									
	2018					2017				
	Electric Transmission & Distribution (1)	Natural Gas Distribution (1)	Energy Services (2)	Other Operations (2)	Total	Electric Transmission & Distribution (1)	Natural Gas Distribution (1)	Energy Services (2)	Other Operations (2)	Total
	(in millions)									
Revenue from contracts	$1,621	$ 1,695	$256	$ 3	$3,575	$1,402	$ 1,388	$258	$ 2	$3,050
Derivatives income	(4)	—	1,889	—	1,885	1	—	1,869	—	1,870
Other (3)	(12)	(47)	—	5	(54)	(12)	5	—	5	(2)
Eliminations	—	(18)	(47)	—	(65)	—	(16)	(24)	—	(40)
Total revenues	$1,605	$ 1,630	$2,098	$ 8	$5,341	$1,391	$ 1,377	$2,103	$ 7	$4,878

Houston Electric

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
	(in millions)			
Revenue from contracts	$860	$758	$1,621	$1,402
Other (3)	(6)	(6)	(12)	(12)
	$854	$752	$1,609	$1,390

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CERC

	Three Months Ended June 30,							
	2018				2017			
	Natural Gas Distribution (1)	Energy Services (2)	Other Operations (2)	Total	Natural Gas Distribution (1)	Energy Services (2)	Other Operations (2)	Total
	(in millions)							
Revenue from contracts	$ 509	$ 78	$ —	$ 587	$ 463	$ 116	$ —	$ 579
Derivatives income	—	782	—	782	—	815	—	815
Other (3)	(14)	—	—	(14)	14	—	(1)	13
Eliminations	(8)	(19)	—	(27)	(7)	(13)	—	(20)
Total revenues	$ 487	$ 841	$ —	$ 1,328	$ 470	$ 918	$ (1)	$ 1,387

	Six Months Ended June 30,							
	2018				2017			
	Natural Gas Distribution (1)	Energy Services (2)	Other Operations (2)	Total	Natural Gas Distribution (1)	Energy Services (2)	Other Operations (2)	Total
	(in millions)							
Revenue from contracts	$ 1,695	$ 256	$ —	$ 1,951	$ 1,388	$ 258	$ —	$ 1,646
Derivatives income	—	1,889	—	1,889	—	1,869	—	1,869
Other (3)	(47)	—	—	(47)	5	—	—	5
Eliminations	(18)	(47)	—	(65)	(16)	(24)	—	(40)
Total revenues	$ 1,630	$ 2,098	$ —	$ 3,728	$ 1,377	$ 2,103	$ —	$ 3,480

(1) Reflected in Utility revenues in the Condensed Statements of Consolidated Income.

(2) Reflected in Non-utility revenues in the Condensed Statements of Consolidated Income.

(3) Primarily consists of income from ARPs and leases. ARPs are contracts between the utility and its regulators, not between the utility and a customer. The Registrants recognize ARP revenue as other revenues when the regulator-specified conditions for recognition have been met. Upon recovery of ARP revenue through incorporation in rates charged for utility service to customers, ARP revenue is reversed and recorded as revenue from contracts with customers. The recognition of ARP revenues and the reversal of ARP revenues upon recovery through rates charged for utility service may not occur in the same period.

Revenues from Contracts with Customers

Electric Transmission & Distribution. Houston Electric distributes electricity to customers over time and customers consume the electricity when delivered. Revenue, consisting of both volumetric and fixed tariff rates set by the PUCT, is recognized as electricity is delivered and represents amounts both billed and unbilled. Discretionary services requested by customers are provided at a point in time with control transferring upon the completion of the service. Revenue for discretionary services is recognized upon completion of service based on the tariff rates set by the PUCT. Payments for electricity distribution and discretionary services are aggregated and received on a monthly basis. Houston Electric performs transmission services over time as a stand-ready obligation to provide a reliable network of transmission systems. Revenue is recognized upon time elapsed, and the monthly tariff rate set by the PUCT. Payments are received on a monthly basis.

Natural Gas Distribution. CERC distributes and transports natural gas to customers over time, and customers consume the natural gas when delivered. Revenue, consisting of both volumetric and fixed tariff rates set by the state governing agency for that service area, is recognized as natural gas is delivered and represents amounts both billed and unbilled. Discretionary services requested by the customer are satisfied at a point in time and revenue is recognized upon completion of service and the tariff rates set by the applicable state regulator. Payments of natural gas distribution, transportation and discretionary services are aggregated and received on a monthly basis.

Energy Services. The majority of CES natural gas sales contracts are considered a derivative, as the contracts typically have a stated minimum or contractual volume of delivery.

For contracts in which CES delivers the full requirement of the natural gas needed by the customer and a volume is not stated, a contract as defined under ASC 606 is created upon the customer’s exercise of its option to take natural gas. CES supplies natural

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gas to retail customers over time as customers consume the natural gas when delivered. For wholesale customers, CES supplies natural gas at a point in time because the wholesale customer is presumed to have storage capabilities. Control is transferred to both types of customers upon delivery of natural gas. Revenue is recognized on a monthly basis based on the estimated volume of natural gas delivered and the price agreed upon with the customer. Payments are received on a monthly basis.

AMAs are natural gas sales contracts under which CES also assumes management of a customer's physical storage and/or transportation capacity. AMAs have two distinct performance obligations, which consist of natural gas sales and natural gas delivery because delivery could occur separate from the sale of natural gas (e.g., from storage to customer premises). Most AMAs' natural gas sales performance obligations are accounted for as embedded derivatives. The transaction price is allocated between the sale of natural gas and the delivery based on the stand-alone selling price as stated in the contract. CES performs natural gas delivery over time as customers take delivery of the natural gas and recognizes revenue on an aggregated monthly basis based on the volume of natural gas delivered and the fees stated within the contract. Payments are received on a monthly basis.

Practical Expedients and Exemption. Sales taxes and other similar taxes collected from customers are excluded from the transaction price.

(5) Employee Benefit Plans

The Registrants' net periodic cost, before considering amounts subject to overhead allocations for capital expenditure projects or for amounts subject to deferral for regulatory purposes, includes the following components relating to pension and postretirement benefits:

Pension Benefits (CenterPoint Energy)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
	(in millions)			
Service cost (1)	$9	$9	$18	$18
Interest cost (2)	19	22	39	44
Expected return on plan assets (2)	(26)	(24)	(53)	(48)
Amortization of prior service cost (2)	2	3	4	5
Amortization of net loss (2)	11	15	22	29
Net periodic cost	$15	$25	$30	$48

Postretirement Benefits

	Three Months Ended June 30,					
	2018			2017		
	CenterPoint Energy	Houston Electric	CERC	CenterPoint Energy	Houston Electric	CERC
	(in millions)					
Service cost (1)	$1	$ —	$ —	$1	$ —	$ —
Interest cost (2)	4	2	1	4	2	1
Expected return on plan assets (2)	(2)	(1)	(1)	(2)	(1)	—
Amortization of prior service cost (credit) (2)	(1)	(2)	1	(1)	(1)	1
Net periodic cost	$2	$ (1)	$ 1	$2	$ —	$ 2

	Six Months Ended June 30,					
	2018			2017		
	CenterPoint Energy	Houston Electric	CERC	CenterPoint Energy	Houston Electric	CERC
	(in millions)					
Service cost (1)	$1	$ —	$ —	$1	$ —	$ —
Interest cost (2)	7	4	2	8	4	2
Expected return on plan assets (2)	(3)	(2)	(1)	(3)	(2)	—
Amortization of prior service cost (credit) (2)	(2)	(3)	1	(2)	(2)	1
Net periodic cost	$3	$ (1)	$ 2	$4	$ —	$ 3

(1) Included in Operation and maintenance expense in the Registrants’ Condensed Statements of Consolidated Income.

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(2) Included in Other, net in the Registrants' Condensed Statements of Consolidated Income.

Changes in accumulated other comprehensive loss related to defined benefit and postretirement plans are as follows:

CenterPoint Energy

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
	(in millions)			
Beginning Balance	$(65)	$(71)	$(66)	$(72)
Amounts reclassified from accumulated other comprehensive loss:				
Prior service cost (1)	1	1	1	1
Actuarial losses (1)	1	1	3	3
Tax expense	—	(1)	(1)	(2)
Net current period other comprehensive income	2	1	3	2
Ending Balance	$(63)	$(70)	$(63)	$(70)

(1) These accumulated other comprehensive components are included in the computation of net periodic cost.

The table below reflects the expected contributions to be made to the pension plans and postretirement benefit plan during 2018:

	CenterPoint Energy	Houston Electric	CERC
	(in millions)		
Expected minimum contribution to pension plans during 2018	$ 67	$ —	$ —
Expected contribution to postretirement benefit plan in 2018	16	10	5

The table below reflects the contributions made to the pension plans and postretirement benefit plan during 2018:

	Three Months Ended June 30, 2018			Six Months Ended June 30, 2018		
	CenterPoint Energy	Houston Electric	CERC	CenterPoint Energy	Houston Electric	CERC
	(in millions)					
Pension plans	$2	$ —	$ —	$ 64	$ —	$ —
Postretirement benefit plan	3	2	1	7	4	2

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(6) Regulatory Accounting

The following is a list of regulatory assets and liabilities reflected on the Registrants' Condensed Consolidated Balance Sheets:

	June 30, 2018			December 31, 2017		
	CenterPoint Energy	Houston Electric	CERC	CenterPoint Energy	Houston Electric	CERC
Regulatory Assets:	(in millions)					
Current regulatory assets (1)	$55	$ —	$55	$130	$ —	$130
Non-current regulatory assets:						
Securitized regulatory assets	1,293	1,293	—	1,590	1,590	—
Unrecognized equity return (2)	(242)	(242)	—	(287)	(287)	—
Unamortized loss on reacquired debt	72	72	—	75	75	—
Pension and postretirement-related regulatory asset (3)	623	32	18	646	31	20
Hurricane Harvey restoration costs (4)	63	56	7	64	58	6
Regulatory assets related to TCJA (5)	48	33	15	48	33	15
Other long-term regulatory assets (6)	210	77	133	211	70	140
Total non-current regulatory assets	2,067	1,321	173	2,347	1,570	181
Total regulatory assets	2,122	1,321	228	2,477	1,570	311
Regulatory Liabilities:						
Current regulatory liabilities (7)	43	6	37	24	22	2
Non-current regulatory liabilities:						
Regulatory liabilities related to TCJA (5)	1,389	885	504	1,354	862	492
Estimated removal costs	885	279	606	878	285	593
Other long-term regulatory liabilities	247	101	146	232	116	116
Total non-current regulatory liabilities	2,521	1,265	1,256	2,464	1,263	1,201
Total regulatory liabilities	2,564	1,271	1,293	2,488	1,285	1,203
Total regulatory assets and liabilities, net	$(442)	$ 50	$(1,065)	$(11)	$ 285	$(892)

(1) Current regulatory assets are included in Prepaid expenses and other current assets in the Registrants' Condensed Consolidated Balance Sheets.

(2) The unrecognized equity return will be recognized as it is recovered in rates through 2024. During the three months ended June 30, 2018 and 2017, CenterPoint Energy and Houston Electric recognized approximately $24 million and $10 million, respectively, of the allowed equity return. During the six months ended June 30, 2018 and 2017, CenterPoint Energy and Houston Electric recognized approximately $45 million and $17 million, respectively, of the allowed equity return. The timing of CenterPoint Energy's and Houston Electric's recognition of the equity return will vary each period based on amounts actually collected during the period. The actual amounts recognized are adjusted at least annually to correct any over-collections or under-collections during the preceding 12 months.

(3) Includes a portion of NGD's actuarially determined pension and other postemployment expense in excess of the amount being recovered through rates that is being deferred for rate making purposes, of which $5 million and $7 million as of June 30, 2018 and December 31, 2017, respectively, were not earning a return.

(4) The Registrants are not earning a return on Hurricane Harvey restoration costs.

(5) The EDIT and deferred revenues will be recovered or refunded to customers as required by tax and regulatory authorities.

(6) Other long-term regulatory assets that are not earning a return were not material as of June 30, 2018 and December 31, 2017.

(7) Current regulatory liabilities are included in Other current liabilities in the Registrants' Condensed Consolidated Balance Sheets.

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(7) Derivative Instruments

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

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

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

(a) Non-Trading Activities

Derivative Instruments. CenterPoint Energy and CERC, through CES, enter into certain derivative instruments to mitigate the effects of commodity price movements. Certain financial instruments used to hedge portions of the natural gas inventory of the Energy Services business segment are designated as fair value hedges for accounting purposes. All other financial instruments do not qualify or are not designated as cash flow or fair value hedges.

Weather Hedges. CenterPoint Energy and CERC have weather normalization or other rate mechanisms that mitigate the impact of weather on NGD in Arkansas, Louisiana, Mississippi, Minnesota and Oklahoma. NGD and electric operations in Texas do not have such mechanisms, although fixed customer charges are historically higher in Texas for NGD compared to its other jurisdictions. As a result, fluctuations from normal weather may have a positive or negative effect on NGD's results in Texas and on electric operations' results in its service territory.

CenterPoint Energy and CERC, as applicable, enter into winter season weather hedges from time to time for certain NGD jurisdictions and electric operations' service territory to mitigate the effect of fluctuations from normal weather on results of operations and cash flows. These weather hedges are based on heating degree days at 10-year normal weather. Houston Electric does not enter into weather hedges.

The table below summarizes CenterPoint Energy's and CERC's current weather hedge activity:

			Three Months Ended June 30,		Six Months Ended June 30,	
Jurisdiction	Winter Season	Bilateral Cap	2018	2017	2018	2017
		(in millions)				
Certain NGD jurisdictions	2018 – 2019	$ 9	$ —	$ —	$ —	$ —
Certain NGD jurisdictions	2017 – 2018	8	—	—	—	—

Total CERC (1)			—	—	—	—
Electric operations' service territory	2018 – 2019	8	—	—	—	—
Electric operations' service territory	2017 – 2018	9	—	—	(4)	—
Electric operations' service territory	2016 – 2017	9	—	—	—	1
Total CenterPoint Energy (1)			$ —	$ —	$ (4)	$ 1

(1) Weather hedge gains (losses) are recorded in Revenues in the Condensed Statements of Consolidated Income.

Hedging of Interest Expense for Future Debt Issuances. In January and February 2018, Houston Electric entered into forward interest rate agreements with multiple counterparties, having an aggregate notional amount of $200 million. These agreements were executed to hedge, in part, volatility in the 30-year U.S. treasury rate by reducing Houston Electric's exposure to variability in cash flows related to interest payments of Houston Electric's $400 million issuance of fixed rate debt in February 2018. These

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forward interest rate agreements were designated as cash flow hedges. Accordingly, the effective portion of realized gains associated with the forward interest rate agreements, which totaled approximately $5 million, is a component of accumulated other comprehensive income in 2018 and will be amortized over the life of the fixed rate debt.

In March 2018, CERC Corp. entered into forward interest rate agreements with multiple counterparties, having an aggregate notional amount of $450 million. These agreements were executed to hedge, in part, volatility in the 5-year and 10-year U.S. treasury rates by reducing CERC Corp.'s exposure to variability in cash flows related to interest payments of CERC Corp.'s $600 million issuance of fixed rate debt in March 2018. These forward interest rate agreements were designated as cash flow hedges. Accordingly, the effective portion of realized losses associated with the forward interest rate agreements, which totaled less than $1 million, is a component of accumulated other comprehensive income in 2018 and will be amortized over the life of the fixed rate debt.

(b) Derivative Fair Values and Income Statement Impacts

The following tables present information about derivative instruments and hedging activities. The first two tables provide a balance sheet overview of Derivative Assets and Liabilities, while the last table provides a breakdown of the related income statement impacts.

Fair Value of Derivative Instruments (CenterPoint Energy and CERC)

	Balance Sheet Location	June 30, 2018 Derivative Assets Fair Value	June 30, 2018 Derivative Liabilities Fair Value	December 31, 2017 Derivative Assets Fair Value	December 31, 2017 Derivative Liabilities Fair Value
		(in millions)			
Derivatives designated as fair value hedges:					
Natural gas derivatives (1) (2) (3)	Current Liabilities: Non-trading derivative liabilities	$—	$ 3	$ 13	$ 1
Derivatives not designated as hedging instruments:					
Natural gas derivatives (1) (2) (3)	Current Assets: Non-trading derivative assets	76	2	114	4
Natural gas derivatives (1) (2) (3)	Other Assets: Non-trading derivative assets	46	—	44	—
Natural gas derivatives (1) (2) (3)	Current Liabilities: Non-trading derivative liabilities	23	64	38	78
Natural gas derivatives (1) (2) (3)	Other Liabilities: Non-trading derivative liabilities	15	41	9	24
Total CERC		160	110	218	107
Indexed debt securities derivative	Current Liabilities	—	641	—	668
Total CenterPoint Energy		$ 160	$ 751	$ 218	$ 775

(1) The fair value shown for natural gas contracts is comprised of derivative gross volumes totaling 1,862 Bcf or a net 268 Bcf long position and 1,795 Bcf or a net 224 Bcf long position as of June 30, 2018 and December 31, 2017, respectively. Certain natural gas contracts hedge basis risk only and lack a fixed price exposure.

(2) Natural gas contracts are presented on a net basis in the Condensed Consolidated Balance Sheets as they are subject to master netting arrangements. This netting applies to all undisputed amounts due or past due and causes derivative assets (liabilities) to be ultimately presented net in a liability (asset) account within the Condensed

Consolidated Balance Sheets. The net of total non-trading natural gas derivative assets and liabilities was a $82 million asset and a $130 million asset as of June 30, 2018 and December 31, 2017, respectively, as shown on CenterPoint Energy's and CERC's Condensed Consolidated Balance Sheets (and as detailed in the table below), and was comprised of the natural gas contracts derivative assets and liabilities separately shown above, impacted by collateral netting of $32 million and $19 million, respectively.

(3) Derivative Assets and Derivative Liabilities include no material amounts related to physical forward transactions with Enable.

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Offsetting of Natural Gas Derivative Assets and Liabilities (CenterPoint Energy and CERC)

	June 30, 2018			December 31, 2017		
	Gross Amounts Recognized (1)	Gross Amounts Offset in the Consolidated Balance Sheets	Net Amount Presented in the Consolidated Balance Sheets (2)	Gross Amounts Recognized (1)	Gross Amounts Offset in the Consolidated Balance Sheets	Net Amount Presented in the Consolidated Balance Sheets (2)
	(in millions)					
Current Assets: Non-trading derivative assets	$99	$ (25)	$ 74	$165	$ (55)	$ 110
Other Assets: Non-trading derivative assets	61	(15)	46	53	(9)	44
Current Liabilities: Non-trading derivative liabilities	(69)	43	(26)	(83)	63	(20)
Other Liabilities: Non-trading derivative liabilities	(41)	29	(12)	(24)	20	(4)
Total	$50	$ 32	$ 82	$111	$ 19	$ 130

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

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

Realized and unrealized gains and losses on natural gas derivatives are recognized in the Condensed Statements of Consolidated Income as revenue for physical sales derivative contracts and as natural gas expense for financial natural gas derivatives and physical purchase natural gas derivatives. Realized and unrealized gains and losses on indexed debt securities are recorded as Other Income (Expense) in the Condensed Statements of Consolidated Income.

Hedge ineffectiveness is recorded as a component of natural gas expense and primarily results from differences in the location of the derivative instrument and the hedged item. Basis ineffectiveness arises from natural gas market price differences between the locations of the hedged inventory and the delivery location specified in the hedge instruments. The impact of natural gas derivatives designated as fair value hedges, the related hedged item, and natural gas derivatives not designated as hedging instruments are presented in the table below.

Income Statement Impact of Derivative Activity (CenterPoint Energy and CERC)

		Three Months Ended June 30,		Six Months Ended June 30,	
	Income Statement Location	2018	2017	2018	2017
Derivatives designated as fair value hedges:		(in millions)			
Natural gas derivatives	Gains (Losses) in Non-utility natural gas expense	$13	$3	$13	$12
Natural gas inventory	Gains (Losses) in Non-utility natural gas expense	(12)	(4)	(14)	(14)
Total CenterPoint Energy and CERC (1)		$1	$(1)	$(1)	$(2)
Derivatives not designated as hedging instruments:					
Natural gas derivatives	Gains (Losses) in Non-utility revenues	$11	$36	$68	$132
Natural gas derivatives	Gains (Losses) in Non-utility natural gas expense	(9)	(9)	(78)	(82)
Total CERC		2	27	(10)	50
Indexed debt securities derivative	Gains (Losses) in Other Income (Expense)	(254)	(13)	(272)	(23)

Total CenterPoint Energy	$(252)	$14	$(282)	$27

(1) Hedge ineffectiveness results from the basis ineffectiveness discussed above, and excludes the impact to natural gas expense from timing ineffectiveness. Timing ineffectiveness arises due to changes in the difference between the spot price and the futures price, as well as the difference between the timing of the settlement of the futures and the valuation of the underlying physical commodity. As the commodity contract nears the settlement date, spot-to-forward price differences should converge, which should reduce or eliminate the impact of this ineffectiveness on natural gas expense.

(c) Credit Risk Contingent Features

CenterPoint Energy and CERC enter into financial derivative contracts containing material adverse change provisions. These provisions could require CenterPoint Energy or CERC to post additional collateral if the S&P or Moody’s credit ratings of CenterPoint Energy, Inc. or its subsidiaries, including CERC Corp., are downgraded.

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CenterPoint Energy and CERC

	June 30, 2018	December 31, 2017
	(in millions)	
Aggregate fair value of derivatives containing material adverse change provisions in a net liability position	$ 2	$ 2
Fair value of collateral already posted	—	—
Additional collateral required to be posted if credit risk contingent features triggered	1	2

(8) Fair Value Measurements

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

Level 1: Inputs are unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date. The types of assets carried at Level 1 fair value generally are exchange-traded derivatives and equity securities, as well as natural gas inventory that has been designated as the hedged item in a fair value hedge.

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

Level 3: Inputs are unobservable for the asset or liability, and include situations where there is little, if any, market activity for the asset or liability. Unobservable inputs reflect the Registrants' judgments about the assumptions market participants would use in pricing the asset or liability since limited market data exists. The Registrants develop these inputs based on the best information available, including the Registrants' own data. A market approach is utilized to value the Registrants' Level 3 assets or liabilities. As of June 30, 2018, CenterPoint Energy's and CERC's Level 3 assets and liabilities are comprised of physical natural gas forward contracts and options and CenterPoint Energy's indexed debt securities. Level 3 physical natural gas forward contracts and options are valued using a discounted cash flow model which includes illiquid forward price curve locations (ranging from $1.04 to $3.31 per MMBtu) as an unobservable input. CenterPoint Energy's and CERC's Level 3 physical natural gas forward contracts and options derivative assets and liabilities consist of both long and short positions (forwards and options) and their fair value is sensitive to forward prices. If forward prices decrease, CenterPoint Energy's and CERC's long forwards and options lose value whereas their short forwards and options gain in value. CenterPoint Energy's Level 3 indexed debt securities derivative is valued using an option model and a discounted cash flow model, which uses projected dividends on the ZENS-Related Securities and a discount rate as unobservable inputs. An increase and a decrease in the unobservable inputs will generally decrease and increase the value of the indexed debt securities derivative, respectively.

The Registrants determine the appropriate level for each financial asset and liability on a quarterly basis and recognize transfers between levels at the end of the reporting period. For the six months ended June 30, 2018, there were no transfers between Level 1 and 2. The Registrants also recognize purchases of Level 3 financial assets and liabilities at their fair market value at the end of the reporting period.

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The following tables present information about the Registrants' assets and liabilities (including derivatives that are presented net) measured at fair value on a recurring basis and indicate the fair value hierarchy of the valuation techniques utilized by the Registrants to determine such fair value.

CenterPoint Energy

	June 30, 2018					December 31, 2017				
	Level 1	Level 2	Level 3	Netting (1)	Total	Level 1	Level 2	Level 3	Netting (1)	Total
Assets	(in millions)									
Corporate equities	$586	$—	$—	$—	$586	$963	$—	$—	$—	$963
Investments, including money market funds (2)	70	—	—	—	70	68	—	—	—	68
Natural gas derivatives (3)	—	142	18	(40)	120	—	161	57	(64)	154
Hedged portion of natural gas inventory	—	—	—	—	—	14	—	—	—	14
Total assets	$656	$142	$18	$(40)	$776	$1,045	$161	$57	$(64)	$1,199
Liabilities										
Indexed debt securities derivative	$—	$—	$641	$—	$641	$—	$—	$668	$—	$668
Natural gas derivatives (3)	—	105	5	(72)	38	—	96	11	(83)	24
Hedged portion of natural gas inventory	1	—	—	—	1	—	—	—	—	—
Total liabilities	$1	$105	$646	$(72)	$680	$—	$96	$679	$(83)	$692

Houston Electric

	June 30, 2018					December 31, 2017				
	Level 1	Level 2	Level 3	Netting	Total	Level 1	Level 2	Level 3	Netting	Total
Assets	(in millions)									
Investments, including money market funds (2)	$52	$—	$—	$—	$52	$51	$—	$—	$—	$51
Total assets	$52	$—	$—	$—	$52	$51	$—	$—	$—	$51

CERC

	June 30, 2018					December 31, 2017				
	Level 1	Level 2	Level 3	Netting (1)	Total	Level 1	Level 2	Level 3	Netting (1)	Total
Assets	(in millions)									
Corporate equities	$2	$—	$—	$—	$2	$3	$—	$—	$—	$3
Investments, including money market funds (2)	11	—	—	—	11	11	—	—	—	11
Natural gas derivatives (3)	—	142	18	(40)	120	—	161	57	(64)	154
Hedged portion of natural gas inventory	—	—	—	—	—	14	—	—	—	14
Total assets	$13	$142	$18	$(40)	$133	$28	$161	$57	$(64)	$182
Liabilities										
Natural gas derivatives (3)	$—	$105	$5	$(72)	$38	$—	$96	$11	$(83)	$24
Hedged portion of natural gas inventory	1	—	—	—	1	—	—	—	—	—
Total liabilities	$1	$105	$5	$(72)	$39	$—	$96	$11	$(83)	$24

(1) Amounts represent the impact of legally enforceable master netting arrangements that allow CenterPoint Energy and CERC to settle positive and negative positions and also include cash collateral of $32 million and $19 million as of June 30, 2018 and December 31, 2017, respectively, posted with the same counterparties.

(2) Amounts are included in Prepaid expenses and other current assets in the Condensed Consolidated Balance Sheets.

(3) Natural gas derivatives include no material amounts related to physical forward transactions with Enable.

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

	Three Months Ended June 30,				Six Months Ended June 30,			
	2018		2017		2018		2017	
	CenterPoint Energy	CERC	CenterPoint Energy	CERC	CenterPoint Energy	CERC	CenterPoint Energy	CERC
	(in millions)							
Beginning balance	$(662)	$ 12	$(700)	$ 27	$(622)	$ 46	$(704)	$ 13
Total gains (losses)	(11)	1	(6)	7	(16)	3	—	23
Total settlements	44	(1)	—	—	11	(35)	(4)	(4)
Transfers into Level 3	1	1	1	1	1	1	2	2
Transfers out of Level 3	—	—	(7)	(7)	(2)	(2)	(6)	(6)
Ending balance (1)	$(628)	$ 13	$(712)	$ 28	$(628)	$ 13	$(712)	$ 28
The amount of total gains (losses) for the period included in earnings attributable to the change in unrealized gains or losses relating to assets still held at the reporting date:	$(9)	$ 3	$(9)	$ 4	$(23)	$ (4)	$(2)	$ 21

(1) CenterPoint Energy and CERC did not have significant Level 3 sales or purchases during either of the three or six months ended June 30, 2018 or 2017.

Estimated Fair Value of Financial Instruments

The fair values of cash and cash equivalents, investments in debt and equity securities classified as "trading" and short-term borrowings are estimated to be approximately equivalent to carrying amounts and have been excluded from the table below. The carrying amounts of non-trading derivative assets and liabilities and CenterPoint Energy's ZENS indexed debt securities derivative are stated at fair value and are excluded from the table below. The fair value of each debt instrument is determined by multiplying the principal amount of each debt instrument by a combination of historical trading prices and comparable issue data. These liabilities, which are not measured at fair value in the Registrants' Condensed Consolidated Balance Sheets, but for which the fair value is disclosed, would be classified as Level 2 in the fair value hierarchy.

	June 30, 2018			December 31, 2017		
	CenterPoint Energy (1)	Houston Electric (1)	CERC	CenterPoint Energy (1)	Houston Electric (1)	CERC
Long-term debt, including current maturities	(in millions)					
Carrying amount	$8,256	$4,919	$2,722	$8,679	$4,753	$2,457
Fair value	8,470	4,991	2,876	9,220	5,034	2,708

(1) Includes Securitization Bond debt.

(9) Unconsolidated Affiliate (CenterPoint Energy and CERC)

CenterPoint Energy and CERC have the ability to significantly influence the operating and financial policies of Enable, a publicly traded MLP, and, accordingly, account for the investment in Enable's common units using the equity method of accounting for in-substance real estate. Upon the adoption of ASU 2014-09 and ASU 2017-05 on January 1, 2018, CenterPoint Energy and CERC evaluated transactions in the investment in Enable that occurred prior to January 1, 2018 (the effective date) and concluded a cumulative effect adjustment to the opening balance of retained earnings was not required. See Note 2 for further discussion.

CenterPoint Energy's and CERC's maximum exposure to loss related to Enable, a VIE in which CenterPoint Energy and CERC are not the primary beneficiaries, is limited to the equity investment, the Series A Preferred Unit investment and outstanding current accounts receivable from Enable.

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Limited Partner Interest and Units Held in Enable:

	June 30, 2018		
	Limited Partner Interest (1)	Common Units	Series A Preferred Units (2)
CERC Corp.	54.0 %	233,856,623	—
OGE	25.6 %	110,982,805	—
Public unitholders	20.4 %	88,225,208	—
CenterPoint Energy	—	—	14,520,000
Total units outstanding	100.0%	433,064,636	14,520,000

(1) Excluding the Series A Preferred Units owned by CenterPoint Energy.

(2) The carrying amount of the Series A Preferred Units, reflected as Preferred units - unconsolidated affiliate on CenterPoint Energy's Condensed Consolidated Balance Sheets, was $363 million as of both June 30, 2018 and December 31, 2017. No impairment charges or adjustment due to observable price changes were made during the current or prior reporting periods. See Note 2 for further discussion.

Generally, sales to any person or entity (including a series of sales to the same person or entity) of more than 5% of the aggregate of the common units CERC Corp. owns in Enable or sales to any person or entity (including a series of sales to the same person or entity) by OGE of more than 5% of the aggregate of the common units it owns in Enable are subject to mutual rights of first offer and first refusal set forth in Enable's Agreement of Limited Partnership.

Enable is controlled jointly by CERC Corp. and OGE, and each own 50% of the management rights in the general partner of Enable. Sale of CERC Corp.'s or OGE's ownership interests in Enable's general partner to a third party is subject to mutual rights of first offer and first refusal, and CERC Corp. is not permitted to dispose of less than all of its interest in Enable's general partner.

Distributions Received from Enable:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
	(in millions)			
Investment in Enable common units	$75	$ 75	$149	$149
Total CERC	75	75	149	149
Investment in Enable Series A Preferred Units	9	9	18	18
Total CenterPoint Energy	$84	$ 84	$167	$167

As of June 30, 2018, CERC Corp. and OGE also owned 40% and 60%, respectively, of the incentive distribution rights held by the general partner of Enable. Enable is expected to pay a minimum quarterly distribution of $0.2875 per common unit on its outstanding common units to the extent it has sufficient cash from operations after establishment of cash reserves and payment of fees and expenses, including payments to its general partner and its affiliates, within 60 days after the end of each quarter. If cash distributions to Enable's unitholders exceed $0.330625 per common unit in any quarter, the general partner will receive increasing percentages or incentive distributions rights, up to 50%, of the cash Enable distributes in excess of that amount. In certain circumstances the general partner of Enable will have the right to reset the minimum quarterly distribution and the target distribution levels at which the incentive distributions receive increasing percentages to higher levels based on Enable's cash distributions at the time of the exercise of this reset election. To date, no incentive distributions have been made.

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Transactions with Enable (CenterPoint Energy and CERC):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
	(in millions)			
Reimbursement of transition services (1)	$1	$ 1	$ 3	$ 3
Natural gas expenses, including transportation and storage costs	29	24	66	57

(1) Represents amounts billed under the Transition Agreements for certain support services provided to Enable. Actual transition services costs are recorded net of reimbursement.

	June 30, 2018	December 31, 2017
	(in millions)	
Accounts receivable for amounts billed for transition services	$ 3	$ 1
Accounts payable for natural gas purchases from Enable	8	13

Summarized unaudited consolidated income information for Enable is as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
	(in millions)			
Operating revenues	$805	$626	$1,553	$1,292
Cost of sales, excluding depreciation and amortization	444	279	819	587
Operating income	126	122	265	262
Net income attributable to Enable	86	86	191	197
Reconciliation of Equity in Earnings, net:				
CenterPoint Energy’s and CERC’s interest	$46	$47	$103	$107
Basis difference amortization (1)	12	12	24	24
CenterPoint Energy’s and CERC’s equity in earnings, net	$58	$59	$127	$131

(1) Equity in earnings of unconsolidated affiliate includes CenterPoint Energy’s and CERC’s share of Enable’s earnings adjusted for the amortization of the basis difference of CenterPoint Energy’s and CERC’s original investment in Enable and their underlying equity in Enable’s net assets. The basis difference is amortized over approximately 31 years, the average life of the assets to which the basis difference is attributed.

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

	June 30, 2018	December 31, 2017
	(in millions)	
Current assets	$432	$ 416
Non-current assets	11,360	11,177
Current liabilities	1,258	1,279
Non-current liabilities	2,963	2,660
Non-controlling interest	11	12
Preferred equity	362	362
Enable partners’ equity	7,198	7,280

Reconciliation of Investment in Enable:		
CenterPoint Energy's and CERC's ownership interest in Enable partners' equity	$3,887	$ 3,935
CenterPoint Energy's and CERC's basis difference	(1,436)	(1,463)
CenterPoint Energy's and CERC's equity method investment in Enable	$2,451	$ 2,472

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(10) Goodwill and Other Intangibles (CenterPoint Energy and CERC)

CenterPoint Energy's and CERC's goodwill by reportable business segment as of both June 30, 2018 and December 31, 2017 is as follows:

	(in millions)
Natural Gas Distribution	$ 746
Energy Services (1)	110
Other Operations	11
Total	$ 867

(1) Amount presented is net of the accumulated goodwill impairment charge of $252 million recorded in 2012.

The tables below present information on CenterPoint Energy's and CERC's other intangible assets recorded in Other non-current assets on the Condensed Consolidated Balance Sheets.

		June 30, 2018			December 31, 2017		
	Useful Lives	Gross Carrying Amount	Accumulated Amortization	Net Balance	Gross Carrying Amount	Accumulated Amortization	Net Balance
	(in years)	(in millions)					
Customer relationships	15	$86	$ (25)	$ 61	$86	$ (21)	$ 65
Covenants not to compete	4	4	(2)	2	4	(2)	2
Other	Various	15	(9)	6	15	(8)	7
Total		$105	$ (36)	$ 69	$105	$ (31)	$ 74

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
	(in millions)			
Amortization expense of intangible assets	$			