CENTERPOINT ENERGY INC
Form 10-Q
May 01, 2014

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 MARCH 31, 2014

OR

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

FOR THE TRANSITION PERIOD FROM __________________ TO __________________

Commission file number 1-31447

CenterPoint Energy, Inc.
(Exact name of registrant as specified in its charter)

Texas (State or other jurisdiction of incorporation or organization)	74-0694415 (I.R.S. Employer Identification No.)
1111 Louisiana Houston, Texas 77002 (Address and zip code of principal executive offices)	(713) 207-1111 (Registrant’s telephone number, including area code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No o

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

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

Large accelerated filer þ	Accelerated filer o	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

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

As of April 15, 2014, CenterPoint Energy, Inc. had 429,748,467 shares of common stock outstanding, excluding 166 shares held as treasury stock.

CENTERPOINT ENERGY, INC.
QUARTERLY REPORT ON FORM 10-Q
FOR THE QUARTER ENDED MARCH 31, 2014

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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

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

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

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

- state and federal legislative and regulatory actions or developments affecting various aspects of our businesses (including the businesses of Enable Midstream Partners, LP (Enable), including, among others, energy deregulation or re-regulation, pipeline integrity and safety, health care reform, financial reform, tax legislation and actions regarding the rates charged by our regulated businesses;

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

- timely and appropriate rate actions that allow recovery of costs and a reasonable return on investment;

- the timing and outcome of any audits, disputes and other proceedings related to taxes;

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

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

- the timing and extent of changes in commodity prices, particularly natural gas and natural gas liquids (NGLs), and the effects of geographic and seasonal commodity price differentials;

- weather variations and other natural phenomena, including the impact of severe weather events on operations and capital;

- any direct or indirect effects on our facilities, operations and financial condition resulting from terrorism, cyber-attacks, data security breaches or other attempts to disrupt our businesses or the businesses of third parties, or other catastrophic events;

- the impact of unplanned facility outages;

- timely and appropriate regulatory actions allowing securitization or other recovery of costs associated with any future hurricanes or natural disasters;

- changes in interest rates or rates of inflation;
- commercial bank and financial market conditions, our access to capital, the cost of such capital, and the results of our financing and refinancing efforts, including availability of funds in the debt capital markets;
- actions by credit rating agencies;
- effectiveness of our risk management activities;
- inability of various counterparties to meet their obligations to us;
- non-payment for our services due to financial distress of our customers;
- the ability of GenOn Energy, Inc. (formerly known as RRI Energy, Inc., Reliant Energy, Inc. and Reliant Resources, Inc.), a wholly owned subsidiary of NRG Energy, Inc. (NRG), and its subsidiaries to satisfy their obligations to us, including indemnity obligations, or obligations in connection with the contractual arrangements pursuant to which we are their guarantor;

- the ability of retail electric providers (REPs), including REP affiliates of NRG, Energy Future Holdings Corp. and Just Energy Group, Inc., to satisfy their obligations to us and our subsidiaries;
- the outcome of litigation brought by or against us;
- our ability to control costs;
- the investment performance of our pension and postretirement benefit plans;
- our potential business strategies, including restructurings, joint ventures and acquisitions or dispositions of assets or businesses, which we cannot assure you will be completed or will have the anticipated benefits to us;
- acquisition and merger activities involving us or our competitors;
- future economic conditions in regional and national markets and their effect on sales, prices and costs;
- the performance of Enable, the amount of cash distributions we receive from Enable, and the value of our interest in Enable, and factors that may have a material impact on such performance, cash distributions and value, including certain of the factors specified above and:

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

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

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

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

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

changes in tax status;

access to growth capital; and

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

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

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

PART I. FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

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

	Three Months Ended March 31, 2014	2013
Revenues	$3,163	$2,388
Expenses:		
Natural gas	2,043	1,224
Operation and maintenance	479	484
Depreciation and amortization	235	240
Taxes other than income taxes	111	108
Total	2,868	2,056
Operating Income	295	332
Other Income (Expense):		
Gain (loss) on marketable securities	(30)	74
Gain (loss) on indexed debt securities	43	(51)
Interest and other finance charges	(84)	(98)
Interest on transition and system restoration bonds	(30)	(35)
Equity in earnings of unconsolidated affiliates, net	91	5
Other, net	9	6
Total	(1)	(99)
Income Before Income Taxes	294	233
Income tax expense	109	86
Net Income	$185	$147
Basic Earnings Per Share	$0.43	$0.34
Diluted Earnings Per Share	$0.43	$0.34
Dividends Declared Per Share	$0.2375	$0.2075
Weighted Average Shares Outstanding, Basic	429	428
Weighted Average Shares Outstanding, Diluted	431	430

See Notes to Interim 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 March 31,	
	2014	2013
Net income	$ 185	$ 147
Other comprehensive income:		
Adjustment related to pension and other postretirement plans (net of tax of $1 and $2)	1	3
Total	1	3
Comprehensive income	$ 186	$ 150

See Notes to Interim Condensed Consolidated Financial Statements

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

ASSETS

	March 31, 2014	December 31, 2013
Current Assets:		
Cash and cash equivalents ($149 and $207 related to VIEs, respectively)	$379	$208
Investment in marketable securities	737	767
Accounts receivable, less bad debt reserve of $35 and $28, respectively ($69 and $60 related to VIEs, respectively)	1,142	851
Accrued unbilled revenues	343	398
Natural gas inventory	26	140
Materials and supplies	146	145
Non-trading derivative assets	24	24
Prepaid expenses and other current assets ($42 and $41 related to VIEs, respectively)	158	125
Total current assets	2,955	2,658
Property, Plant and Equipment:		
Property, plant and equipment	14,368	14,138
Less: accumulated depreciation and amortization	4,605	4,545
Property, plant and equipment, net	9,763	9,593
Other Assets:		
Goodwill	840	840
Regulatory assets ($3,084 and $3,179 related to VIEs, respectively)	3,635	3,726
Notes receivable - affiliated companies	363	363
Non-trading derivative assets	9	10
Investment in unconsolidated affiliates	4,540	4,518
Other	159	162
Total other assets	9,546	9,619
Total Assets	$22,264	$21,870

See Notes to Interim 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

	March 31, 2014	December 31, 2013
Current Liabilities:		
Short-term borrowings	$—	$43
Current portion of VIE transition and system restoration bonds long-term debt	362	354
Indexed debt	145	143
Indexed debt securities derivative	412	455
Accounts payable	802	689
Taxes accrued	220	184
Interest accrued	107	124
Non-trading derivative liabilities	17	17
Accumulated deferred income taxes, net	629	608
Other	365	402
Total current liabilities	3,059	3,019
Other Liabilities:		
Accumulated deferred income taxes, net	4,528	4,542
Non-trading derivative liabilities	2	4
Benefit obligations	802	802
Regulatory liabilities	1,200	1,152
Other	203	205
Total other liabilities	6,735	6,705
Long-term Debt:		
VIE transition and system restoration bonds	2,908	3,046
Other	5,148	4,771
Total long-term debt	8,056	7,817
Commitments and Contingencies (Note 12)		
Shareholders' Equity:		
Common stock (429,748,467 shares and 428,798,446 shares outstanding, respectively)	4	4
Additional paid-in capital	4,158	4,157
Retained earnings	341	258
Accumulated other comprehensive loss	(89)	(90)
Total shareholders' equity	4,414	4,329
Total Liabilities and Shareholders' Equity	$22,264	$21,870

See Notes to Interim Condensed Consolidated Financial Statements

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

	Three Months Ended March 31,	
	2014	2013
Cash Flows from Operating Activities:		
Net income	$185	$147
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	235	240
Amortization of deferred financing costs	7	8
Deferred income taxes	4	57
Unrealized loss (gain) on marketable securities	30	(74)
Unrealized loss (gain) on indexed debt securities	(43)	51
Equity in earnings of unconsolidated affiliates, net of distributions	(22)	4
Pension contributions	(3)	(8)
Changes in other assets and liabilities:		
Accounts receivable and unbilled revenues, net	(253)	(66)
Inventory	113	119
Taxes receivable	—	(3)
Accounts payable	128	(33)
Fuel cost recovery	(27)	105
Non-trading derivatives, net	—	7
Margin deposits, net	1	12
Interest and taxes accrued	19	(76)
Net regulatory assets and liabilities	27	39
Other current assets	20	8
Other current liabilities	(55)	(32)
Other assets	9	1
Other liabilities	13	15
Other, net	(8)	12
Net cash provided by operating activities	380	533
Cash Flows from Investing Activities:		
Capital expenditures	(301)	(271)
Decrease (increase) in restricted cash of transition and system restoration bond companies	(2)	1
Other, net	(13)	(4)
Net cash used in investing activities	(316)	(274)
Cash Flows from Financing Activities:		
Decrease in short-term borrowings, net	(43)	(38)
Proceeds from (payment of) commercial paper, net	(118)	61
Proceeds from long-term debt	600	—
Payments of long-term debt	(231)	(612)
Cash paid for debt retirement	(1)	—
Debt issuance costs	(5)	—

Payment of common stock dividends	(102)	(89)
Proceeds from issuance of common stock, net	1	1
Other, net	6	17
Net cash provided by (used in) financing activities	107	(660)
Net Increase (Decrease) in Cash and Cash Equivalents	171	(401)
Cash and Cash Equivalents at Beginning of Period	208	646
Cash and Cash Equivalents at End of Period	$379	$245
Supplemental Disclosure of Cash Flow Information:		
Cash Payments:		
Interest, net of capitalized interest	$122	$147
Income tax refunds, net	(1)	(3)
Non-cash transactions:		
Accounts payable related to capital expenditures	59	92

See Notes to Interim Condensed Consolidated Financial Statements

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CENTERPOINT ENERGY, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(1) Background and Basis of Presentation

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

Background. CenterPoint Energy, Inc. is a public utility holding company. CenterPoint Energy's operating subsidiaries own and operate electric transmission and distribution facilities and natural gas distribution facilities and own an interest in Enable Midstream Partners, LP (Enable) as described in Note 7. As of March 31, 2014, CenterPoint Energy's indirect wholly owned subsidiaries included:

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

- CenterPoint Energy Resources Corp. (CERC Corp. and, together with its subsidiaries, CERC), which owns and operates natural gas distribution systems (Gas Operations). A wholly owned subsidiary of CERC Corp. offers variable and fixed-price physical natural gas supplies primarily to commercial and industrial customers and electric and gas utilities. As of March 31, 2014, CERC Corp. also owned approximately 58.3% of the limited partner interests in Enable, which owns, operates and develops natural gas and crude oil infrastructure assets. Following the completion of Enable's initial public offering on April 16, 2014, CERC Corp. owns approximately 54.7% of the limited partner interests in Enable.

As of March 31, 2014, CenterPoint Energy had four variable interest entities (VIEs) consisting of transition and system restoration bond companies, which it consolidates. The consolidated VIEs are wholly owned bankruptcy remote special purpose entities that were formed specifically for the purpose of securitizing transition and system restoration property. Creditors of CenterPoint Energy have no recourse to any assets or revenues of the transition and system restoration 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.

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

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

For a description of CenterPoint Energy's reportable business segments, see Note 14.

(2) New Accounting Pronouncements

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

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(3) Employee Benefit Plans

CenterPoint Energy's net periodic cost includes the following components relating to pension and postretirement benefits:

	Three Months Ended March 31,			
	2014		2013	
	Pension Benefits (1)	Postretirement Benefits	Pension Benefits (1)	Postretirement Benefits
	(in millions)			
Service cost	$10	$—	$11	$—
Interest cost	25	6	23	5
Expected return on plan assets	(31)	(2)	(34)	(2)
Amortization of prior service credit	3	—	2	—
Amortization of net loss	11	—	16	2
Amortization of transition obligation	—	1	—	2
Net periodic cost	$18	$5	$18	$7

(1) Net periodic cost in these tables is before considering amounts subject to overhead allocations for capital expenditure projects or for amounts subject to deferral for regulatory purposes.

CenterPoint Energy's changes in accumulated comprehensive loss related to defined benefit and postretirement plans are as follows:

	Three Months Ended March 31,	
	2014	2013
	Pension and Postretirement Plans	
	(in millions)	
Beginning Balance	$(88)	$(132)
Amounts reclassified from accumulated other comprehensive income:		
Prior service cost (1)	—	1
Actuarial gains (1)	2	4
Total reclassifications from accumulated other comprehensive income	2	5
Tax expense	(1)	(2)
Net current period other comprehensive income	1	3
Ending Balance	$(87)	$(129)

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

CenterPoint Energy expects to contribute a total of approximately $96 million to its pension plans in 2014, of which approximately $3 million was contributed during the three months ended March 31, 2014. CenterPoint Energy contributed $29 million to the pension plans in April 2014.

CenterPoint Energy expects to contribute a total of approximately $17 million to its postretirement benefits plan in 2014, of which approximately $4 million was contributed during the three months ended March 31, 2014.

(4) Regulatory Accounting

As of March 31, 2014, CenterPoint Energy has not recognized an allowed equity return of $493 million because such return will be recognized as it is recovered in rates. During the three months ended March 31, 2014 and 2013, CenterPoint Houston recognized approximately $15 million and $8 million, respectively, of the allowed equity return not previously recognized.

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(5) Derivative Instruments

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

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

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

(a) Non-Trading Activities

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

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

CenterPoint Energy entered into heating-degree day swaps for certain Gas Operations jurisdictions to mitigate the effect of fluctuations from normal weather on its results of operations and cash flows for the winter heating season, which contained a bilateral dollar cap of $15 million in 2012 - 2013 and $16 million in 2013 - 2014. In 2013, CenterPoint Energy also entered into a similar winter weather hedge for the CenterPoint Houston service territory, which contained a bilateral dollar cap of $7.5 million. The swaps are based on ten-year normal weather. During the three months ended March 31, 2014 and 2013, CenterPoint Energy recognized losses of $8 million and $3 million, respectively, related to these swaps. Weather hedge gains and losses are included in revenues in the Condensed Statements of Consolidated Income.

(b) Derivative Fair Values and Income Statement Impacts

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

Fair Value of Derivative Instruments

Total derivatives not designated as hedging instruments	Balance Sheet Location	March 31, 2014 Derivative Assets Fair Value (in millions)	Derivative Liabilities Fair Value
Natural gas derivatives (1) (2)	Current Assets: Non-trading derivative assets	$29	$4
Natural gas derivatives (1) (2)	Other Assets: Non-trading derivative assets	11	2
Natural gas derivatives (1) (2)	Current Liabilities: Non-trading derivative liabilities	1	18
Natural gas derivatives (1) (2)	Other Liabilities: Non-trading derivative liabilities	—	2
Indexed debt securities derivative	Current Liabilities	—	412
Total		$41	$438

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(1) The fair value shown for natural gas contracts is comprised of derivative gross volumes totaling 547 billion cubic feet (Bcf) or a net 92 Bcf long position. Of the net long position, basis swaps constitute 91 Bcf.

(2) Natural gas contracts are presented on a net basis in the Condensed Consolidated Balance Sheets. Natural gas contracts are subject to master netting arrangements. This netting applies to all undisputed amounts due or past due and causes derivative assets (liabilities) to be ultimately presented net in a liability (asset) account within the Condensed Consolidated Balance Sheets. The net of total non-trading derivative assets and liabilities was a $14 million asset as shown on CenterPoint Energy's Condensed Consolidated Balance Sheets (and as detailed in the table below), and was comprised of the natural gas contracts derivative assets and liabilities separately shown above, offset by collateral netting of $(1) million.

Offsetting of Natural Gas Derivative Assets and Liabilities

	March 31, 2014		
	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	$ 30	$ (6)	$ 24
Other Assets: Non-trading derivative assets	11	(2)	9
Current Liabilities: Non-trading derivative liabilities	(22)	5	(17)
Other Liabilities: Non-trading derivative liabilities	(4)	2	(2)
Total	$ 15	$ (1)	$ 14

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

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

Fair Value of Derivative Instruments

		December 31, 2013	
Total derivatives not designated as hedging instruments	Balance Sheet Location	Derivative Assets Fair Value	Derivative Liabilities Fair Value
		(in millions)	
Natural gas derivatives (1) (2) (3)	Current Assets: Non-trading derivative assets	$28	$4
Natural gas derivatives (1) (2)	Other Assets: Non-trading derivative assets	10	—
Natural gas derivatives (1) (2)	Current Liabilities: Non-trading derivative liabilities	4	21
Natural gas derivatives (1) (2)	Other Liabilities: Non-trading derivative liabilities	1	5
Indexed debt securities derivative	Current Liabilities	—	455
Total		$43	$485

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

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

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

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Offsetting of Natural Gas Derivative Assets and Liabilities

	December 31, 2013		
	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	$32	$(8)	$24
Other Assets: Non-trading derivative assets	11	(1)	10
Current Liabilities: Non-trading derivative liabilities	(25)	8	(17)
Other Liabilities: Non-trading derivative liabilities	(5)	1	(4)
Total	$13	$—	$13

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

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

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

Income Statement Impact of Derivative Activity

		Three Months Ended March 31,	
Total derivatives not designated as hedging instruments	Income Statement Location	2014	2013
		(in millions)	
Natural gas derivatives	Gains (Losses) in Revenue	$(101)	$(14)
Natural gas derivatives (1)	Gains (Losses) in Expense: Natural Gas	110	16
Indexed debt securities derivative	Gains (Losses) in Other Income (Expense)	43	(51)
Total		$52	$(49)

(1) The Gains (Losses) in Expense: Natural Gas includes $2 million during the three months ended March 31, 2014 related to physical forwards purchased from Enable.

(c) Credit Risk Contingent Features

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

(6) Fair Value Measurements

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

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

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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 CenterPoint Energy's Level 2 assets or liabilities.

Level 3: Inputs are unobservable for the asset or liability, and include situations where there is little, if any, market activity for the asset or liability. Unobservable inputs reflect CenterPoint Energy's judgments about the assumptions market participants would use in pricing the asset or liability since limited market data exists. CenterPoint Energy develops these inputs based on the best information available, including CenterPoint Energy's own data. A market approach is utilized to value CenterPoint Energy's Level 3 assets or liabilities. Currently, CenterPoint Energy's Level 3 assets and liabilities are comprised of physical forward contracts and options. Level 3 physical forward contracts are valued using a discounted cash flow model which includes illiquid forward price curve locations (ranging from $3.43 to $5.20 per one million British thermal units) as an unobservable input. Level 3 options are valued through Black-Scholes (including forward start) option models which include option volatilities (ranging from 0 to 62%) as an unobservable input. CenterPoint Energy's Level 3 derivative assets and liabilities consist of both long and short positions (forwards and options) and their fair value is sensitive to forward prices and volatilities. If forward prices decrease, CenterPoint Energy's long forwards lose value whereas its short forwards gain in value. If volatility decreases, CenterPoint Energy's long options lose value whereas its short options gain in value.

CenterPoint Energy determines the appropriate level for each financial asset and liability on a quarterly basis and recognizes transfers between levels at the end of the reporting period. For the three months ended March 31, 2014, there were no transfers between Level 1 and 2. CenterPoint Energy also recognizes purchases of Level 3 financial assets and liabilities at their fair market value at the end of the reporting period.

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

	Quoted Prices in Active Markets for Identical Assets (Level 1) (in millions)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Netting Adjustments [1]	Balance as of March 31, 2014
Assets					
Corporate equities	$740	$—	$—	$—	$740
Investments, including money market funds	63	—	—	—	63
Natural gas derivatives	4	32	5		