CenterPoint Energy

Third Quarter 2008 Earnings Conference Call
November 5, 2008

Marianne Paulsen – Director, Investor Relations

Thank you very much, Tina.

Good morning, everyone. This is Marianne Paulsen, Director of Investor Relations for CenterPoint Energy. I'd like to welcome you to our third quarter 2008 earnings conference call. Thank you for joining us today.

David McClanahan, president and CEO, and Gary Whitlock, Executive Vice President and Chief Financial Officer, will discuss our third quarter 2008 results and will also provide highlights on other key activities. In addition to Mr. McClanahan and Mr. Whitlock, we have other members of management with us who may assist in answering questions following their prepared remarks.

Our earnings press release and Form 10-Q filed earlier today are posted on our Web site, which is www.CenterPointEnergy.com under the Investors section.

I would like to remind you that any projections or forward-looking statements made during this call are subject to the cautionary statements on forward looking information in the company's filings with the SEC.

Before Mr. McClanahan begins, I would like to mention that a replay of this call will be available until 6 p.m. Central time through Wednesday, November 12, 2008. To access the replay, please call 1-800-642-1687 or 706-645-9291 and enter the conference ID number 68361847. You can also listen to an online replay of the call through the Web site that I just mentioned. We will archive the call on CenterPoint Energy's Web site for at least one year.

And with that, I will now turn the call over to David McClanahan.

David McClanahan – President and CEO

Thank you, Marianne. Good morning Ladies and Gentlemen. Thank you for joining us today, and thank you for your interest in CenterPoint Energy. I am pleased to summarize our performance for the third quarter of 2008.

This morning we reported net income of 136 million dollars for the third quarter, or 39 cents per diluted share. This compares to net income of 91 million dollars, or 27 cents per diluted share, for the same period last year.

Operating income was 337 million dollars for the third quarter of 2008 compared to 287 million dollars for the third quarter of 2007.

I believe our overall financial results continue to demonstrate the benefits of our balanced portfolio of electric and natural gas assets.

Before I review the performance of each of our businesses, I want to discuss a significant event that occurred in September. Hurricane Ike struck our service territory early in the morning of September 13th and over 90 percent of our customers lost power as a result of the storm. Many of our customers suffered extensive damage to their homes and businesses.

I am extremely proud of the employees from all of our business units, and the 11,000 personnel from 35 states and Canada who responded to our call for assistance. Together, we restored power to all customers capable of receiving service in just 18 days. I cannot say enough good things about their efforts and the response of the communities we serve during this difficult period.

Some work is ongoing to replace temporary repairs that we made in order to restore power as quickly as possible, but we expect to have our system returned to its pre-Ike condition soon. We have estimated that the total cost for this storm restoration effort will be in the range of 650 to 750 million dollars. These costs are being deferred for future recovery and therefore do not affect our third quarter earnings. Gary will explain the recovery process and expected timing in his comments.

Now let me review the performance of each of our business segments, beginning with Houston Electric.

Houston Electric reported operating income of 169 million dollars in the quarter compared to operating income of 155 million dollars last year. As a result of the timely restoration effort after Ike, the estimated loss of third quarter revenue was limited to 17 million dollars, which was partially offset by expense savings of 5 million dollars as normally incurred operating and maintenance costs were postponed because of the storm. The quarter benefited from strong growth in our Houston service territory where we added over 42,000 customers since September 2007. While this growth has moderated since the first half of the year, the Houston economy has not been as adversely affected as other parts of the country and we still expect solid customer growth for the year. We also benefited from increased customer usage in July and August when compared to last year. In addition to these factors, taxes other than income taxes declined by 10 million dollars as a result of the state margin tax being reclassified as income tax in 2008 and a state franchise tax refund.

Over the last several years, we've continued to invest in a number of new electric transmission projects in our service territory. In order to recover the increased costs related to them, we filed for a Transmission Cost of Service rate increase in September in which we requested an increase of 22 and a half million dollars over our existing rates. Since about 74 percent of that increase will be paid by other ERCOT utilities, we expect an annual operating income increase of approximately 17 million dollars. This morning the Public Utility Commission approved this request, and it is effective immediately. As you know, utilities in Texas can change their transmission rates to reflect new investments without going through a complete rate case, which mitigates the regulatory lag associated with transmission investments.

Houston Electric continues to pursue an advanced metering system, and the implementation of an intelligent grid. In May, we filed an initial advanced metering deployment plan and surcharge request. We have been exploring ways to settle the timing and nature of our deployment with the other parties in this proceeding. As you would expect, these discussions were interrupted as a result of Hurricane Ike and have just recently resumed. However, no agreement has been reached so far.

In the interim, the PUC has approved an agreement between us and the retail electric providers in our service territory, which allows REPs to request the early installation of up to

125,000 advanced meters so long as the requesting REP agrees to fund the associated costs. To date, there has been only limited participation in this voluntary program.

Now, let me turn to our natural gas distribution business.

Our gas distribution system was also damaged by the various hurricanes that affected our service territory. We incurred approximately 3 million dollars of Hurricane Ike-related costs, which are also being deferred for future recovery. Our gas operations personnel responded quickly to safely restore the system following Ike, enabling them to then assist in the electric restoration. I am extremely proud of our employees who worked diligently to ensure the public safety and reliability of our system.

This unit reported an operating loss of 6 million dollars compared to a loss of 8 million dollars for the same period of 2007. Due to its seasonal nature, the third quarter is typically the weakest quarter for this business.

We do continue to benefit from solid customer growth, adding nearly 26,000 customers since September 2007. We also benefitted from a rate increase implemented in Arkansas last November.

We are continuing to pursue rate strategies to decouple our revenues from the volume of gas we sell, to encourage conservation and to recover costs on a more timely basis. This strategy encompasses mechanisms such as weather normalization clauses, revenue and cost of service adjustments and decoupling. These strategies are particularly important in the current volatile natural gas price environment, which has increased the focus on conservation and energy efficiency. Last year, we were successful in implementing rate decoupling in Arkansas, and this year we obtained weather normalization in Oklahoma. Recent decisions in our Texas Coast jurisdiction provides for an annual cost of service adjustment mechanism to recognize changes in usage, operating costs and investment.

Earlier this week we filed a request with the Minnesota Public Utilities Commission to increase our Minnesota rates by approximately 60 million dollars. As part of this filing, we are also asking to decouple revenues from the volume of gas sold. Last year, the Minnesota legislature enacted legislation encouraging utilities to pursue decoupling initiatives and promote energy conservation. Our decoupling request is based on this new legislation. We do not expect final action on our request until the fourth quarter of next year. However, interim rates are expected to be effective January 2009, subject to refund.

Our competitive natural gas sales and services segment reported operating income of 35 million dollars for the third quarter of 2008 compared to 4 million dollars last year. We did not experience the same volatility in the natural gas markets after Hurricane Ike as we did in 2005 following Hurricanes Katrina and Rita. Our core business of selling natural gas to commercial and industrial customers increased by approximately 7 million dollars due primarily to favorable locational and seasonal price differentials. In the third quarter of this year, we recorded a 24 million dollar write-down of natural gas inventory to the lower of average cost or market compared to a 5 million dollar inventory write-down last year. This quarter we also recorded mark-to-market gains of 46 million dollars associated with derivatives we use to lock in economic gains compared to 2 million dollars last year.

Our interstate pipelines segment recorded operating income of 55 million dollars compared to 70 million dollars last year. Higher income from our pipeline between Carthage, Texas and our Perryville Hub in northeast Louisiana helped offset reduced ancillary services and higher operating expenses. Operating income for the third quarter also included a 7 million dollar charge associated with pipeline assets that were removed from service. The third quarter of last year included tax refunds of 4 million dollars related to settlements of certain state tax issues and a gain of 5 million dollars associated with the sale of our pipeline services business.

We have built a number of new laterals off our existing pipelines to serve new customer facilities. In addition, producer interest in the Woodford, Fayetteville and Haynesville shale areas near our facilities remains high and we continue to work with producers on getting new natural gas production to market.

In September, the Southeast Supply Header, or SESH, our joint venture with Spectra, was placed into commercial operation and began flowing gas, primarily to the Florida markets. SESH is well-positioned to serve the growing southeast market, and there are future expansion options if warranted by market demand. SESH has applied for a waiver to operate at a higher operating pressure, and that waiver should be received later this month. Upon receipt of this waiver, SESH will have a capacity of 1 billion cubic feet per day, of which a substantial portion is already under long-term contracts with a solid group of shippers.

Now let me turn to our field services segment.

We reported operating income of 44 million dollars for the third quarter of 2008 compared to 26 million dollars for 2007. This business unit continues to benefit from the strong drilling activity and increased production in the mid-continent area. Our field services business also has a 50 percent ownership in natural gas processing facilities that continue to expand. The equity income that we recorded from this joint venture increased to 4 million dollars compared to 2 million dollars in the third quarter of 2007.

Well connects in and around our existing gathering footprint in the Arkoma, Anadarko and ArkLaTex basins are running significantly ahead of last year, but we are beginning to see a reduction in drilling activities in these basins. However, in the Woodford, Fayetteville and Haynesville shale areas, drilling activity remains high, resulting in a substantial increase in new project opportunities. We will continue to pursue attractive growth projects in our footprint in order to enhance the long-term profitability of this business.

In closing, I'd like to remind you of the 18 and a quarter cent per share quarterly dividend declared by our Board of Directors at the end of last month. We believe our dividend actions continue to demonstrate a strong commitment to our shareholders and the confidence the Board of Directors has in our ability to deliver sustainable earnings and cash flow.

With that, I will now turn the call over to Gary.

Gary Whitlock - Executive Vice President and CFO

Thank you, David, and good morning to everyone. I would like to discuss a few items with you this morning.

First, let me describe the process we will pursue to recover our costs related to Hurricane Ike. When the Texas legislature convenes in January 2009, we will seek enabling legislation similar to that which was passed in 2006 following Hurricane Rita. Such legislation would allow us to issue storm cost recovery securitization bonds similar to the three series of transition bonds the company has issued in connection with its stranded cost recovery and would require the Texas Public Utility Commission to review our costs and issue a Financing Order. These bonds would have the dual benefit of allowing us to recover our Ike costs in a timely fashion while lowering the ultimate cost to our customers. We believe that this securitization method of recovery has the support of state and local officials and our Public Utility Commission. Assuming early passage of storm cost securitization legislation, we hope to be able to complete the regulatory process and issue bonds by next summer.

Now, let me address recent credit rating agency actions.

Following a review of the impact of Hurricane Ike on our liquidity, profitability and the regulatory recovery process for storm costs, both S&P and Moody's affirmed the ratings and ratings outlook on CenterPoint Energy and its subsidiaries, Houston Electric and CERC in reports issued on October 9th. All three rating agencies continue to have stable outlooks on the debt of the parent company and its subsidiaries.

I would now like to address our liquidity position in light of the storm costs and the unprecedented conditions and turmoil in the capital markets. Over the years, we have taken significant steps to augment our liquidity in order to ensure that we maintain financial flexibility and a strong liquidity position, even in the face of disruptions like Hurricane Ike and its related costs. Currently, we have a 1.2 billion dollar credit facility at the parent company, a 300 million dollar facility at Houston Electric and a 950 million dollar facility at CERC. These facilities do not expire until the second quarter of 2012, and do not contain "MAC" clauses.

In August, we amended the financial covenant ratio of consolidated debt to EBITDA in the parent company credit facility so that the permitted ratio of debt to EBITDA will remain at 5 times for the duration of the facility. We did so with 100 percent support from our bank group, while needing only a 51 percent vote. This action had the effect of increasing our debt capacity for 2009 and beyond, since the covenant was scheduled to reduce to 4 and one half times at the end of 2008. There are no covenants in the Houston Electric or CERC facilities that would be expected to limit borrowings under those facilities.

As of September 30th, CenterPoint Energy had liquidity of approximately 1.2 billion dollars under its various committed credit facilities. Considering the estimated storm costs and our other cash requirements for the remainder of 2008, we believe our liquidity under the existing facilities, coupled with other cash we expect to generate from our businesses, will be adequate to satisfy our projected requirements even if we took no further steps.

In light of the continuing disruptions in the capital markets however, we are taking additional steps to further strengthen our liquidity position. First, we are in the process of amending our parent company credit facility to, in effect, exclude the storm costs from the covenant calculation by increasing the debt to EBITDA ratio to 5 and a half times. The ratio would revert to 5 times at the earlier of December 31st, 2009, or when we receive securitization proceeds. Second, we are working with our banks to syndicate a new 450 million dollar, 364-

day revolving credit facility at Houston Electric, although the ultimate size of the facility could vary. This facility will provide additional liquidity, if needed. At this point, we do not anticipate the need to draw on this facility, but we think it is prudent to have a back-stop facility in place for the next year as protection in this period of continued instability and uncertain access to the capital markets.

And finally, we are taking steps internally to enhance our liquidity position while improving and growing the profitability of our businesses. Our business performance remains solid and generates significant operational cash flow. We will continue to prudently allocate capital to our regulated operations as well as to value-creating opportunities in our pipelines and field services businesses. However, we are actively identifying discretionary capital expenditures that can be either deferred or eliminated without affecting the reliability of our systems or limiting our long-term business prospects. In addition, we are focused on efficiently managing our working capital.

Let me also point out that the consolidated group has no material debt maturities until September of 2010 when 200 million dollars of parent company debt comes due.

There are a couple of financing developments that I wanted to share with you this morning as well.

First, as many of you know, CERC's receivables facility expired on October 28th. Advances under the facility of 150 million dollars were repaid on termination. Due to the disruption from Hurricane Ike, the due diligence process necessary to implement a new one-year facility was delayed for a few weeks. We anticipate that CERC will have a new one-year receivables facility in place shortly.

Second, as David indicated, the SESH project, our joint venture with Spectra, was placed into service in early September. Both partners have been funding their respective shares of the construction costs so far. We have been working jointly with Spectra in planning a permanent financing for the project, and once we can access the capital markets in an efficient and cost effective manner, our intention is to do so.

Finally, I'd like to discuss our revised earnings guidance. This morning in our earnings release we announced that we now expect our 2008 earnings to be in the range of one dollar and twenty-five cents to one dollar and thirty-five cents per diluted share. In increasing our guidance we considered our performance to date in addition to various economic, operational and regulatory assumptions. We have assumed normal weather in both the gas and electric utilities for the rest of the year, and we have not attempted to predict the timing effects of mark-to-market or inventory accounting on the earnings of our competitive natural gas sales and services business. These effects are timing-related and ultimately do not impact the economics of the underlying transactions.

Now let me thank you for your interest in the company, and I'll turn the call back to Marianne.

Marianne Paulsen – Director, Investor Relations

Marianne Paulsen: Thank you, Gary. With that we will now open the call to questions, and in the interest of time, I would ask you to please limit yourself to one question and a follow-up. Tina, would you please give the instructions on how to ask a question?

Operator: Ladies and gentlemen, at this time we will begin taking your questions. If you wish to ask a question, please press star then the number 1 on your telephone. To withdraw your question, please press the pound key. And the company does request that when asking a question callers pick up their handsets before asking. Thank you.

Our first question will come from the line of Lasan Johong with RBC Capital Markets.

Lasan Johong: Good morning. Nice quarter. On the recovery of the storm damage, Gary, if there's a delay in the legislation or the legislators say, you know, we'll pass on this one for whatever reasons, what would be the contingency for recovering the storm damage costs?

David McClanahan: Why don't we - I'll ask - Lasan, I'll ask Scott Rozzell to answer that.

Lasan Johong: Okay.

Scott Rozzell: Well Lasan, there's a couple of permutations probably that I might mention. The passage of the legislation is something that we'll be working very hard to achieve and that can be done early in the session or perhaps later on. Early in the session requires some procedural steps that are unusual but which we think are lined up pretty well for this time around. In the event that there is not legislation passed, we have a history of a storm recovery process in this state that allows us to defer those costs and recover them as part of the normal rate making process.

Gary Whitlock: Lasan, this is Gary. You know, our focus really - you know, I think we feel confident about the process I outlined in my comments. You know, what we're doing is ensuring frankly that we have -- and we do have -- adequate liquidity. As I mentioned, we're going to put a back-stop credit facility in at Houston Electric. I think the thing that concerned us or has concerned us probably in the near term has really been access to the capital markets.

And in the - you know, I don't expect it to happen, but we were - would have to go down a path of a rate case to recover these costs and we'd look at permanent financing at CEHE. But I think the key now is to ensure that we have the adequate liquidity which we do, and this process will play out over the next number of months. And we feel confident about what I outlined in my prepared comments as the process that we'll follow.

Scott Rozzell: You know, Lasan, David, I think, mentioned in his comments the securitization process which we have some experience with here in Texas is one that generally enjoys widespread support because it allows us to get our money relatively quickly but it also ultimately lowers the cost that is paid by the ultimate customer. Storm restoration recovery periods that in the past before we used securitization were actually reasonably short so you would have a fairly large amount recovered over a fairly short period of time if you went a traditional route. That's why I think most people favor securitization.

Lasan Johong: But pardon me for asking this kind of silly question or dumb question, but if the capital markets are somewhat discombobulated either one of two things, I suspect, will happen. Either the interest that needs to be paid on the securitization bond would be very expensive or the size of the facility may intimidate enough that it may not happen. So in either case, even if legislation was passed I would assume CenterPoint would defer access to the capital market and so the question is if that does happen in the meantime, are you able to collect as if this were a normal part of your rate base?

David McClanahan: Lasan, I don't think it's going to be a normal part of the rate base. But as you saw in our stranded cost recovery, we did recover interest from the date we incurred the cost until we recovered those through the sale of the transition bonds. It wasn't a full rate of return but it was more like an interest component.

Lasan Johong: And that interest component would be based on your current cost of capital or your current debt cost of capital?

David McClanahan: You know, I'm not sure exactly how we did this. I know Entergy got interest when they recovered their storm costs back following Katrina and Rita, and I don't recall how the Commission set that interest. But I imagine, I mean it would be set to cover the cost that the utility is incurring to carry the storm cost.

Lasan Johong: Got you. On the field services business, you mentioned that in the ArkLaTex area the drilling activity is kind of slowing down but in the Haynesville, Woodford and Fayetteville shale plays the drilling activity seems to be still robust. Can I assume that the two kind of cancel each other out?

David McClanahan: Yeah, you know, I think we still have plenty of opportunities, plenty of well connects there that we're pursuing and, you know, this is all around the weakness we've seen in natural gas prices the last couple of months, and really the amount of gas that is being produced in this mid-continent area. This could be just a temporary slowdown or it could be a sign of more to come. But today we still see lots of opportunities in this area when you look at the big picture.

Lasan Johong: Okay. And just quickly on prices of commodities, on the oil and gas side how does the change in price affect your earnings from field services?

David McClanahan: It doesn't really affect it very much from an oil standpoint. We do have a little commodity exposure. We have some processing facilities where we take a percentage of proceeds. So, liquids prices do matter. They've been holding pretty firm to be very honest. And we have a little exposure on - to natural gas prices because there is some system imbalance in gas we sell each month. But these are not big impacts. But, you know, they can impact I guess 5 or 6 million dollars with every dollar or so decline in the price of natural gas.

Lasan Johong: Five or six million for every one dollar change in gas price?

David McClanahan: Yeah, that's just kind of a general guide. Yeah, I think that's a fair guide.

Lasan Johong: Okay. On the SESH project, I'm assuming the same parameters would hold. If the market is chilly you wouldn't go and access the capital markets at a higher cost of capital. You would wait until there was a better situation. Correct?

Gary Whitlock: I think that's exactly right, Lasan. I mean look, these are unprecedented situations at the moment. Although, you know, I would say getting better to be honest about it. But, you know, credit spreads widen. This is a great project from a financing point of view. But, you know, both ourselves and our partner - I can't speak for them, but certainly we're both going to be patient, at least that's our decision at this point. And we have the financial stability and flexibility to take the time necessary. But let's hope these capital markets do start getting better sooner rather than later - just not only for our company, but frankly for all companies.

Lasan Johong: That's great. Excellent. One more question if you don't mind. Can you talk about how - if at all these disruptions to credit markets is affecting your capital expenditure plans going forward? And if you are delaying projects or if you're pushing back capex spending on, you know, typical maintenance stuff and things like that?

David McClanahan: You know, Lasan, as you would expect and like probably every other company in America, we are absolutely looking at all our capital plans and our - all our expenditure plans, whether it's capital or operating, or maintenance. And I expect that we're going to be able to push some out. Now as you know, in the business we're in, there's a certain amount of dollars you just have to spend.

Lasan Johong: Right.

David McClanahan: We're not going to do anything that would jeopardize our system reliability or public safety. So there's a given level of expenditures you have to spend each and every year and we're going to do that. But there's some timing of some of those expenditures we're looking at and there are some discretionary projects that we can defer either off until later next year or beyond, or just cancel altogether. So we're actively looking at that, putting together new budgets, and so I feel pretty good about the approach we're taking there.

Lasan Johong: If I can imply something from what you just said, would it be correct to say that your net overall growth rate over a three to five year period is unchanged? Maybe the shape of it is a little different, but generally it is unchanged?

David McClanahan: You know, I think it's way too early in this process. I think we'll see some tempering of capital expenditures in the near term. We're just going to have to see how this all plays out beyond that.

Lasan Johong: And you would spend that in the longer term, no?

David McClanahan: Well, if the opportunities are still there, sure. You know, we hope to be able to do it. But we don't - we - it's just hard to go beyond, you know, a year or two and suggest all this capital will be spent in the future.

Lasan Johong: Okay. Thank you very much. I appreciate your help.

David McClanahan: You bet.

Operator: Our next question will come from the line of Carl Kirst with BMO Capital.

Carl Kirst: Hey, good morning everybody. Several of my questions have been asked. Let me just - just a few follow-ups; actually, just a couple of clarifications first. With respect to guidance, I just want to make sure we're on the same page. When you guys are using the $1.25 to $1.35, that's based on the year-to-date results of $1.05 implying a $0.20-$0.30 fourth quarter, just to be clear?

David McClanahan: Yes.

Carl Kirst: Okay.

David McClanahan: We do this - you know, we don't look at mark-to-market or inventory write-downs. Even in the actuals, we eliminate those in making our estimate for the year.

Carl Kirst: Okay, just wanted to make sure I was on the same page. Second small question - Hurricane Ike impact 17 million in the third quarter. Is it - do you have a sense of what kind of follow-on impact will be in the fourth quarter here as we kind of get it back up to pre-Ike levels?

David McClanahan: You know, there shouldn't be a significant impact. We've got probably around 5,000 customers down along the coast, residential customers that are without power because their homes have been substantially impacted and destroyed in some cases. But I don't think that will - you'll be able to really detect that in the numbers. So I would suggest that the impact from a revenue standpoint should be very, very minimal going forward.

Carl Kirst: Appreciate that. And then last question, just going back to field services, that had a nice bump up in the EBIT. I guess I just wanted to make sure I understood what, if any, the commodity component was in there year-over-year. If you look at, you know, volumes, volumes were up a little bit just purely on kind of a tariff, you know, revenues divided by volume. There was a nice, big spike in the implied fee, if you will. And I just want to make sure I understand specifically what's going on there.

David McClanahan: The third quarter commodity prices had little impact, if any, on our EBITDA. I would say it's negligible. All of that increase came from two areas. One was just throughput. We had more facilities. We had greater volumes and that's a reflection of really a lot of the investment we've been making over the years. And secondly, we did have a - some system gas due to system imbalances that were trued up and we had a 7 million dollar favorable gain from that. That's a one time - that happens from time to time. But it's not certainly - not something you count on. But I think to look at a run rate you eliminate that 7 million from the change and you get a good run rate year-over-year.

Carl Kirst: Okay. Thanks for the clarification.

David McClanahan: Okay.

Operator: Our next question will come from the line of Mark Siegel with Canaccord Adams.

Mark Siegel: Hi, good morning. With regards to your plans to implement AMI, do you still anticipate a PUC ruling by year end? And what are your end point deployment volume expectations for '09?

David McClanahan: You know, it's really hard to say, Mark. My guess today is that we will not get an order out of the Commission. There have been no hearings held. All those hearings were put on hold as we talked. And the parties continue to talk but I think there's a lot of issues we're talking about there now. So I would expect it'll be end of next year before we get an agreement that we get before the PUC or the PUC may actually have to hear the case. So I think it'll be well into next year before we start spending a lot of money on advance metering.

Mark Siegel: Okay. And any sense of what participation levels have been like in the accelerated 125,000 end point opportunity?

David McClanahan: Very minor. I mean, a handful, I would say. You know, Reliant Energy was a - was very interested in that and I think they've run into their own issues, and they've slowed down a lot.

Mark Siegel: Okay. Thanks so much.

David McClanahan: Okay.

Operator: Our next question will come from the line of Michael Goldenberg with Loomis (Note: Luminus) Management.

Michael Goldenberg: Good morning.

David McClanahan: Good morning.

Michael Goldenberg: Congratulations on an excellent quarter. I wanted to further ask about your liquidity position and just the ability to generate cash flow and invest in capital expenditures even if there's a delay in recovery of the storm costs. Could you walk me through that again, just in case there is a delay?

David McClanahan: Okay.

Gary Whitlock: Yeah, I'd be glad to. This is Gary. I think if you go back to my prepared comments, obviously we have our credit facilities that are available to us and the liquidity that are undrawn on those. But I think, Michael, you have to really start looking at the - our businesses which are very solid businesses. So if you think about sources of cash in the company, the sources of cash or operating cash flows from our businesses -- and as David described -- we are very focused on working capital management and management of allocating, frankly, fixed capital as well.

So we're going to continue and in the fourth - if you think about the fourth quarter and you think about in the next year we're going to generate sources of cash from operational cash flow which will fund our capex and our dividend, and will fund Ike. We may draw some of our facilities to fund a portion of the Ike cost. But frankly, that depends on the capital markets. As I said earlier, Michael, one source of cash for us will be the SESH financing as you – as I mentioned earlier. We have been funding that. Our partner has been funding it as well and our expectation is to permanently finance that into the capital markets.

So that'll be a source of cash. But we're going to - we will continue to generate operational cash flow. We're going to do one other thing, as I mentioned on the call. We are going to - and this is really for timing purposes and I don't expect to draw it. But we are going to put a backup credit facility at Houston Electric, a backstop credit facility. We've launched it at 450 million dollars. We think it's prudent, frankly not from the standpoint of the process that we'll follow with the - both the legislative process and the PUC. It's really the capital markets and making sure that we have a good, solid position behind the capital markets, ensuring that they open up and they open up effectively into next year.

And as you know, this is a financing for next year so fingers crossed for everyone that capital markets start opening up. So we have set ourselves up with a - with solid liquidity facilities that support our business. And then we generate a significant amount of liquidity ourselves, and we'll manage that as well as possible.

Michael Goldenberg: And you've cleared your plan with rating agencies and they're all on board, and everything's fine with them?

Gary Whitlock: Well, you know, the rating agencies - we have an active dialogue and I just - as I mentioned, I just updated you on the rating agencies' discussion. And they absolutely see where we're going with the company in this regard.

Michael Goldenberg: And finally, maybe I missed this one point but of the seven - 650 to 750 cost, how much has actually already been paid? What percentage of invoices has already been, you know, settled?

Gary Whitlock: Look, through September as you would expect - through September 30th, it's about 72 million dollars of the amount had been paid. If you look at year end, we'll probably have another 600 million dollars of that. The total cost - some of these will trail into next year and we will have it all accrued obviously at the end of the year. So, about 72 million paid at September 30th. There's another 600 million that will be paid in the fourth quarter.

Michael Goldenberg: Got it. Thank you.

Gary Whitlock: Thank you, Michael.

Operator: Our next question will come from the line of Steve Gambuzza with Longbow Capital.

Steve Gambuzza: Good morning.

David McClanahan: Good morning.

Steve Gambuzza: I was wondering if you could comment specifically on the field services capex? I think your prior guidance was something for around 85 million of capex in ‘09, down from like around 150 in ‘08. Can you just comment on what you expect ‘08 to be and if the ‘09 outlook for field services capex is still around that level?

David McClanahan: Yeah, let me just remind myself on - I think, you know, we’re continuing to see a lot of opportunities in this area. We’ve got a lot of good, solid producers we’re working with. I expect that the capital opportunities in ‘09 are going to be at least, if not more, than the opportunities we saw in ‘08. In ‘08 we had a total capital budget of about 166 million dollars. We may not spend all of that. But we see lots of good opportunities out there. We’ve got some great relationships with some producers that - we’re working with them very closely to make sure that we understand the timing of their drilling and their production so we don’t put facilities in place until they’re absolutely needed. But I think we’re going to have some very attractive opportunities next year, Steve.

Steve Gambuzza: What was the spending for the first nine months of the year in field services?

David McClanahan: Let’s see - it was about 77 - about 80 million dollars.

Steve Gambuzza: About 80 million? Okay.

David McClanahan: Yeah.

Steve Gambuzza: And so you expect ‘09 should be – at least be, you know, at an equal run rate with 2008 based on what you see today?

David McClanahan: Yeah, I think that’s exactly right. I actually think it’s going to be more than ‘08 given some of the opportunities we see today.

Steve Gambuzza: Okay. And it looks like the volume growth, you know, this quarter and really frankly for the first nine months of the year has somewhat decelerated from what you’ve seen in past years. And I’m just curious, you’ve had some regional differences in some of the areas you operate in. I’m just curious if you have a view on kind of how the markets are operating and how they’re growing, you know, versus how your business is growing. Do you still see the markets growing in excess of what you’re growing at or is it the other way around?

David McClanahan: You know, I haven’t ever made a study of how our throughput compares to kind of the overall increase in the marketplace. I do know this - the shale plays whether it be Fayetteville, Haynesville, Woodford – there there's lots of drilling and that production is way up. And the traditional basins that we've gathered in for many, many years, that production continues to be up as well. It hadn't been up as much as the shale plays because they're starting - in terms of percentage wise – they're starting from a much different point. But I think that we're seeing - we've seen substantial production in both the traditional and new shale plays. The real question I think is will the traditional basins, will they still continue the level of drilling in those areas? The last four, five years we've connected 400 wells to our system each year. Most of those have been in these traditional basins. And certainly I think there's going to be continued drilling. It's just not going to fall off the wall, but we think that it could ratchet back from the 400 level. Back, you know, five years ago before natural gas prices started accelerating, we would see around 220 to 250 wells a year connected to our system. So it's probably going to be somewhere between where it was back then and what we've seen the last few years.

Steve Gambuzza: I guess based on your view to commit, you know, high levels of capital to the business in total you expect volume to continue to grow. Is that fair?

David McClanahan: Yes I think that's exactly right.

Steve Gambuzza: Okay. And then my final question is on other topic, for Houston Electric in terms of the storm costs. Are you able to capitalize the interest costs associated with funding those expenditures until you simply securitized them or will they be expensed? Will that interest cost be expensed between now and securitization?

David McClanahan: Let me - I don't think we capitalize them, but we expect to be able to recover the carrying costs once we get into securitization. But until we get a financing order out of the Commission we're not going to be capitalizing any of the interest carry on those storm costs.

Steve Gambuzza: So it'll be somewhat of a timing mismatch. Now you're going to have expense in the first two quarters and then revenue recovering that, you know, to offset that expense once...

David McClanahan: That's correct. There will be somewhat of a mismatch in timing.

Man: Okay. Thank you very much.

Operator: Our next question will come from the line of Faisel Khan with Citigroup.

Faisel Khan: Hey guys.

David McClanahan: Hey.

Gary Whitlock: Hey Faisel.

Faisel Khan: Just – if you could – could you remind us what the process was for Entergy when they went through this and how long it took them from when they went to the legislature and then when they got the recovery, the recovery bonds?

Scott Rozzell: Faisel, it's Scott. Their situation was a little different in that the storm that they were dealing with - Rita and Katrina - happened at almost the same time during the year - September timeframe. But they were in a off year, so they actually had their legislation passed as part of a special session. So we're - the two timeframes are not exactly consistent. But my recollection is that the storm was in September, the legislation was passed, they took their - made their application before the Public Utility Commission. They then settled their financing order and their cost recovery docket with the various interveners in that case. And then I believe they actually issued their securitization bonds about a year after the storm.

Faisel Khan: Okay, gotcha. In the case that we're talking about here you'd be looking at a legislature meeting in January and then a projected issuance of securitization bonds before the end of the second quarter. Is that right?

Scott Rozzell: Right, and let me explain to you. There is - we're speculating a little bit in that we expect our legislation to mirror the Entergy legislation. In the Entergy legislation had a 150 day timeframe for the PUC to act once the application for the securitization bonds was filed - the application for the cost recovery timeframe. So we expect the legislature to begin meeting in January which it will. And in Texas the governor has the ability to include within his call to the legislature a series of legislation that can be acted upon within the first 60 days. And we anticipate that the governor will include in that call all of the various hurricane related pieces of legislation that the legislature has to take up. So our hope is that we will have the legislative authorization done relatively quickly in the session. And then the timing will be related to how quickly we can actually file with the Commission for a cost recovery and how quickly the Commission will act on that or we're able to work out a settlement with our various parties the way Entergy did.

David McClanahan: And Scott, the only other thing is you mentioned by the end of the second quarter. You know, hopefully we can do it that quickly, but it may be into the third quarter before these bonds get out the door. It really depends on how quickly this process goes that Scott described.

Faisel Khan: Okay, gotcha. And then you, Gary I believe you said the available liquidity – could you remind me what the availability liquidity is currently? 'Cause I know you mentioned it but I missed that number.

Gary Whitlock: One point two billion.

Faisel Khan: Okay. Gotcha. And then the incremental rates that you guys got on your transmission assets for new capital that went into those - into that PP&E. You said 17 million dollars in operating income is what you expect. Is that kinda next – what next year?

David McClanahan: We'll get a little bit this year because it went into effect in - well today. So, maybe a couple of million dollars, but the majority of it will be next year.

Faisel Khan: Then the Minnesota rate case - the 60 million dollars rate request that's been filed and – what's the timeline on that?

David McClanahan: We probably will not get an order until the fourth quarter of next year.

Faisel Khan: Okay. And is there a potential for a settlement there or is that going to be fully litigated?

David McClanahan: You know, it's - I'm not sure how to answer that. We always try to settle our cases. We'll put in interim rates in January. So there will be I think some impetus to try to settle. But we have not been as successful in Minnesota in settling rate cases as in other jurisdictions. So I think you can probably assume a, you know, a fully litigated case here.

Faisel Khan: Then on the - in terms of the number of customers you have in the competitive natural gas business – that seemed to have jumped up quite substantially over last year. What's the - what's happening there if you can just kind of give us a little color around that?

David McClanahan: I think that relates to a small book of business we bought last year. And it's really - that was the increase from last year. It's reflected in this year's numbers – it happened since the third quarter of last year. So it's simply the customers we purchased, in essence. And then there are - we've added some customers but not to that magnitude.

Faisel Khan: David, one last question. On the AMI kind of interest you said there was only a limited amount of participation by the REPs. Clearly the REPs are having their own issues right now. I mean given that the PUCT seems to have a desire to put this technology in place, what do you think the end game is here given the situation with the REPs and given the desire by the PUCT to put these meters in place?

David McClanahan: Well I think ultimately we're going to have full deployment across all our system. Faisel, I think the real question is one of timing. And I think it's when we get started and how fast we go but I think over a five or six year period I think we're going to have a fully deployed advanced metering system in Houston.

Faisel Khan: Okay great. Thanks for the time guys.

David McClanahan: Okay.

Operator: Our next question will come from the line of Yiktat Fung with Zimmer Lucas Partners.

Yiktat Fung: Hello?

David McClanahan: Hello? Yes.

Yiktat Fung: Morning. First a couple of questions regarding the revision in guidance. I was just wondering exactly which segments are currently performing better than what you expected at the beginning of this year.

David McClanahan: I would say that, you know, we've had good performance to be very honest across the board. But certainly our field services and our pipeline segments have performed better than our expectations. Gas LDCs are performing more or less the way we expected them to. Houston Electric - especially given Ike I think is doing well. But the biggest increases have been our pipeline and field services over what we expected at the beginning of the year.

Yiktat Fung: And when should we expect the company to issue 2009 guidance?

David McClanahan: We usually do that when we release fourth quarter earnings which would be in February/March of next year - February of next year I guess.

Yiktat Fung: Earlier in the call you were talking about how the field services segment has a bit of exposure to commodities through its processing contracts. I was wondering what portion of those contracts are fee based versus commodity sensitive?

David McClanahan: If you look out our pure gathering, it's 95% fee based. But we do have processing facilities that are not completely fee based. And - but we have no keep-whole contracts. We have a percentage of proceeds so we take liquids and we sell those liquids, and those prices have been very attractive so we've done well with those. But I would say that, you know, 90% of our revenues are fee based. But we have some exposure to both natural gas prices and liquid prices for that other 10%.

Yiktat Fung: And just one last question. You talked a bit about the transmission rate increase for Houston Electric. I was wondering when the next distribution rate case would be.

David McClanahan: Well we're in a rate freeze today. We have to - we can file as early as 2010 using a test year I think 12 months in 2009. So - December 2009. So first time we could file would be in June of 2010.

Yiktat Fung: Thank you very much.

David McClanahan: Okay.

Operator: Our next question will come from the line of Debra Bromberg with Jefferies and Company.

Debra Bromberg: Hi. Good morning. I just wanted to get clarification on something regarding the expected timing of the issuance of securitization bonds if you go in that direction. Are you - did you say that you're looking at some time mid next year?

David McClanahan: Yeah, we've said by the summer of next year and that's a pretty wide range, we recognize that. But it just depends on how quickly we can get the legislation passed and the regulatory process takes. But we believe by midyear next year is a good target to be targeting and that's what we're trying to push for.

Debra Bromberg: 'Cause I think with Entergy and Hurricane Rita if I'm not mistaken it took well over a year. So that's why that timeframe sounded a little aggressive to me.

David McClanahan: Yeah...

Debra Bromberg: What are your thoughts on the timeframe for the regulatory process at the PUC?

David McClanahan: You know, I think - it's probably three or four months I would say. You know, we've talked to the Commission. They understand we want to have a quick but thorough review of all these costs. They - I think they believe that securitizations is the right way to go. But you have to get all the costs in. You have to get them all reviewed and audited and documented. So that's going to take time and be very honest that's probably one of the steps that determines when we can actually file. Because it does take awhile to get some of these costs in. We still have contractors from out of state doing work on our system today. We believe by the middle of this month all those contractors will be back where they came from. But then they have to get all their costs billed to us, we have to audit them. So that's going to take some time. It'll be well into early next year to get that done. Then we can - and simultaneously we'll be working with the legislature trying to get some legislation passed. And hopefully those two things will coincide and we can get something filed in the first quarter of next year and then, you know, keep that process moving.

Debra Bromberg: All right thank, you.

David McClanahan: Okay.

Operator: Our next question will come from the line of Danielle Seitz with Seitz Research.

Marianne Paulsen: Danielle?

Danielle Seitz: …to pension funding, could you address that?

David McClanahan: Yes. You know, our pension assets have been impacted just like I guess every other pension assets across the country. And we've had substantial underperformance against our assumed return. We assumed these assets will earn at 8 and a half percent. So there could be a substantial change in our asset base. And if that happens at the end of the year we're going to see higher pension costs. There's no doubt about that. I think we have to kind of let this play out. But it's - that's an issue that could impact us next year, yes.

Danielle Seitz: Okay.

David McClanahan: Yeah, it is non-cash.

Danielle Seitz: Okay, and you will have more color, I guess when, at the end of the year.

David McClanahan: I'm sorry would you ask that again?

Danielle Seitz: You will have more details at the - towards the end of the year?

David McClanahan: Yeah, absolutely. You know, you have to get to the end of the year, see where your assets are, run your actuarial studies to get what your pension costs are. And certainly when we discuss guidance in the first quarter of next year we'll give full disclosure on that or full discussion on it.

Danielle Seitz: And just a more general question. What's – given the fact that your earnings are getting more diversified, what type of payout ratio would you feel comfortable with over the longer term?

Marianne Paulsen: Payout.

David McClanahan: Oh payout ratio?

Danielle Seitz: Yes, please.

David McClanahan: You know, we've talked about that we want to pay out between 50 and 75% of our earnings in dividends. And I believe that's still a good range to be using. So that's what guides us. We clearly know that our investors look at us as a dividend yield play and they want growth. But they want growth that is based on a fairly low risk kind of growth. So - but we look at growing our dividend and hopefully we can do that in the future.

Danielle Seitz: Thank you.

Marianne Paulsen: Okay, Tina?

Operator: Yes ma'am.

Marianne Paulsen: We're running a little bit over but I think we'll take one more question.

Operator: Thank you. Our final question will comes from the line of Leon Dubov with Catapult Capital Management.

Leon Dubov: Morning.

David McClanahan: Good morning.

Leon Dubov: Just wanted to check on this Minnesota rate hike that you guys are going to put in interim rates for? Do you get to book all of those as earnings or is it just cash until you get the final order?

David McClanahan: You get the cash and we'll make an estimate and a fairly conservative estimate of how much of them we think we'll get to ultimately keep. And we'll - so we will not book them all as revenues. We will make some type of estimate of what we think will ultimately happen in the rate case.

Leon Dubov: Okay. And also you guys had a franchise tax refund. How big was that?

David McClanahan: It was a little less than 5 million dollars.

Leon Dubov: Okay. And one final question. You had a - you said you're not really seeing many gas players pulling back in your regions. What price level do you think is sort of the breakeven point for a lot of the drillers there? Where, like if gas continues to slide, I guess, where do you think we'll see an impact?

David McClanahan: And I wish I knew the answer to that. I will say a number of the producers we work with – they hedge their gas forward for a year at a time. So it probably will not impact next year nearly as much as it might impact the following years. But I would say, you know, in the 5 and 6 dollar range these shale plays still look attractive. If you get down much below that I think, you know, people will start slowing down. But, you know, that's purely an educated guess on my part and I wouldn't put a lot of weight on that.

Leon Dubov: Okay. Thank you very much.

David McClanahan: You bet.

Marianne Paulsen Okay thank you very much, Tina. I would like to thank everyone for participating in our call today. We appreciate your support very much. Have a great day.

Operator: Ladies and gentlemen this concludes CenterPoint Energy's third quarter 2008 Earnings conference call. Thank you for your participation. You may now disconnect.

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