Fourth Quarter and Full Year 2008 Earnings Conference Call
February 25, 2009

Marianne Paulsen – Director, Investor Relations

Thank you very much, Christy.

Good morning, everyone. This is Marianne Paulsen, Director of Investor Relations for CenterPoint Energy. I'd like to welcome you to our fourth quarter and full year 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 fourth quarter and full year 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-K 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, March 4, 2009. To access the replay, please call 1-800-642-1687 or 706-645-9291 and enter the conference ID number 81005183. 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.

2008 was a very good year for the company. Our electric and natural gas utilities had very solid performances, and our interstate pipelines and field services units turned in exceptional results. Each year since our formation in 2002, we have improved upon a very solid foundation, and 2008 was no different.

Not only did we strengthen each of our business units, we also improved the company's overall financial flexibility and strength. As we face an economy in decline and uncertain energy markets, I believe the company is well positioned to confront these challenges and emerge even stronger.

This morning I'll discuss our 2008 financial results as well as describe the plans and prospects for each business unit as we head into 2009.

Let me begin with an overview of our fourth quarter 2008 results.

This morning we reported net income of 87 million dollars for the fourth quarter, or 25 cents per diluted share. This compares to net income of 108 million dollars, or 32 cents per diluted share, for the same period of 2007. The reduction in net income for the fourth quarter is in large part due to higher income taxes, as the effective tax rate for the fourth quarter of 2007 was substantially lower than 2008.

Operating income of 303 million dollars was unchanged from the fourth quarter of 2007. Our gas distribution business posted an increase in operating income of almost 7 million dollars due to reduced expenses. Our energy services business also reported a 7 million dollar increase in operating income, primarily a result of value captured from seasonal price differentials. Despite continued solid customer growth at Houston Electric, we recorded reduced operating income of 10 million dollars stemming primarily from higher transmission costs billed to us by other transmission providers. Our field services business contributed 2 million dollars more as a result of increased throughput, while our interstate pipelines operating income was 5 million dollars lower due to reduced ancillary services and higher operating expenses.

Let me now turn to our full year 2008 performance. Overall, 2008 was a very good year for us and we continued to make progress in achieving our business and financial objectives.

Net income for 2008 was 447 million dollars, or one dollar and thirty cents per diluted share, compared to 399 million dollars, or one dollar and seventeen cents per diluted share for 2007. Operating income increased by almost 100 million dollars to 1.273 billion dollars in 2008.

Let me give you a little more detail regarding the performance of each of our business segments, beginning with Houston Electric.

Houston Electric reported operating income of 407 million dollars compared to 400 million dollars in 2007. Beginning in 2008, the Texas margin tax was classified as an income tax and thus did not impact operating income. The 2007 operating income, however, was reduced by 19 million dollars due to the previous state franchise tax, which the margin tax replaced. On the other hand, 2007 also included income of 17 million dollars from the final fuel reconciliation associated with our former integrated utility. So normalizing for these two items, 2008 was slightly better than 2007.

In 2008, we added nearly 31,000 customers to our Houston service territory. While this is still solid growth, the rate of customer growth moderated in the second half of the year as a result of Hurricane Ike and declining economic conditions. We did see increased customer usage in 2008 due in part to warmer weather. Our operating expenses were up significantly in 2008 due primarily to an increase in transmission costs. While we did receive some increase in transmission revenues, the net impact reduced operating income by 22 million dollars compared to 2007. We intend to seek legislative or regulatory solutions that would provide for more timely recovery of these costs.

I could not talk about 2008 without mentioning the significant role played by Hurricane Ike. I would once again like to thank our employees and the thousands of mutual assistance workers from around the country who helped to rebuild our system after Ike devastated our service territory in September of last year. As a result of their efforts, service was restored to most of our customers within two weeks and to essentially all our customers in 18 days. The estimated loss of revenue was limited to 17 million dollars, which was partially offset by $10 million in operation and maintenance costs that were postponed because of the storm.

To date, we have incurred approximately 600 million dollars in restoration costs and have only a few invoices still outstanding. As a result, we have lowered our estimate of the total storm restoration costs to between 600 and 650 million dollars. These costs are being deferred for future recovery and therefore do not affect our earnings. Gary will explain the recovery process and expected timing in his comments.

Houston Electric is in the process of installing an advanced metering system as the result of a settlement agreement approved by the Texas PUC in December, and we continue to explore the implementation of an intelligent grid. Beginning next month, and continuing over the next five years, we will deploy approximately 2.4 million advanced meters across our service territory. Our capital cost estimate for the deployment is approximately 640 million dollars. We are recovering the cost through a surcharge which went into effect earlier this month. The surcharge for each residential customer is 3 dollars and 24 cents per month for the first two years and is expected to be reduced to 3 dollars and five cents per month for the following 10 years. This new technology deployment is the first step in moving the electric grid into the digital age. Because of the structure of the cost recovery tariff and the timing of deployment, we expect the project will have a small negative impact on cash flow and a small positive impact on earnings in 2009.

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

This unit reported operating income of 215 million dollars, a slight decline from the 218 million dollars reported for 2007. Although we added nearly 25,000 customers over the course of the year, the growth slowed markedly in the second half of the year, as was the case in our electric utility. We also benefitted from rate increases, including a 20 million dollar increase implemented in Arkansas in November 2007. Unfortunately, the benefits of customer growth and rate increases were substantially offset by reductions in customer usage. We continue to pursue rate mechanisms to decouple revenues from the volume of gas sold to help mitigate the trends of reduced customer usage. In our Texas Coast jurisdiction we recently gained approval for an annual cost of service adjustment mechanism to recognize changes in usage, operating costs and rate base. For the last two winters, we have entered into weather hedges for our Minnesota and Texas jurisdictions to mitigate weather-related usage risk. Most of our other jurisdictions have some sort of weather normalization or other adjustment mechanisms.

This past November, we filed a request with the Minnesota Public Utilities Commission to increase our Minnesota rates by approximately 60 million dollars, and as part of the filing we asked to decouple revenues from the volume of gas sold. We implemented a 51 million dollar interim rate increase last month, subject to refund. We do not expect final action on our request until late this year or early 2010. I would also add that the recent decline in natural gas prices could reduce the amount of rate relief we need in Minnesota if gas prices stay at current levels or fall even further.

Our competitive natural gas sales and services segment reported operating income of 62 million dollars for 2008 compared to 75 million dollars for 2007. Operating income in 2007 reflected almost 24 million dollars more in gains from sales of gas from inventory, while in 2008 our operating income increased by approximately 12 million dollars due primarily to favorable locational and seasonal price differentials. In 2008, we also recorded 30 million dollars in write-downs of natural gas inventory to the lower of average cost or market compared to 11 million dollars in inventory write-downs in 2007. In addition, we recorded mark-to-market gains of 13 million dollars associated with derivatives we use to lock in economic gains compared to charges of 10 million dollars in 2007. Overall, our energy services business had a pretty solid year.

Now, let me turn to our interstate pipelines unit.

Our interstate pipelines recorded operating income of 293 million dollars for 2008 compared to 237 million dollars for 2007. Higher income from our Carthage to Perryville pipeline and increased transportation and ancillary services more than offset higher operating expenses. Operating income also benefited from an 18 million dollar gain from the sale of two storage development projects offset by a 7 million dollar charge associated with pipeline assets that were removed from service.

In September, the Southeast Supply Header, or SESH, our joint venture with Spectra, was placed in 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. In 2008, we recorded equity income of 36 million dollars, which included 33 million dollars of allowance for funds used during construction for our interest in SESH. Depending on the timing and cost of permanent financing, we expect equity income from SESH to be somewhat less in 2009 than in 2008.

Now let me turn to our field services segment.

We reported operating income of 147 million dollars for 2008 compared to 99 million dollars for 2007. This business unit benefited from strong drilling activity and increased production in the mid-continent area in 2008 when it connected a record 475 wells. Our field services business also benefited from the expansion of our jointly-owned natural gas processing facilities. We recorded equity income of 15 million dollars from this joint venture, driven by strong liquids prices, compared to 10 million dollars the previous year. In addition, operating income for 2008 benefited by 17 million dollars from the sale of non-strategic assets and the settlement of a contractual dispute, and by a gain of 7 million associated with system imbalances.

Taking into account the performance of all our business units, I believe the company had a very solid year and I believe our overall financial results continue to demonstrate the benefits of our balanced portfolio of electric and natural gas assets.

Now, let me turn to our outlook for 2009.

While we expect this year to be even more challenging than 2008, we also believe that the combination of the stability provided by our regulated electric and natural gas utilities and the high level of activity in a number of producing areas served by our pipeline and field services businesses should allow us to achieve solid performance across our various business units.

We expect Houston Electric to continue to perform well. We anticipate that our customer base will grow at a pace comparable to the level experienced in the second half of 2008, but below the rate for the full year. In addition, we expect to realize an incremental 15 million dollars from the full year impact of a transmission rate increase implemented in November 2008. Our capital expenditures are budgeted at 422 million dollars, including approximately 82 million dollars related to our advanced meter deployment.

In our natural gas distribution utility, we should see the benefits from rate increases, including the interim rates in Minnesota, as well as continued expense control measures. We expect to see customer growth, but at levels below those we experienced in 2008. The real unknown is whether we'll continue to see our customer usage decline at the same rates as 2008. We will maintain our focus on rate decoupling strategies and on operational efficiencies in order to mitigate the impact of reduced customer usage. Our capital plan for 2009 of 155 million dollars, reflects a decline in capital spending of over 25 percent from 2008 levels.

We expect our base commercial and industrial sales business to perform at a level similar to 2008. Early in the year, we have seen some positive pricing differentials, particularly on seasonal spreads. Our focus is to continue to expand our commercial and industrial customer base while maintaining our low risk profile.

The ability of our interstate pipelines and field services businesses to duplicate their 2008 performances will depend on market dynamics, natural gas prices and natural gas liquids prices. Nearly 80 percent of these segments' revenues are either capacity payments or fee based, providing a significant amount of stability. The remaining revenues are derived from ancillary services, system management or gas processing, all of which are dependent to some degree on commodity prices and market dynamics. Based on the current commodity indices, we don't expect these revenues to be as robust as they were in 2008.

We continue to see a very high level of drilling in the unconventional shale areas, particularly the Haynesville, Woodford and Fayetteville shales. This is driving opportunities for both our pipelines and field services.

In December of last year, we filed an application with the FERC requesting authorization to increase the capacity of our Carthage to Perryville pipeline by approximately 274 million cubic feet per day through installing additional compression. This expansion, which would increase Carthage to Perryville's capacity to almost 1.9 billion cubic feet per day, could be in service by the second quarter of 2010, pending FERC approval.

Our pipelines's capital budget will be approximately 200 million dollars, down significantly with the completion of SESH, but otherwise comparable to 2008.

Our capital budget for field services is 277 million dollars for 2009, more than double our 2008 capital expenditures, and reflects our success in securing new projects in the shale areas.

In summary, our core businesses provide a significant amount of profit stability and we continue to invest in new projects that are expected to provide for increased profitability in the future. We expect to invest almost 1.1 billion dollars this year.

In closing, I'd like to remind you of the 19 cent per share quarterly dividend declared by our Board of Directors on January 22nd. This is more than a 4 percent increase over the dividend we paid in 2008 and the fourth consecutive year that we have raised our dividend. 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 are pursuing to recover our costs related to Hurricane Ike. The Texas legislature convened last month, and we are seeking enabling legislation similar to that which was passed in 2006 following Hurricane Rita. Such legislation would provide the legal basis for us to issue non-recourse storm cost recovery securitization bonds similar to the three series of transition bonds the company has issued in connection with its stranded cost recovery. The legislation would authorize the Texas Public Utility Commission to review our storm restoration costs and issue a Financing Order. Earlier this month, Governor Perry designated emergency items for the 2009 legislative session and included in those items was legislation to assist entities in recovering from the 2008 hurricanes. This emergency designation allows lawmakers to begin considering these issues early in the legislative session, and bills addressing this issue have been filed in both the Texas House and Senate. Storm cost recovery securitization 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, including the Public Utility Commission, and we expect to file with the PUC in March, even if the legislation has not yet passed. We hope to be able to complete the regulatory process and issue bonds later this summer.

I would now like to address our liquidity. On our last earnings conference call in early November, I told you that, in light of the continuing disruptions in the capital markets and the incremental liquidity requirements imposed by our hurricane restoration work, we were taking additional steps to further strengthen our liquidity position.

First, I said we were in the process of amending our parent company credit facility to, in effect, exclude the storm costs from the financial covenant calculation by increasing the permitted ratio of consolidated debt to EBITDA 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. We successfully amended the facility in November. The amendment also makes clear that any non-recourse storm cost securitization bonds that are issued will not be treated as "debt" for purposes of the covenant.

Second, I said that we were working with our banks to syndicate a new 450 million dollar, 364-day revolving credit facility at Houston Electric. We successfully negotiated this new facility, which was upsized to 600 million dollars. We put this facility in place to 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 volatility and uncertain access to the capital markets.

In addition to the revolving credit facility, last month CenterPoint Energy Houston Electric issued 500 million dollars of general mortgage bonds, due in 2014 with an interest rate of 7 percent.

I also explained on the call that CERC's receivables facility expired on October 28th. Due to the disruption from Hurricane Ike, the due diligence process necessary to implement a new facility was delayed for a few weeks. We successfully closed on our new receivables facility on November 28th. Availability under the new 364-day facility ranges from 128 million to 375 million dollars reflecting seasonal changes in receivable balances.

These are among the steps we have taken to ensure that we remain in a very strong liquidity position. As of February 24th, CenterPoint Energy had unused capacity of over 2.5

billion dollars under its various committed credit facilities. 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.

We also continue to work with our joint venture partner, Spectra Energy, on a permanent financing for the SESH project, which was placed into service early last September. Once we can access the capital markets in an efficient and cost effective manner, our intention is to do so.

In addition to the financing actions I just described, we continue to look internally for ways 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 and we are focused on efficiently managing our working capital. We will continue to prudently allocate capital to our regulated operations and to value-creating opportunities in our pipelines and field services businesses.

As David mentioned, our capital budget for 2009 is approximately 1.1 billion dollars. Permanent financing to fund our capital program will consider the optimum mix of debt and equity consistent with maintaining and enhancing the credit metrics and credit ratings of both the parent company and our subsidiaries.

Consistent with this plan, today we filed with the SEC to offer up to 150 million dollars in common stock through a continuous equity offering program, sometimes referred to as an "at-the-market" or "equity dribble" program. The total amount of equity that we would issue under this program during 2009 could vary, depending on market conditions and other factors. This equity is in addition to the amount of equity raised annually through our employee benefit plans and our Investor's Choice dividend reinvestment plan, which was approximately 80 million dollars in 2008. We have chosen the continuous offering program to maximize our flexibility in these volatile markets, both in terms of how much we issue and over what time frame.

Before I review our earnings guidance for 2009, I would like to discuss the expected impact to pension expense and potential funding requirements associated with our pension plan. We, like many other pension fund sponsors, have experienced a significant decline in the value of our plan assets in 2008. As a result of decreased asset values, as well as changes in plan design and assumptions on the rate of return and discount rate, our non-cash pretax pension expense increase for 2009 is estimated to be 88 million dollars, or 16 cents per diluted share. However, in terms of funding, we are not required to make a cash contribution to our pension plan in 2009.

This leads me to my final topic, our earnings guidance for 2009. This morning in our earnings release we announced that we expect our 2009 earnings to be in the range of one dollar and five cents to one dollar and fifteen cents per diluted share. This guidance range includes 2 significant items: first, as I just mentioned, we will have a non-cash pension expense increase for 2009 of approximately 88 million dollars, or 16 cents per diluted share. Second, we expect higher interest expense of at least 8 cents per diluted share from the amortization of fees related to Houston Electric's new 600 million dollar credit facility and interest expense on Houston Electric's 500 million dollar general mortgage bonds issued in January. In addition, our 2008 diluted earnings per share included approximately 7 cents of favorable, non-recurring items in our interstate pipelines and field services businesses.

In providing our guidance, we also considered various economic, operational and regulatory assumptions, including recovery of costs associated with Hurricane Ike. We have assumed normal weather in both the gas and electric utilities, 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. Christy, would you please give the instructions on how to ask a question?

Operator: Thank you. At this time we will begin taking questions. If you wish to ask a question, please press star 1 on your touchtone keypad. To withdraw your question, press the pound key. The company requests that when asking a question, callers pick up their telephone handsets. Thank you. Your first question comes from the line of Carl Kirst of BMO Capital.

Carl Kirst: Hey good morning everybody. Gary, can I - just to focus on the pension expense for a second, is it possible to break that up as far as what you think would fall under possible regulatory allowances versus something that might be associated with, say for instance, the field services or something where it would just be up to the parent company unfortunately we'd have to swallow?

Gary Whitlock: Okay, Carl, this is Gary. About 87 percent of that increase in the expense will go to gas and electric so certainly during that - you know, going forward certainly as we seek rate relief, that that will be considered in those filings.

Carl Kirst: And you can just hit sort of on the - one of the second questions is, you know, with respect to looking at CenterPoint Electric, if I recollect correctly the next time you file you use a 2009 test year. Does the higher pension expense - certainly just what we're generally seeing with the economy and usage does that, I guess make for a more accelerated filing in early 2010 or can you help us out with what your thoughts are at this point?

David McClanahan: Carl, you know, I don't think it - we can file on an accelerated basis but I think it probably makes more certain that we would file. There is a provision that we wouldn't have to go in and file that. But if we see these kind of cost increases and we're not - and if we are not earning our return, we clearly will file as soon as we can in 2010.

Carl Kirst: Okay. And then just the second to kind of follow-up - second question on the mid stream. I guess I just want to get a little bit more clarity to the extent that you can give it what you are assuming in your guidance with respect to volumes. And I guess I am trying to make sure I understand what your expectations are on an organic basis versus what looks to be a fairly robust spend in 2009 relative to prior years?

David McClanahan: Are you talking about throughput primarily?

Carl Kirst: Yes.

David McClanahan: Throughput.

Carl Kirst: Unintelligible.

David McClanahan: We expect higher throughput in '09 than we did in '08. What we're seeing now in the more traditional basins is a reduction in drilling. But we're seeing a very robust drilling in the shale areas which is going to more than offset kind of some of the declines we'll see in the more traditional basins. So we're assuming a higher throughput in '09 than we saw in '08. Having said that Carl, as you know, field services does have some commodity exposure on two fronts. One, in our typical gathering contracts we have some incentive provisions which, if we can run our equipment efficiently, we get to basically earn some gas that we sell and we do that every year. And then in our processing plants, in our jointly owned plants that's -

we're exposed to natural gas liquids process prices there. We have made some assumptions in our plan that prices are going to be down fairly significantly for both natural gas and for liquids. We think there is still some downside there. It's, you know, we're not at the - we didn't assume the prices we're seeing today and we could see another 10 or 12 millions of potential downside pressure on field services if prices would fall further.

Carl Kirst: So I'm sorry, in your assumptions for 2009, you've assumed that prices could actually decline a little bit more from where they are today, did I understand that?

David McClanahan: No, if they do decline.

Carl Kirst: If they do.

David McClanahan: If they do. We made some certain assumptions about price declines. We weren't as clairvoyant as we should have been I guess, and we didn't hit it exactly right. And gas prices and liquids prices have fallen a little bit further than we thought but we think, you know, if they stay where they are we will still make this plan. But there's still some, you know, there is some downside there. I wouldn't want to say there wasn't.

Carl Kirst: Okay, thank you.

Operator: Your next question comes from the line of Lasan Johong of RBC Capital Markets.

Lasan Johong: Thank you. Gary, in your guidance of a buck '05 to 15, I'm assuming you've got some share count dilution in there from the 150 million equity issuance you'd plan to do? Can you kind of let us know what that might be?

Gary Whitlock: Well I think you – assume on the share price and, you know, we announced this morning as I said 150 million dollars. And I also gave you another number which is the benefit plans and our dividend reinvestment plan – last year we raised about 80 million of equity through those. So I think you could assume those two.

Lasan Johong: But you're not going to assume a price for us so we can figure out the share count?

Gary Whitlock: Well no, I don't think so. I don't think that would be appropriate.

Lasan Johong: Okay, fair enough. Also the - in the current economic conditions you had a lot of smaller projects that you could have executed on to kind of push the growth beyond say like the 4 or 5 percent range. Are we going to see a slowdown in some of that activity going forward?

David McClanahan: Lasan, are you talking about in our field services and pipelines area?

Lasan Johong: Yes. Yes.

David McClanahan: You know, we continue to see a lot of activity related to the shale areas. So I think we're, you know, we're pretty bullish on that. And obviously gas prices have been falling and most of these producers have hedged though for '09. So I think they're keeping their drilling programs up. But so far the shale areas, we haven't seen any diminution. We have seen some in the traditional basins. But I think if you look at our capital budgets for both pipelines and field services -- and together it's 477 million dollars -- we see we have a fair amount of opportunities still in that - in those businesses.

Lasan Johong: Right, but what about beyond '09?

David McClanahan: Well, yeah we continue to plan beyond '09 and we do continue to see this ongoing level of activity. But, you know, it's going to depend a lot on gas prices. In the shale areas we know that producers are drilling because they've sunk a lot of money into these leases and they got to drill or they are going to lose them. But, you know, at some price maybe they won't. But I think at the prices we see today they're still going forward with their drilling programs.

Lasan Johong: One last question. Gary, do you expect continuing pension funding going forward or do you think this is it for awhile?

Gary Whitlock: Well in terms of - let me break that down. In terms of pension expense, we've given you those numbers. They're, as I mentioned in my prepared remarks, there is no funding requirement for the company in 2009. I think at this point I could - you know, I don't want to predict 2010. It depends, of course, on the factors in 2009 of the asset performance and other factors so I think we have to wait and see but certainly for 2009 no funding requirements. And we, like other companies, are hopeful that the markets continue to improve; the equity markets and the markets in general. So hopefully that'll happen. We'll just to have to see towards the end of the year, but we'll keep you absolutely informed of how that progresses.

Lasan Johong: Excellent. Thank you very much.

Gary Whitlock: You're welcome.

Operator: Your next question comes from the line of Barry Klein of Citigroup.

Faisel Khan: Hi, guys. It's actually Faisel from Citi.

Marianne Paulsen: Hi, Faisel.

Gary Whitlock: Hey, Faisel.

Faisel Khan: How are you doing? Just going back to the equity for a second, is this, you know, besides giving you some flexibility, I mean do you have to do this equity or is it related to any rating agency issues? Or is it related to you keeping the powder dry for maybe some opportunities on the asset side that you might see? I mean what - I'm trying to understand the rationale behind the equity.

Gary Whitlock: Well, I think the rationale behind any equity issuance or any debt issuance is the appropriate capital structure. And what we've looked at and, you know, we just described to you this morning a 1.1 billion dollar capital program. We think in terms of permanent financing, it's important to have the correct and the right mix of debt and equity. And that's the driver for either our debt financing or our equity financing in this case.

So, I think it's really the - you know, it's not an issue around pressure from anyone other than to do what should be done in good corporate finance is to have the right balance sheet that supports these businesses. We've got - we have very good opportunities. We want to continue to execute those businesses against those opportunities. And certainly there is an equity component in terms of our financing plan.

Faisel Khan: And on the – just on the cash tax side and with the AMI rollout and with the stimulus package, I mean what kind of benefit on the cash side are you guys expecting with these sort of things, or is there a benefit from the AMI rollout? I'm not sure if there is any tax...

David McClanahan: Yeah, there's really not, Faisel. I think there is a very de minimus amount of cash outlay, something like 20, 25 million net in '09. That probably grows a little bit in the outer years when we get into the full swing of the deployment. But it's not going to have a significant cash drain on the company because we're collecting a lot of dollars as we go along. But having said that, as a result of that we're not going to have a big impact on earnings either, because we're not going to have all that much invested in this business to earn on.

Faisel Khan: Okay, so there is - and there is no - have you guys done the analysis on the potential tax benefit that the stimulus package, bonus depreciation, that sort of stuff?

David McClanahan: You know, we haven't and that would probably improve - you know, it'll obviously improve a little bit what I just talked about.

Faisel Khan: Last question, on the field services side you said 275 million dollars in capex, is that right?

David McClanahan: Yeah, 277.

Faisel Khan: Okay. So that's a big jump from what you guys did in '08 just in field services. Is that - what specifically are those projects related to, give us little more color on that?

David McClanahan: You know, it - they're really related to the shale plays...

Faisel Khan: Okay.

David McClanahan: And, you know, we have some very good relationship with very good customers in those shale plays. And they have asked us -- and we are very pleased to help them -- get that gas to market. And those are really shale plays. We do have some compressor optimization dollars in there where we're moving more to some ownership of compressors rather than leasing them. There is probably 40 or so million dollars in there for that kind of program. It basically improves the - our ability to serve our customers better and control our fate. But we've had some of that all along each of the last couple of years. But I think there is 40 or 50 million dollars of that kind of expenditure in '09 as well.

Faisel Khan: Okay, great. Thanks for the time guys. I appreciate it.

David McClanahan: Okay.

Operator : Your next question comes from the line of Steve Gambuzza of Longbow Capital.

Steve Gambuzza: Good morning.

David McClanahan: Good morning.

Steve Gambuzza: I wanted to clarify one thing you had said earlier about the, you know, amount of revenues that come from fee-based versus ancillary services within field services and interstate pipelines. I believe you said roughly 80 percent of the combined revenues from the two segments are fee-based in nature and 20 percent you know, have some elements of commodity sensitivity to it. Is that right?

David McClanahan: That's right. That was the combination of pipes and field services; that's right.

Steve Gambuzza: Okay. I guess...

David McClanahan: You have a little higher - not quite as high in field services.

Steve Gambuzza: I guess that - you know, there is roughly 700 million dollars of revenue that you reported in 2008 between the two segments.

David McClanahan: More like 800 million.

Steve Gambuzza: 800 million, excuse me.

David McClanahan: Yeah.

Steve Gambuzza: And so, you know, historically I think you talked about, you know, somewhere around 30 million dollars of park and loan revenues in interstate pipelines and the field services business, I think has been historically described as being, you know, essentially all gathering based. So I'm just - you know, I was just surprised because 20% of 800 is, you know, almost, you know, in excess of 150 million dollars of revenue. I was just wondering if you could provide some more color as to exactly, you know, what that - what those revenue streams are? And you mentioned incentive fees for efficiency in field services, and, you know, how much is that?

David McClanahan: Yeah, you know, all our contracts on the gathering side are fee-based. But inside of those fee-based contracts, you have an incentive piece in there where it's really a - it's where you have some natural gas exposure. And it's all around the efficiency of running your compressors. And to the extent we can run our compression more efficient than what the contract calls for then we get an upside in that. And we've worked very hard over the years on that, and we're continuing to enjoy the benefits of that kind of efficiency. So, that's part of it. These are fee-based contracts, but almost every gatherer has this kind of provision. We're not - this is not unusual for us.

Steve Gambuzza: Can you give some sense as to how much these incentives benefited '08?

David McClanahan: Probably on the order of 40 million dollars probably. That's not all - that's kind of our natural gas exposure, that's our margin...

Steve Gambuzza: Within field services?

David McClanahan: Yeah. Yeah.

Steve Gambuzza: Exposure within field services. And then there'd be like another kind of 30 to 40 of park and loan revenues at the pipes. Is that somewhat accurate?

David McClanahan: That has been a level that historically has - that we - probably a little less than that. But that - you know, we're not counting on that much PALs going into '09.

Steve Gambuzza: Okay. What would be - is there - besides those two buckets, is there some other area of commodity sensitivity that would, you know, kind of take us to that 20 percent level that - besides what we just talked about?

David McClanahan: Yeah, there is a few things; there is, you know, system management. There's - we have straddle plants on our pipeline where we treat gas before we put it into the pipeline system so it's pipeline quality gas. And as part of that treating process we keep some of the liquids; that's part of that.

Steve Gambuzza: Okay.

David McClanahan: There's - let me think if there's - there's probably some cross-system fees that we included in there also.

Steve Gambuzza: Very helpful. Switching gears for a moment. The capex that you've earmarked for 2009, there's also, it looks like a fair amount of capex that's earmarked for 2010 in the 10-K, you know, relative to the kind of historical spending levels. Do you have contracts on – with shippers for the 277 that you have earmarked for 2009?

David McClanahan: Substantially all of it.

Steve Gambuzza: Okay.

David McClanahan: Yeah, we do. Now there's some greenfield in there, what we call greenfield which are undesignated and we'll get contracts as we go through the year. But a substantial part of that we have contracts for, yes. Now we work with our producers very closely to make sure there is not a change in their drilling schedule. So we're not going to put in a bunch of facilities early and have them sit idle for awhile, and not get any revenue from them. So - but we think - we feel pretty strongly that this level is the right level, but we're watching it very closely as you would expect.

Steve Gambuzza: And you said about all but like 50 million dollars of the capex is going into the shale areas?

David McClanahan: No. There is some other system kind of maintenance capital and things like that. We've been drilling in these basins for a long, long time and there is continued - you know, some maintenance capital in there. But all of the new growth capital I would say is in the shale areas, almost all of it. I mean, we're going to still see some wells drilled in these traditional basins but just not at the pace that we've seen the last, you know, four years.

Steve Gambuzza: And…

David McClanahan: We've connected at over 400 wells a year for at least four years and last year we connected 475 wells, and a lot of those were in those traditional basins.

Steve Gambuzza: Okay.

David McClanahan: That's going to cut back. We know that. We've seen it. What we're seeing though is we going to - we're having a pick up in the shale areas and a well produces a lot more, you know, per well in the shale areas than in these old traditional basins.

Steve Gambuzza: Okay. And finally, you know, you've had a very high return on invested capital in field services for quite some time and, you know, it looks like you're expanding your asset base by almost a third with the capital plan that you have going forward in 2009. Do you have - it seems like there are some puts and takes in terms of some of these, you know, incentive fees which may fall off versus all this capex going in and volumes being up. Do you have some sense as to where you think your returns on invested capital might be in 2009 relative to 2008?

David McClanahan: You know, I'd hesitate to say. We - I don't think we're going to see a significant decline. I mean there may be some, but we're not anticipating a significant decline in returns on this invested capital. We are seeing, you know, producers starting to want us to invest more now. A lot of producers used to do a lot of this gathering themselves. And I think they're looking to us more now to do some of the things that maybe their own internal operations would have done in the past. So that's giving us a few more opportunities than we've had. But from a return standpoint, I don't think we're going to see a significant decline in returns.

Steve Gambuzza: Thank you very much.

David McClanahan: Still very attractive projects in our mind anyway.

Steve Gambuzza: Thank you for your time.

David McClanahan: You bet.

Operator: Your next question comes from the line of Daniele Seitz of Seitz Research.

Daniele Seitz: Eh, I just was wondering if I could ask about how do you see your request for rate relief? Do you anticipate to file for the recovery of the storms separately or do you visualize going for a full-fledged rate case based on the fact that you are expanding your equity base, et cetera?

David McClanahan: No, we expect to file in mid to late March with the PUC to recover our storm costs. And then following the legislation that Gary described which would allow us to securitize those costs we're going to ask the PUC to issue a financing order. And then we're going to go sell securitization bonds, and recover our money. And our hope is sometime this summer, or maybe late summer, but that's our plan is to get this money back this year.

Daniele Seitz: And you don't anticipate to file for a regular rate case for the distribution part of the business?

David McClanahan: Not in connection with the storm. We are under a rate freeze now, and we cannot file until next year based on a - a test year based on the end of this year. We'll be watching that and looking at it very closely as you would expect to see when to file. But, you know, we've had some cost increases here with our pension which we noted earlier and that would tend to make us go in earlier rather than later. But we're just going to have to wait and get all the numbers in, and make sure it's worth filing.

Daniele Seitz: Great. And at this point, what is your ROE on the electric side? Do you have a number?

David McClanahan: I'm sorry. What was that?

Daniele Seitz: The ROE for electric operations?

David McClanahan: You know, it's probably - the ROE authorized is a little north of 10%. I think that was a settled case. There was no stated return in it, but my guess is that's a fair number and so...

Daniele Seitz: And you are not far from it based on your 2009 estimate?

David McClanahan: We think that '08 produced a ROE in the range of 10%.

Daniele Seitz: Okay. Okay. Just one last quick question. O&M was pretty robust in '08. Do you see roughly the same type of increase in 2009, or are you paring down?

David McClanahan: No, you know, what happened in 2008 to a large extent is we had a large amount of transmission costs billed to us from others. The reason that happened is for two reasons. One is there was a fair amount of transmission built by other utilities. They raised their transmission cost factor. The second is that the way transmission works in Texas is that we bear a given portion of all of the transmission costs in the state.

In our portion, our percentage went up in '08 above '07 because the peak demand in our area was higher relative to the rest of the state than it was in the previous years. That will move around. Our guess and our hope is that it's going to back to down to a more normal level which is probably in the 23, 24 percent level, and it was above 25 percent in '08. So our hope is that we're not going to see those type of increases. We did file for a transmission increase of our own based on these increases in factors others utilities are charging us. But the other part which we call the load ratio share, we can't file for that until we go in for a general rate increase. So if that comes down, we would get a benefit. But our hope is that we're going to - we're certainly not going to see another 22 million dollars or so which is what the increase was in '08. That was the biggest part of our O&M increase.

Daniele Seitz: Great, thanks a lot. I appreciate it.

Operator: Your next question comes from the line of Yiktat Fung of Zimmer Lucas Partners.

Yiktat Fung: Hello?

David McClanahan: Yes.

Yiktat Fung: Good morning. First of all, I have a question about the continuous equity issuance plan. Is there an expiration date on this filing?

Gary Whitlock: No, there is not. This is Gary.

Yiktat Fung: So, it could basically extend - if you don't finish with it in 2009 it could go into 2010 or even ‘11?

Gary Whitlock: Well, you know, look I’m limited on what I can actually talk about regarding the program. I - you know, I would - you know, your expectation is this would be 2009.

Yiktat Fung: Okay. So, you expect to issue all of it through 2009 or - is that correct?

David McClanahan: You know, I think Gary is right. We have this thing out there. It doesn't have an end date on it but we don't file it without the intention of some way executing against it. Whether we get it all done in 2009 will - only time will tell. But I don't think we can give you much more color than that around it.

Yiktat Fung: And you talked about before - about targeting an appropriate balance sheet. Are there certain credit metrics or some sort of debt ratio that your company targets?

Gary Whitlock: Yeah, overall look, these are investment grade businesses and we’re going to continue -- and we have done that over the last number of years -- to improve our credit metrics. FFO-to-total debt greater than 15 percent, and greater than three times interest coverage. So we’re strong in our utilities and overall we’re going to continue to move those directionally to improve them. And, you know, this - as I said earlier, this capital program -- as we look at permanent financing -- requires a portion of it to be equity and a portion of it to be debt. And this is a good - we think this is good tool with these very volatile capital markets. We think the continuous offering program is a good tool to have in our toolbox to raise equity. And, of course we have, as I mentioned, our dividend reinvestment plan as well as our benefit programs that we continuously raise equity with.

Yiktat Fung: Okay. With regards to the 2009 guidance, is there some way that we could think about breaking out the earnings into the segments?

David McClanahan: You know, we don't give segment guidance, we only give company guidance.

Yiktat Fung: Can you at least comment on that, I guess, directionally? I guess is the utility earnings going to be higher or lower as a portion...

David McClanahan: You know, I tried to do that -- and maybe I didn't do a very job as I went through my prepared remarks -- talking about each of the segments and what we expected. I think probably directionally, if you just kind of listen to those remarks, I think you'd see where we're headed.

Yiktat Fung: All right. And finally, just to clarify one point: I guess your - the transmission costs at Houston Electric, they don't get passed directly to - the higher costs don't get passed through directly to customers? You kind of have to file to get recovery of it, is that correct?

David McClanahan: Yeah that - well we can change our transmission cost recovery factor twice a year, but that can only reflect higher cost to us from an increase in a factor or our own transmission cost. It does not reflect and cannot reflect an increase in the overall load ratio share of Houston Electric. That you do in a general rate case. So like we filed for a transmission rate increase of - I think we got 17 million dollars in November of last year. And that was to reflect these increased costs that we're seeing, but it doesn't cover all of the increased cost.

Yiktat Fung: I see. Thank you very much.

David McClanahan: Okay.

Operator: Your next question comes from the line of Debra Bromberg of Jefferies & Company.

Debra Bromberg: Hi guys.

David McClanahan: Good morning.

Debra Bromberg: Of the increased pension expense you're expecting in 2009 - could you tell me roughly how much of that would be associated with the electric company?

David McClanahan: Let's see, I think we can do that.

Debra Bromberg: And also the 10 percent - roughly 10 percent ROE the electric company earned in '08, what kind of common equity ratio is that based on?

David McClanahan: 40 percent equity, 60 percent debt.

Debra Bromberg: Was that actual or is that the hypothetical?

David McClanahan: No. That's the hypothetical. It probably has just a tad higher than that, my guess. It's not much higher than that. But we try to keep those ratios pretty consistent with the ratios that rates are set on, but it may be a tad above that.

Debra Bromberg: And just one quick question on Hurricane Ike cost recovery. If you get a PUC order by year end, do you expect to book catch up carrying charges later in the year, and if so, is that included in guidance?

David McClanahan: We're going to ask, I think, for carrying costs as part of this filing which is consistent with what Entergy did in the 2007 or '06, and is consistent with what they received. But the way that will be realized in earnings is over the life of the bonds themselves. I don't think there is...

Gary Whitlock: Well there is a debt component and an equity component. But to answer your question, Debra, we don't have that in our guidance. We don't have any of - because we don't know how that's going to play out. And as I said in the - in my comments there are certain factors that - where we take into consideration and that's one we can't predict at this point.

Debra Bromberg: Okay and just to follow up on that pension question?

Gary Whitlock: About 47 percent of the total that I mentioned is in electric.

Debra Bromberg: Great, thank you.

CenterPoint Energy

Fourth Quarter and Full Year 2008 Earnings Conference Call
February 25, 2009

Operator:	Your next question comes from the line of Carl Seligson of Utility Financial.
Carl Seligson:	Good morning.
David McClanahan:	Good morning.
Carl Seligson:	Gary, I was wondering, in your discussions with the banks as you went for your new line was there any indication from any of the banks that had been in the prior line -- and particularly with the leads -- that they were having problems relative to everything that we are hearing and reading about? Or are they just willing to write lines there regardless and hopefully accept your execution of them when you need the money?
Gary Whitlock:	Well I think it's a combination. It’s a good question. Certainly when we started the syndication of that facility it was 450 million dollars and we upsized it to 600 million, which I think speaks volumes to the support we had from our bank group.
Carl Seligson:	Right.
Gary Whitlock:	You know, I think in aggregate certainly each - there was at that time significant angst in the bank credit market, no doubt about it. Our banks, we have a long standing relationship with them. They looked at this facility and understood two things: one it's a secured facility at Houston Electric and the banks stepped up, understood that. Clearly it was priced appropriately for the market at that time. And so we are pleased that it was upsized from 450 to 600 million dollars. But I would be less than candid to say otherwise in terms of - there was a lot of discussion because the banks were going through their own issues at the time. But we’re very gratified with the facility obviously.
Carl Seligson:	Okay. So when you say priced appropriately, I assume that means at higher levels than where the prior credits have been priced?
Gary Whitlock:	That's correct. It would be at higher levels.
Carl Seligson:	Okay.

Gary Whitlock: And this is all filed. You can take a look at it. But it basically -- if drawn -- is 2.25 over LIBOR. Then it has a fee associated if you are drawing it. It actually ratchets up. But as I said, we don't expect to draw on the facility – it's a back stop credit facility from our perspective.

Carl Seligson: No, I've just been hearing around the banking community of banks that, you know, you don't make any money in writing a loan like this; you make it when it's exercised. And therefore they're, you know, they're not happy with the prices that they charged in the first place.

Gary Whitlock: Well look, it was more expensive than certainly traditional but our banks, as I said, we have long term relationship. They understand our business. They serve these communities and so, you know, they - we were gratified that they stepped up.

Carl Seligson: Sure, okay, thanks.

Gary Whitlock: Thank you.

Marianne Paulsen: Okay, we're at little bit over our time, but I think we'll allow one more question.

Operator: Your final question comes from the line of Carl Kirst of BMO Capital.

Carl Kirst: Just very quickly – hopefully end here on a good note - the CP expansion – the phase four, the 274 million. Obviously Haynesville is exploding whether you have contracts or not. But I would think capacity is going to be utilized. But the question is, do you have contracts for that 274 and can you give us a sense of what the cost of the added compression is, and presumably the rates you are going to get on that will be full tariff rates?

David McClanahan: We are close to having an anchor shipper that will take a lot more than a typical anchor shipper would take. And I think the filing we made with the FERC was about a 70 million dollar capital spend on that. So we're very close on getting that contracted.

Carl Kirst: Can you remind us what full tariff rates are?

David McClanahan: For CEGT, it's - well let's see, what is our max rate? Twenty five cents is CEGT. And this is part of the, our CenterPoint Energy Gas Transmission system.

Carl Kirst: Okay. Thank you.

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

Operator: This concludes CenterPoint Energy's Fourth Quarter and Full Year 2008 Earnings conference call. Thank you for your participation.