CENTERPOINT ENERGY INC
Form 424B5
February 01, 2007

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Filed Pursuant to Rule 424(B)(5)
Registration No. 333-116246

SUBJECT TO COMPLETION, DATED FEBRUARY 1, 2007

PRELIMINARY PROSPECTUS SUPPLEMENT
(To Prospectus Dated December 16, 2004)

$250,000,000

CenterPoint Energy, Inc.

% Senior Notes due 2017

The notes will bear interest at a rate of % per year from the date of issuance to, but excluding, February 1, 2017, when they will mature. We will pay interest on the notes on February 1 and August 1 of each year, beginning on August 1, 2007. The notes are subject to optional redemption prior to maturity as described under the caption Description of the Notes Optional Redemption.

The notes will be unsecured and will rank on a parity with all of our other unsecured and unsubordinated indebtedness. The notes will be effectively subordinated to all existing and future indebtedness and other liabilities of our subsidiaries.

Investing in the notes involves risks. See Risk Factors beginning on page S-5 of this prospectus supplement.

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

	Per Note	Total
Public Offering Price(1)	%	$
Underwriting Discount	%	$
Proceeds, before expenses, to CenterPoint Energy, Inc.(1)	%	$

(1) Plus accrued interest from February , 2007, if settlement occurs after that date.

The underwriters expect to deliver the notes to purchasers in New York, New York on or about February , 2007 through the book-entry facilities of The Depository Trust Company.

Banc of America Securities LLC **Deutsche Bank Securities** **JPMorgan**

Citigroup **Credit Suisse** **UBS Investment Bank** **Wachovia Securities**

Prospectus Supplement dated February , 2007.

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

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Prospectus Supplement

Prospectus

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SUMMARY

This summary highlights information from this prospectus supplement and the accompanying prospectus. It is not complete and may not contain all of the information that you should consider before investing in the notes. We encourage you to read this prospectus supplement, the accompanying prospectus and the documents incorporated by reference in their entirety before making an investment decision, including the information set forth under the heading Risk Factors. References in this prospectus supplement to we, us, our, or other similar terms mean CenterPoint Energy, Inc. and its subsidiaries.

CENTERPOINT ENERGY, INC.

We are a public utility holding company, created on August 31, 2002 as part of a corporate restructuring of Reliant Energy, Incorporated (Reliant Energy) that implemented certain requirements of the Texas Electric Choice Plan (Texas electric restructuring law).

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

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

CenterPoint Energy Resources Corp. (CERC Corp., and, together with its subsidiaries, CERC), which owns gas distribution systems. Through wholly owned subsidiaries, CERC Corp. owns interstate natural gas pipelines and gas gathering systems and provides various ancillary services. Through a wholly owned subsidiary, CERC Corp. also offers variable and fixed-price physical natural gas supplies primarily to commercial and industrial customers and electric and gas utilities.

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

Recent Developments

Closing Agreement Relating to Tax Settlement

In the second quarter of 2006, we reached agreement with the Appeals Division of the Internal Revenue Service (IRS) regarding the tax treatment of our 2% Zero Premium Exchangeable Subordinated Notes (ZENS) and our former 7% Automatic Common Exchange Securities (ACES) and reduced our accrued tax and related interest reserves by $119 million, or 38 cents per diluted share. The agreement was subject to approval by the Joint Committee on Taxation of the U.S. Congress (JCT).

In January 2007, following JCT approval of certain revised terms of the agreement, we and the IRS executed a closing agreement on the tax treatment of the ZENS for the tax years 1999 through 2029. The items in dispute with respect to the ZENS and ACES have now been resolved.

In the fourth quarter of 2006 we will record an after-tax charge of approximately $12 million, or 4 cents per diluted share, to reflect the January 2007 closing agreement described above.

2.875% Convertible Senior Notes due 2024

In December 2006, the Company called for redemption all of its outstanding 2.875% Convertible Senior Notes due 2024 (2.875% Convertible Notes) at a redemption price of $1,000 in cash plus accrued and unpaid interest, including contingent interest, to the redemption date of January 22, 2007, for each $1,000 aggregate principal amount of the 2.875% Convertible Notes. As of the date of the call for redemption, $255 million aggregate principal amount of the 2.875% Convertible Notes were outstanding.

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Upon the call for redemption, each $1,000 aggregate principal amount of the 2.875% Convertible Notes became convertible at the option of the holders into $1,000 in cash and a number of shares of our common stock to be determined based on the trading price of our common stock over a five-trading-day period following the submission of the 2.875% Convertible Notes for conversion. Substantially all of the 2.875% Convertible Notes were submitted for conversion on or prior to January 22, 2007. The remaining $20,000 aggregate principal amount of 2.875% Convertible Notes was redeemed.

The Company expects to pay a total of approximately $255 million in cash and to issue approximately 5.6 million shares of common stock to satisfy its redemption and conversion obligations.

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The Offering

Issuer	CenterPoint Energy, Inc.
Notes Offered	$250 million aggregate principal amount of % senior notes due 2017.
Maturity Date	February 1, 2017.
Interest Payment Dates	February 1 and August 1, commencing on August 1, 2007.
Ranking	The notes will: be general unsecured obligations; rank equally in right of payment with all of our other existing and future unsecured and unsubordinated indebtedness; and with respect to the assets and earnings of our subsidiaries, effectively rank below all of the liabilities of our subsidiaries. Excluding junior subordinated debentures issued to a subsidiary issuing trust preferred securities, as of November 30, 2006, we, on an unconsolidated basis, had approximately $3.5 billion aggregate principal amount of indebtedness outstanding, including approximately $678 million of obligations relating to pollution control bonds issued on our behalf, which are secured by general mortgage bonds and first mortgage bonds of CenterPoint Houston. Excluding subsidiaries issuing trust preferred securities and transition bonds, as of November 30, 2006, our subsidiaries had approximately $3.9 billion aggregate principal amount of third-party indebtedness outstanding, of which approximately $1.6 billion was secured, as well as other liabilities.
Current Ratings (Outlook)	Moody s: Ba1 (Stable) Standard & Poor s: BBB−(Stable) Fitch: BBB−(Stable)
Optional Redemption	We may redeem all or a part of the notes at any time and from time to time as specified under the heading Description of the Notes Optional Redemption beginning on page S-17 of this prospectus supplement.
Significant Covenant	We will issue the notes under an indenture containing a restrictive covenant for your benefit. This covenant, which is described under Description of the Notes Restrictive Covenant beginning on page S-18 of this prospectus supplement and is subject to termination as described, initially restricts our ability, with some exceptions, to incur certain debt secured by liens.

In addition, the indenture restricts our ability to merge, consolidate or transfer substantially all of our assets. See Description of Our Senior Debt Securities Consolidation, Merger and Sale of Assets on page 5 of the accompanying prospectus.

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Lack of Public Markets for the Notes	There is no existing market for the notes. We cannot provide any assurance about: the liquidity of any markets that may develop for the notes; your ability to sell the notes; and the prices at which you will be able to sell the notes. Future trading prices of the notes will depend on many factors, including: prevailing interest rates; our operating results; the ratings of the notes; and the market for similar securities. We do not intend to apply for listing of the notes on any securities exchange or for quotation of the notes in any automated dealer quotation system.
Risk Factors	You should consider carefully all the information set forth and incorporated by reference in this prospectus supplement and the accompanying prospectus and, in particular, you should evaluate the specific factors set forth under Risk Factors beginning on page S-5 of this prospectus supplement before deciding whether to invest in the notes.
Governing Law	The indenture and the notes are governed by, and construed in accordance with, the laws of the State of New York.
Use of Proceeds	The net proceeds from this offering will be approximately $ million, after deducting underwriters discounts and estimated expenses of the offering. We intend to use the net proceeds from this offering to repay indebtedness incurred in satisfying our $255 million cash payment obligation in connection with the conversion and redemption of our 2.875% Convertible Notes. See Use of Proceeds on page S-15 of this prospectus supplement.
Further Issues	The notes are initially limited to $250 million in aggregate principal amount. However, we may issue additional notes of the same series from time to time without the consent of the holders.
Trustee and Paying Agent	The Bank of New York Trust Company, National Association (as successor to JPMorgan Chase Bank, National Association).

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RISK FACTORS

You should consider carefully the following information about risks, as well as risks arising from any legal proceedings identified in Part II, Item 1. Legal Proceedings of our Quarterly Report on Form 10-Q for the period ended September 30, 2006 (3rd Quarter 2006 Form 10-Q), together with the other information contained in this prospectus supplement and the accompanying prospectus, before making an investment in the notes.

We are a holding company that conducts all of our business operations through subsidiaries, primarily CenterPoint Houston and CERC. The following summarizes the principal risk factors associated with the businesses conducted by each of these subsidiaries:

Risk Factors Affecting Our Electric Transmission & Distribution Business

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

In March 2004, CenterPoint Houston filed its true-up application with the Public Utility Commission of Texas (Texas Utility Commission), requesting recovery of $3.7 billion, excluding interest, as allowed under the Texas electric restructuring law. In December 2004, the Texas Utility Commission issued its final order (True-Up Order) allowing CenterPoint Houston to recover a true-up balance of approximately $2.3 billion, which included interest through August 31, 2004, and providing for adjustment of the amount to be recovered to include interest on the balance until recovery, the principal portion of additional excess mitigation credits returned to customers after August 31, 2004 and certain other matters. CenterPoint Houston and other parties filed appeals of the True-Up Order to a district court in Travis County, Texas. In August 2005, the court issued its final judgment on the various appeals. In its judgment, the court affirmed most aspects of the True-Up Order, but reversed two of the Texas Utility Commission s rulings. The judgment would have the effect of restoring approximately $650 million, plus interest, of the $1.7 billion the Texas Utility Commission had disallowed from CenterPoint Houston s initial request. CenterPoint Houston and other parties appealed the district court decisions. Oral argument to the 3rd Court of Appeals in Austin took place in January 2007, but a decision is not expected for several months. No amounts related to the district court s judgment have been recorded in our consolidated financial statements.

Among the issues raised in CenterPoint Houston s appeal of the True-Up Order is the Texas Utility Commission s reduction of CenterPoint Houston s stranded cost recovery by approximately $146 million for the present value of certain deferred tax benefits associated with our former electric generation assets. Such reduction was considered in our recording of an after-tax extraordinary loss of $977 million in the last half of 2004. We believe that the Texas Utility Commission based its order on proposed regulations issued by the IRS in March 2003 related to those tax benefits. Those proposed regulations would have allowed utilities owning assets that were deregulated before March 4, 2003 to make a retroactive election to pass the benefits of Accumulated Deferred Investment Tax Credits (ADITC) and Excess Deferred Federal Income Taxes (EDFIT) back to customers. However, in December 2005, the IRS withdrew those proposed normalization regulations and issued new proposed regulations that do not include the provision allowing a retroactive election to pass the tax benefits back to customers. In a Private Letter Ruling (PLR) issued to a Texas utility on facts similar to CenterPoint Houston s, the IRS, without referencing its proposed regulations, ruled that a normalization violation would occur if ADITC and EDFIT were required to be returned to customers. We have requested a PLR asking the IRS whether the Texas Utility Commission s order reducing our stranded cost recovery by $146 million for ADITC and EDFIT would cause a normalization violation. If our PLR determines that such reduction would cause a normalization violation with respect to the ADITC and the Texas Utility

Commission s order relating to such reduction is not reversed or otherwise modified, the IRS could require us to pay an amount equal to CenterPoint Houston s unamortized ADITC balance as of the date that the normalization violation was deemed to have occurred. In addition, if a normalization violation with respect to EDFIT is deemed to have occurred and the Texas Utility Commission s order relating to such reduction is not reversed or otherwise modified, the IRS could deny CenterPoint Houston the ability to elect accelerated tax

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depreciation benefits beginning in the taxable year that the normalization violation is deemed to have occurred. If a normalization violation should ultimately be found to exist, it could have an adverse impact on our results of operations, financial condition and cash flows. The Texas Utility Commission has not previously required a company subject to its jurisdiction to take action that would result in a normalization violation.

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

CenterPoint Houston s receivables from the distribution of electricity are collected from retail electric providers that supply the electricity CenterPoint Houston distributes to their customers. As of November 30, 2006, CenterPoint Houston did business with 69 retail electric providers. Adverse economic conditions, structural problems in the market served by the Electric Reliability Council of Texas, Inc. or financial difficulties of one or more retail electric providers could impair the ability of these retail providers to pay for CenterPoint Houston s services or could cause them to delay such payments. CenterPoint Houston depends on these retail electric providers to remit payments on a timely basis. Applicable regulatory provisions require that customers be shifted to a provider of last resort if a retail electric provider cannot make timely payments. Reliant Energy, Inc. (RRI), through its subsidiaries, is CenterPoint Houston s largest customer. Approximately 54% of CenterPoint Houston s $136 million in billed receivables from retail electric providers at November 30, 2006 was owed by subsidiaries of RRI. Any delay or default in payment could adversely affect CenterPoint Houston s cash flows, financial condition and results of operations.

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

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

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

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

CenterPoint Houston s revenues and results of operations are seasonal.

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

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

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

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

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

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

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

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

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

If CERC were to fail to renegotiate a contract with one of its significant pipeline customers or if CERC renegotiates the contract with less favorable terms, there could be an adverse impact on its operations.

Since October 31, 2006, CERC s contract with Laclede Gas Company, one of its pipeline s customers, has been terminable upon one year s prior notice. CERC has not received a termination notice and is currently negotiating a long-term contract with Laclede. If Laclede terminates this contract or if CERC renegotiates this contract at rates substantially less than the rates provided in the current contract, there could be an adverse effect on CERC s results of operations, financial condition and cash flows.

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

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

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

CERC s pipelines and field services businesses largely rely on natural gas sourced in the various supply basins located in the Midcontinent region of the United States. To the extent the availability of this supply is substantially reduced, it could have an adverse effect on CERC s results of operations, financial condition and cash flows.

CERC s revenues and results of operations are seasonal.

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

The actual construction costs of proposed pipelines and related compression facilities may be significantly higher than CERC s current estimates.

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

The Arkansas Public Service Commission has adopted rules governing affiliate transactions which could have significant adverse effects on CERC s ability to operate its utility operations.

The Arkansas Public Service Commission has adopted rules governing affiliate transactions involving public utilities operating in Arkansas. The rules treat as affiliate transactions all transactions between CERC s Arkansas utility operations and other divisions of CERC, as well as transactions between the Arkansas utility operations and affiliates of CERC. All such affiliate transactions are required to be priced under an asymmetrical pricing formula under which the Arkansas utility operations would benefit from any difference between the cost of providing goods and services to or from the Arkansas utility operations and the market value of those goods or services. Additionally, the Arkansas utility operations are not permitted to participate in any financing other than to finance retail utility operations in Arkansas, which would preclude continuation of existing financing arrangements in which CERC finances its divisions and subsidiaries, including its Arkansas utility operations.

Although the rules are now in effect, CERC and other gas and electric utilities operating in Arkansas are seeking reconsideration of the rules by the Arkansas Public Service Commission. If the rules are not significantly modified on reconsideration, CERC would be entitled to seek judicial review. In adopting the rules, the Arkansas Public Service Commission indicated that affiliate transactions and financial arrangements currently in effect will be deemed in compliance until December 19, 2007, and that utilities may seek waivers of specific provisions of the rules. If the rules continue in effect as presently adopted, CERC would need to seek waivers from certain provisions of the rules or would be required to make significant modifications to existing practices, which could include the formation of and transfer of assets to subsidiaries. These modifications could have adverse effects on CERC s ability to operate its utility operations and to provide cost-effective utility service.

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Risk Factors Associated with Our Consolidated Financial Condition

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

As of November 30, 2006, we had $9.1 billion of outstanding indebtedness on a consolidated basis, which includes $2.4 billion of non-recourse transition bonds. As of November 30, 2006, approximately $665 million principal amount of this debt is required to be paid through 2009. This amount excludes principal repayments of approximately $481 million on transition bonds, for which a dedicated revenue stream exists. In addition, as of January 31, 2007, we had $575 million of outstanding 3.75% convertible notes on which holders could exercise their conversion rights, cash settlement obligations with respect to $153 million principal amount of the approximately $255 million aggregate principal amount of the 2.875% Convertible Notes converted in January 2007 and redemption obligations with respect to the call for redemption on February 4, 2007 of $100 million aggregate liquidation amount of 8.257% Capital Securities, Series B of our indirect subsidiary, HL&P Capital Trust II. Our future financing activities may depend, at least in part, on:

- the timing and amount of our recovery of the true-up components, including, in particular, the results of appeals to the courts of determinations on rulings obtained to date;
- general economic and capital market conditions;
- credit availability from financial institutions and other lenders;
- investor confidence in us and the market in which we operate;
- maintenance of acceptable credit ratings;
- market expectations regarding our future earnings and probable cash flows;
- market perceptions of our ability to access capital markets on reasonable terms;
- our exposure to RRI in connection with its indemnification obligations arising in connection with its separation from us; and
- provisions of relevant tax and securities laws.

As of November 30, 2006, CenterPoint Houston had outstanding approximately $2.0 billion aggregate principal amount of general mortgage bonds, including approximately $229 million held in trust to secure pollution control bonds for which we are obligated and approximately $527 million held in trust to secure pollution control bonds for which CenterPoint Houston is obligated. Additionally, CenterPoint Houston had outstanding approximately $253 million aggregate principal amount of first mortgage bonds, including approximately $151 million held in trust to secure certain pollution control bonds for which we are obligated. CenterPoint Houston may issue additional general mortgage bonds on the basis of retired bonds, 70% of property additions or cash deposited with the trustee. Approximately $2.2 billion of additional first mortgage bonds and general mortgage bonds could be issued in the aggregate on the basis of retired bonds and 70% of property additions as of November 30, 2006. However, CenterPoint Houston is contractually prohibited, subject to certain exceptions, from issuing additional first mortgage bonds.

Our current credit ratings are discussed in Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources Future Sources and Uses of Cash Impact on Liquidity of a Downgrade in Credit Ratings in Item 2 of our 3rd Quarter 2006 Form 10-Q. These credit ratings may not remain in effect for any given period of time and one or more of these ratings may be lowered or withdrawn entirely by a rating agency. We note that these credit ratings are not recommendations to buy, sell or hold our securities. Each rating should be evaluated independently of any other rating. Any future reduction or withdrawal of one or more of our credit ratings could have a material adverse impact on our ability to access capital on acceptable terms.

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

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

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

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

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

Risks Common to Our Businesses and Other Risks

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

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

- restricting the way we can handle or dispose of our wastes;

- limiting or prohibiting construction activities in sensitive areas such as wetlands, coastal regions, or areas inhabited by endangered species;

- requiring remedial action to mitigate pollution conditions caused by our operations, or attributable to former operations; and

- enjoining the operations of facilities deemed in non-compliance with permits issued pursuant to such environmental laws and regulations.

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

- construct or acquire new equipment;
- acquire permits for facility operations;

modify or replace existing and proposed equipment; and

clean up or decommission waste disposal areas, fuel storage and management facilities and other locations and facilities.

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

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

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

In common with other companies in its line of business that serve coastal regions, CenterPoint Houston does not have insurance covering its transmission and distribution system because CenterPoint Houston believes it to be cost prohibitive. If CenterPoint Houston were to sustain any loss of, or damage to, its transmission and distribution properties, it may not be able to recover such loss or damage through a change in its regulated rates, and any such recovery may not be timely granted. Therefore, CenterPoint Houston may not be able to restore any loss of, or damage to, any of its transmission and distribution properties without negative impact on its results of operations, financial condition and cash flows.

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

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

those transferred to RRI or its subsidiaries in connection with the organization and capitalization of RRI prior to its initial public offering in 2001; and

those transferred to Texas Genco Holdings, Inc. (Texas Genco) in connection with its organization and capitalization.

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

Prior to our distribution of our ownership in RRI to our shareholders, CERC had guaranteed certain contractual obligations of what became RRI s trading subsidiary. Under the terms of the separation agreement between the companies, RRI agreed to extinguish all such guaranty obligations prior to separation, but at the time of separation in September 2002, RRI had been unable to extinguish all obligations. To secure us and CERC against obligations under the remaining guaranties, RRI agreed to provide cash or letters of credit for the benefit of CERC and us, and undertook to use commercially reasonable efforts to extinguish the remaining guaranties. CERC currently holds letters of credit in the amount of $33.3 million issued on behalf of RRI against guaranties that have not been released. Our current exposure under the guaranties relates to CERC s guaranty of the payment by RRI of demand charges related to transportation contracts with one counterparty. The demand charges are approximately $53 million per year through 2015, $49 million in 2016, $38 million in 2017 and $13 million in 2018. RRI continues to meet its obligations under the transportation contracts, and we believe current market conditions make those contracts valuable for transportation services in the near term. However, changes in market conditions could affect the value of those contracts. If RRI should fail to perform its obligations under the transportation contracts, our exposure to the counterparty under the guaranty could exceed the security provided by RRI. We have requested RRI to increase the amount of its existing letters of credit or, in the alternative, to obtain a release of CERC s obligations under the guaranty. In June 2006, the RRI trading subsidiary and CERC jointly filed a complaint at the FERC against the counterparty on the CERC guaranty. In the complaint, the RRI trading subsidiary seeks a determination by the FERC that the security demanded by the counterparty exceeds the level permitted by the FERC s policies. The complaint asks the FERC to require the counterparty to release CERC from its guaranty obligation and, in its place, accept (i) a guaranty from RRI of the obligations of the RRI trading subsidiary, and (ii) letters of credit limited to (A) one year of demand charges for a transportation agreement related to a 2003 expansion of the counterparty s pipeline, and (B) three months of demand charges for three other transportation agreements held by the RRI trading subsidiary. The counterparty has argued that the amount of the guaranty does not violate the FERC s policies and that the proposed substitution of credit support is not authorized under the counterparty s financing documents or required by FERC s policy. The parties have now completed their submissions to FERC regarding the complaint. It is presently unknown what action the FERC may take on the complaint or when the FERC may rule.

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

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

In connection with the organization and capitalization of Texas Genco, Texas Genco assumed liabilities associated with the electric generation assets Reliant Energy transferred to it. Texas Genco also agreed to indemnify, and cause the applicable transferee subsidiaries to indemnify, us and our subsidiaries, including CenterPoint Houston, with respect to liabilities associated with the transferred assets and businesses. In many cases the liabilities assumed were obligations of CenterPoint Houston and CenterPoint Houston was not released by third parties from these liabilities. The indemnity provisions were intended generally to place sole financial responsibility on Texas Genco and its subsidiaries for all liabilities associated with the current and historical businesses and operations of Texas Genco, regardless of the time those liabilities arose. In connection with the sale of Texas Genco s fossil generation assets (coal, lignite and gas-fired plants) to Texas Genco LLC, the separation agreement we entered into with Texas Genco in connection with the organization and capitalization of Texas Genco was amended to provide that all of Texas Genco s rights and obligations under the separation agreement relating to its fossil generation assets, including Texas Genco s obligation to indemnify us with respect to liabilities associated with the fossil generation assets and related business, were

assigned to and assumed by Texas Genco LLC. In addition, under the amended separation agreement, Texas Genco is no longer liable for, and we have assumed and agreed to indemnify Texas Genco LLC against, liabilities that Texas Genco originally assumed in connection with its organization to the extent, and only to the extent, that such liabilities are covered by certain insurance policies or other similar agreements held by us. If Texas Genco or Texas Genco LLC were unable to satisfy a liability that had been so assumed or indemnified against, and provided Reliant Energy had not been released from the liability in connection with the transfer, CenterPoint Houston could be responsible for satisfying the liability.

We or our subsidiaries have been named, along with numerous others, as a defendant in lawsuits filed by a large number of individuals who claim injury due to exposure to asbestos. Most claimants in such litigation have been workers who participated in construction of various industrial facilities, including power plants. Some of the claimants have worked at locations we own, but most existing claims relate to facilities previously owned by our subsidiaries but currently owned by Texas Genco LLC, which is now known as NRG Texas LP. We anticipate that additional claims like those received may be asserted in the future. Under the terms of the arrangements regarding separation of the generating business from us and its sale to Texas Genco LLC, ultimate financial responsibility for uninsured losses from claims relating to the generating business has been assumed by Texas Genco LLC and its successor, but we have agreed to continue to defend such claims to the extent they are covered by insurance maintained by us, subject to reimbursement of the costs of such defense by Texas Genco LLC.

Risk Factors Related to the Notes

An active trading market for the notes may not develop.

The notes will be a new issue of securities for which there is currently no established trading market. We do not intend to apply for the listing of the notes on any securities exchange or for quotation of the notes on any dealer quotation system. Even if a market for the notes does develop, we cannot assure you that there will be liquidity in that market, or that the notes might not trade for less than their original value or face amount. The liquidity of any market for the notes will depend on the number of holders of those notes, the interest of securities dealers in making a market in the notes and other factors. If a liquid market for the notes does not develop, you may be unable to resell the notes for a long period of time, if at all. Accordingly, we cannot assure you as to the development or liquidity of any trading market for the notes or as to your ability to sell your notes.

Even if a market for the notes develops, trading prices could be higher or lower than the initial offering price. The prices of the notes will depend on many factors, including prevailing interest rates, our operating results and financial conditions and the market for similar securities. Declines in the market prices for debt securities generally may also materially and adversely affect the liquidity of the notes, independent of our financial performance.

The notes will be effectively subordinated to existing and future indebtedness and other liabilities of our subsidiaries.

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

Our right to receive any assets of any subsidiary, and therefore the right of our creditors to participate in those assets, will be effectively subordinated to the claims of that subsidiary s creditors, including trade creditors. In addition, even if we were a creditor of any subsidiary, our rights as a creditor would be subordinated to any security interest in the assets of that subsidiary and any indebtedness of the subsidiary senior to that held by us. Excluding subsidiaries issuing trust preferred securities and transition bonds, as of November 30, 2006, our subsidiaries had approximately $3.9 billion aggregate principal amount of third-party indebtedness outstanding, of which approximately $1.6 billion was secured.

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USE OF PROCEEDS

The net proceeds from this offering will be approximately $ million, after deducting underwriters discounts and estimated expenses of the offering. We intend to use the net proceeds from this offering to repay indebtedness incurred in satisfying our $255 million cash payment obligation in connection with the conversion and redemption of our 2.875% Convertible Notes. See Summary Recent Developments 2.875% Convertible Senior Notes due 2024.

Indebtedness incurred in connection with such conversion and redemption obligations will include borrowings under our revolving credit facility, which currently would have an interest rate of 8.25% and mature on March 31, 2011 and, to the extent available, commercial paper supported by our revolving credit facility, which currently would have an interest rate of approximately 5.6% and would be expected to mature on February 6, 2007.

CAPITALIZATION

The following table sets forth our short-term debt and capitalization as of September 30, 2006. No adjustments have been made for the issuance of the notes in this offering. In addition, adjustments have not been made for:

- the conversion and redemption of our 2.875% Convertible Notes;
- the planned redemption of $100 million aggregate liquidation amount of 8.257% Capital Securities, Series B of our indirect subsidiary, HL&P Capital Trust II, on February 4, 2007;
- the maturity of $145 million aggregate principal amount of CERC s 8.90% debentures in December 2006;
- any changes in short-term debt after September 30, 2006; or
- changes related to the implementation of accounting pronouncements effective after September 30, 2006.

This table should be read in conjunction with our consolidated financial statements and related notes thereto and Management s Discussion and Analysis of Financial Condition and Results of Operations included in our Annual Report on Form 10-K for the year ended December 31, 2005 and our 3rd Quarter 2006 Form 10-Q.

	September 30, 2006 **(In millions)**	
Short-Term Debt:		
Current portion of transition bond long-term debt	$ 147	1.4%