



Second Quarter 2009 Earnings Conference Call August 5, 2009

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 second quarter 2009 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 second quarter 2009 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, August 12, 2009. To access the replay, please call 1-800-642-1687 or 706-645-9291 and enter the conference ID number 17749079. 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.

This morning we reported net income of 86 million dollars for the second quarter, or 24 cents per diluted share. This compares to net income of 101 million dollars, or 30 cents per diluted share, for the same period of 2008.

Operating income for the second quarter of 2009 was 253 million dollars compared to 297 million dollars for the same period of 2008.

In this challenging economic environment, I believe we had a solid quarter, and I am pleased with the company's overall performance.

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

Our regulated transmission and distribution utility, Houston Electric, reported operating income of 129 million dollars, unchanged from 2008. Last year's second quarter included a 9 million dollar gain from a land sale, an unusually large item for this business unit. Excluding this gain, Houston Electric achieved a 7.5 percent increase in operating income. This is excellent performance and reflects the continuing measures we are taking to improve its financial results.

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Customer usage this quarter was down only slightly. Much milder weather experienced in April and May was almost entirely offset by the very warm weather in June, and we didn't see a repeat of the first quarter's reduced customer usage. We'll continue to monitor this, but for now we believe the first quarter was not indicative of a significant new downward trend in customer usage.

Our service territory continued to grow with the addition of over 28,000 customers since the second quarter of last year. We also benefited from increased transmission revenues primarily from a tariff change implemented last fall.

As a result of the storm restoration legislation enacted in April of this year, Houston Electric recorded a regulatory asset of 41 million dollars for carrying costs associated with the system restoration costs that we incurred following Hurricane Ike. Of that amount, 14 million dollars was related to the debt component and was reflected in second quarter results. The equity component of 27 million dollars will be recognized over the life of the storm cost recovery bonds we expect to issue later this year. In a few moments, Gary will report on the storm cost recovery settlement that we announced last Friday.

This week, Houston Electric filed an application with the Department of Energy for 200 million dollars in federal stimulus funds available through the American Recovery and Reinvestment Act of 2009. In our application, we requested 150 million dollars to accelerate the implementation of an advanced metering system and 50 million dollars to support our smart grid initiative.

As we have discussed in the past, Houston Electric is in the process of installing an advanced metering system. Since March the first, we have put in 45,000 smart meters, and are on target to install approximately 145,000 smart meters by the end of the year. Under our current plan, we will deploy more than 2 million smart meters across our service territory over the next five years. If our request for the DOE stimulus funds is approved, we will accelerate our deployment plan to substantially complete the project by 2012. Because the DOE funds require matching expenditures, there will be some acceleration of company funding, but we don't expect it to be material to either cash flow or earnings.

Our natural gas distribution business also continued to make progress.

This unit reported operating income of 2 million dollars, a slight decline from the 4 million dollars we reported for the second quarter of 2008. Due to its seasonal nature, this business typically has minimal earnings in the second quarter.

Benefits from rate changes and miscellaneous revenues, totaling approximately 9 million dollars, were more than offset by increased pension expense of 10 million dollars and increases in other operating expenses, primarily employee related.

We have worked very hard over the last couple of years to address delinquencies and bad debts, and we are seeing the benefits of that effort. Both our delinquencies and bad debts are significantly lower than at this time last year.

Last month, we filed two rate cases. For our Houston service territory, which covers 29 cities serving nearly 1 million metered customers, we filed rate requests for a revenue increase of 25.4 million dollars. In Mississippi, we requested a 6.2 million dollar increase. In both cases, we asked for approval to recover increased operating costs, driven in large part by higher pension

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and employee-related expenses, as well as the increased investments in facilities since the last rate case. In Houston, we also requested an adjustment mechanism that would annually adjust rates to reflect changes in investment, expenses and usage, similar to the mechanism recently approved for our Texas Coast service territory. We expect the Mississippi case to be decided late this year and Houston to be decided early next year.

In our Minnesota case, which we filed with the Minnesota Public Utilities Commission last November, we asked to increase rates by approximately 60 million dollars and to decouple revenues from the volume of gas sold. In January, we implemented a 51 million dollar interim rate increase, which is subject to refund. Intervenors in this case filed their direct testimony in late June and hearings are scheduled to begin this month. We do not expect final action on our request until early next year.

Our smallest business segment, the competitive natural gas sales and services business, reported operating income of 6 million dollars for the second quarter of 2009 compared to an operating loss of 5 million dollars for 2008. We recorded mark-to-market gains of 3 million dollars this quarter associated with derivatives we use to lock in economic gains compared to charges of 10 million dollars last year. Excluding these items, our energy service business was down approximately 2 million dollars from last year. Our commercial and industrial sales have been solid, but reduced basis differentials and seasonal spreads have reduced our opportunities in the wholesale sector.

Our interstate pipelines recorded operating income of 61 million dollars for the second quarter of this year compared to 101 million dollars for 2008. The second quarter of last year included an 18 million dollar gain from the sale of two gas storage development projects, so on an apples to apples basis we are down about 22 million dollars in operating income. This decline is primarily due to reduced ancillary revenues as a result of lower commodity prices, as well as higher operating costs, including increased pension expense. Our core business continued to perform very well with increased margin from our Carthage to Perryville pipeline and increased revenue related to new firm contracts to serve power generation facilities on our system.

As I discussed on our last call, our strategy for this business is to emphasize firm fee-based transportation revenues. This year, we expect 90 percent of our interstate pipeline's margin to come from fee-based transportation services. Margins from these fee-based services continue to grow and are expected to exceed last year's by over 10 percent. The balance of our pipeline margins are derived from ancillary services such as processing, park-and-loan, and balancing services. As you know, these services are driven by market dynamics, natural gas and natural gas liquids prices and basis differentials, and provide upside beyond the more predictable and consistent fee-based revenue. Due to significantly higher commodity prices in 2008, we recorded a record amount of ancillary services last year. While we won't achieve that level every year, these services will continue to provide upside potential.

The Southeast Supply Header, or SESH, our joint venture with Spectra, began flowing gas last September. While SESH has contracted for all but 80 million cubic feet of the 1 billion cubic feet per day of capacity, some of the capacity commitments phase in over the first 3 years. We had expected that most of the remaining available capacity would be sold on an interruptible or short-term firm basis, but market conditions have limited such sales this year. However,

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conditions have improved somewhat and we have obtained commitments from customers for a significant portion of the open capacity through the remaining summer months. For the quarter, we recorded equity income of 9 million dollars from SESH, which included a 3 million dollar fee earned in connection with the construction of the pipeline. In the second quarter of last year, equity income was 10 million dollars from allowance for funds used during construction.

Now let me turn to our field services segment.

We reported operating income of 23 million dollars for the second quarter of 2009 compared to 32 million dollars last year. Revenue from new projects on our gathering system since last year was more than offset by revenue declines resulting from reduced natural gas and natural gas liquids prices. We continue to project that fee-based revenue will account for approximately 75 percent of this year's margin. The remaining margin is derived primarily from the sale of natural gas retained from efficient compressor operations and natural gas liquids from processing. Due to high commodity prices, these revenues were much higher last year.

In addition to operating income, we also recorded equity income of 2 million dollars from our jointly-owned natural gas processing facilities compared to 4 million dollars the previous year. The decline was primarily due to lower liquids prices, which have averaged about half of last year's price levels.

While drilling activity in the conventional basins is down over 50 percent year over year, activity in the unconventional shale areas, particularly the Haynesville, Woodford and Fayetteville shales, has been minimally affected, with producer activity remaining steady. Most of our growth projects for this year are concentrated in these shale areas. One key aspect of our business model is to scale our capital deployment to meet producers' actual production timing, and as we see activity slow in various areas, we are able to throttle back our capital spending appropriately.

In closing, I'd like to remind you of the 19 cent per share quarterly dividend declared by our Board of Directors on July 23rd. 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. Today, I'd like to discuss a few items with you beginning with an update on the process for recovering our costs related to Hurricane Ike. As you know, earlier this year, the Texas Legislature passed a bill that authorizes utilities to issue non-recourse system restoration securitization bonds to recover costs associated with hurricanes and other major storms that occurred subsequent to January the first, 2008. These bonds are similar to the three series of transition bonds we previously issued to recover our stranded costs.

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The legislation requires two proceedings before the Texas Public Utility Commission. The first is a determination of the system restoration costs that are recoverable. In the second, the Commission issues an appropriate financing order to recover those costs.

In April, we filed an application with the PUC detailing our system restoration costs associated with Hurricane Ike, in which we requested recovery of 678 million dollars, including 70 million dollars in carrying costs, certain debt issuance costs and regulatory expenses. Last week, we reached an agreement with the parties to the case under which we would be eligible to recover approximately 663 million dollars in storm restoration costs, a 15 million dollar reduction from our original request. The agreement is subject to PUC approval, and we expect the PUC to consider the settlement agreement later this month.

In July, we filed an application with the PUC to begin a financing order proceeding requesting permission to issue securitization bonds to recover the distribution system portion of the restoration costs. Of the 663 million dollars agreed to in the settlement, approximately 643 million dollars is related to distribution. The exact size of the system restoration bond issue will depend upon how the PUC chooses to handle deferred taxes related to the storm restoration costs and other matters. We expect the PUC to issue its order in the next 30 to 60 days, and we expect to issue bonds shortly thereafter. System restoration securitization bonds have the dual benefit of allowing us to recover our hurricane costs in a timely fashion, and lowering the ultimate cost to consumers. We plan to recover the transmission portion of our storm costs, or approximately 20 million dollars plus carrying costs, through the rates set in our next transmission cost of service proceeding.

In February, we announced our intention to sell up to 150 million dollars of common stock through a continuous offering program. The sale of this stock was completed on July first. The company sold approximately 14 million 251 thousand shares at an average price of \$10.53 per share. To date in 2009, the company has also sold approximately 49 million dollars of original issue common stock through its Savings Plan and its enhanced Dividend Reinvestment Plan for a total equity raise of 199 million dollars.

We continue to have a relatively large capital budget, which includes our franchise required capital and a number of very attractive projects, particularly in our pipeline and field services segments. Producer activity continues to be fairly high in the shale plays where these businesses operate, and we remain committed to pursuing value-creating opportunities that this activity presents. While we expect to generate sufficient internal cash this year to cover our capital program plus common dividends, we recognize that external financings will be required to fund future growth opportunities.

Our objective is to ensure that we have the financial flexibility to execute our business plan, and we are committed to financing our operations using an optimal mix of debt and equity, while improving our balance sheet and enhancing our credit metrics.

This leads me to my final topic, our 2009 earnings guidance. This morning in our earnings release we announced that we reaffirmed our 2009 earnings guidance range of one dollar and five cents to one dollar and fifteen cents per diluted share. In providing our guidance, we considered various economic, operational, financing and regulatory assumptions, including recovery of costs associated with Hurricane Ike. We have assumed normal weather in both the

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gas and electric utilities, and we have not attempted to predict the 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. In addition, we have excluded any impact to income from our pending true-up appeal and from any change in value of Time Warner stocks and the related ZENS securities. Finally, we have assumed an effective tax rate of 35 percent for the full year. This assumption takes into account our year-to-date effective tax rate and the recent settlement of tax audits related to 2004 and 2005. As the year unfolds, we will continue to update you on these items as well as our earnings expectations.

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

Marianne Paulsen – Director, Investor Relations
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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: At this time we will begin taking questions. If you wish to ask a question please press star then the number 1 on your telephone keypad. To withdraw your question, please press the pound key. The company requests that when asking a question callers pick up their telephone handset. Thank you. Our first question will come from the line of Carl Kirst with BMO Capital.

Carl Kirst: Hey good morning everybody. If I could first ask on the pipeline side, from what I recall park-and-loan was about 30 to 40 million in 2008. I'm not sure what processing added but I was hoping that second quarter '09 versus second quarter '08 you could break out perhaps what some of the specific ancillary services were versus last year, park-and-loan, straddle plants, balancing, etc. I'm looking for the deltas.

David McClanahan: Yeah the - let me see if I can put my hands on that. The delta on purely the ancillary part of the business is right at 20 million dollars. A big part of that is our straddle plants and our processing, probably a little bit more than half. Then the others are really scattered around balancing system management, PALS, it's kind of spread through there. But that's the order of magnitude that we're talking about.

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- Carl Kirst: Okay so primarily a processing hit from quarter over quarter.
- David McClanahan: That's correct.
- Carl Kirst: And, you know, I know you guys typically have not given segment guidance. Considering though that we're sort of pointing to 90 percent of pipes being fee based, you know, as far as this year, is that a number given that there shouldn't be that much variability around that? Is that a number you can share?
- David McClanahan: Well we haven't given any guidance around that but our base margin so far this year is almost 250 million dollars, and this business is pretty consistent, you know, quarter to quarter. There are some seasonal changes primarily around ancillary revenues, but I would say that, you know, total margin this year will be between 450 and 500 million, in that range. And it will depend though - the amount is going to depend on some of the ancillary services and where they end up the remaining half of the year.
- Carl Kirst: I understand. And just a quick follow-up on the LDC side, there may not be much to add here but with respect to the potential pilot of decoupling in Minnesota, has there been any color to kind of glean from the staff's position over the last three months?
- Operator: Our next question will come from the line of Lasan Johong with RBC Capital Markets.
- Marianne Paulsen: Tina, hold on just a second.
- Operator: Yes ma'am.
- Marianne Paulsen: We still need to answer the last question that Carl had.
- David McClanahan: Yeah Carl. I was looking at Joe McGoldrick who heads up that business for us. Joe, is there any kind of light you can shed on that?
- Joe McGoldrick: Well, we have a settlement with one party in the case, but it remains to be seen whether the other parties to the case will join that or not. So we're cautiously optimistic we might be able to make some progress but we know that the staff and others have generally opposed decoupling the way we think of decoupling. So it remains to be seen where we're going to end up in this case.

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- Carl Kirst: Okay so even though kind of coming down from the legislature that you need to give a pilot to somebody; it sounds like you're still getting friction on that.
- Joe McGoldrick: That's correct.
- Carl Kirst: Okay thank you.
- Operator: And now we will hear from Lasan Johong with RBC Capital Markets.
- Lasan Johong: Great, thank you. It looks like field services - similar to Carl's question, it looks like field services went through a little bit of up and down that was from my perspective at least a little unexpected. Could you break out why there was so much delta between 8 and 9 in the second quarter? I know part of that is probably a POP contract. I think you said in the past it was like 10 percent? What else could there be?
- David McClanahan: Yeah let me kind of give you a little color around this. As I said in my remarks about - this year about 75 percent of our total margin is going to come from pure fee based revenue. Last year it was higher than that and the reason is because, you know, we make a fair amount of money off natural gas we retain because from operator - operating our compressors efficiently as well as the natural gas liquids we retain in processing. Those prices last year were substantially higher than this year and so it's not a volume issue as much as it is a price issue and prices are just down substantially. And that's the reason you've seen the field services business decline from last year. Our base margin, our fee based margin is up but our commodity-based revenues are down. Now the commodity-based revenues aren't going to go to zero because you're always going to get something for natural gas that you sell and for natural gas liquids. But last year at this time we were probably getting 7, 8 dollars for gas and a dollar 50 cents a gallon for liquids and it's probably half that this year. So that's the delta you're seeing there, Lasan.
- Lasan Johong: So, about 75 percent fee-based, 25 percent commodity price based, and that should be a relatively good formula without major price spikes.
- David McClanahan: That's correct.
- Lasan Johong: Okay.

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- David McClanahan: Now I will say though that we are really focusing on fee based revenue in this business as well, and our new contracts that we're working on, we not only get acreage dedication, but we get throughput guarantees so if the gas doesn't show up for whatever reason, we have a true-up mechanism where we'll still get paid.
- Lasan Johong: Right so it's a very consistent number.
- David McClanahan: Yes.
- Lasan Johong: Excellent. Just quickly on the pipelines business, I'm assuming by the rough calculation you gave me of 90/10 that last year's ancillary services business was around 28 million bucks.
- David McClanahan: For the quarter?
- Lasan Johong: Yeah, more or less if (unintelligible).
- David McClanahan: Yeah I think that's probably pretty close.
- Lasan Johong: Okay and then the 200 million DOE application to accelerate smart metering, you said 150 was for the smart meters and 50 was for the grid. And I just wanted to confirm that you said that if you got it, it would accelerate the meter installation through 2011. For all 2 million?
- David McClanahan: To 2012.
- Lasan Johong: Oh to 2012.
- David McClanahan: Right.
- Lasan Johong: For all 2 million meters.
- David McClanahan: Correct.
- Lasan Johong: But regardless of whether this is approved or not or you get it or not you're still going to go ahead and do the - I'm assuming you're going to go ahead and still install the meters regardless.
- David McClanahan: Yes we'll just install them on a five-year basis rather than a three-year basis. We accelerate the program a little bit more than two years with the



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DOE stimulus funds. But if we don't get it, you know, our plan is to install them all by 2014 rather than 2012.

Lasan Johong: And just to make absolutely clear, this is not money you have to pay back.

David McClanahan: That's correct, we just have to match it but as you know we were planning on doing this ourselves, so this is going to reduce the cost of this program to our customers.

Lasan Johong: Great, thank you very much.

David McClanahan: Okay.

Operator: Our next question will come from the line of Faisal Khan with Citi.

Faisal Khan: On the short-term volume that you guys talked about signing up at SESH for the remainder of the next few months, I guess what's causing that - those short-term volume contracts? Is it a pipeline outage or is it short-term volume increases? What's going on there?

David McClanahan: I think it's the Florida market, it's probably gas-fired generation more than anything.

Faisal Khan: Okay so it's more weather, kind of weather and demand related.

David McClanahan: Yeah.

Faisal Khan: Okay and then on the electricity side with - it looks like overall demand is up on the residential side 1 percent but, you know, weather is kind of lower by 3 percent. So overall what do you think is driving that increase? I think last quarter you said, you know, maybe we would see some price elastic demand come back but just trying to figure out what you guys are seeing on that sort of demand increase.

David McClanahan: Yeah, you know, last - first quarter we saw what was kind of an unexplained customer usage decline. We weren't real sure if it was conservation or not, and we don't think there's a substantial amount of conservation in the second quarter. We have seen electric rates in Texas come down substantially. They're probably 60 percent of what they were last year. But customers do have long term contracts, so it takes a while for some of these longer term contracts to roll off. But we don't think we're seeing a huge amount, or very much at all, conservation so far.

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Now we're having a very hot summer here, no question, and we got the benefit of that in June and we talked about that a little bit in our prepared remarks. But it looks like usage is just kind of hanging in there comparable to last year.

Faisal Khan: Okay, thanks a lot David, I appreciate it.

David McClanahan: Okay.

Operator: Our next question will come from the line of Tom O'Neill with Green Arrow.

Tom O'Neill: If you could provide the latest available trailing 12 ROE for the electric distribution property and then just your current thinking on when you might be filing.

David McClanahan: First we have to file in June, at the end of June of next year or July of next year unless the staff and parties believe we don't need to file. But we're obligated to file. We'll wait and see kind of where we are on returns then. I don't have those trailing ROEs in front of me. My guess it would be right at 10 percent give or take a few basis points. That's what it had been tracking at, so I don't think we're too far off from that right now.

Tom O'Neill: Okay and then just curious on your comments on capex and the balance sheet. Gary, just wanted to make sure I understood what you were saying about equity needs for the balance of this year because I had previously assumed you were done for 2009, and then just what you were thinking for 2010 levels versus '09.

Gary Whitlock: Sure. You know, as we said we've raised approximately 200 million dollars of equity this year, 150 through the continuous offering then our benefits program. Let me say our benefit programs which have raised about 49 million dollars, I think you can think probably another 20 plus million for the balance of the year in that. So that's sort of our normal program. I think in terms of any additional equity it's really going to be driven by - for next year as well - it's really dependent on growth opportunities that we have. So, you know, as I've said, our commitment is to enable - to ensure that we have a balance sheet that enables us to execute our growth opportunities and our business plans. So we really have to look at the growth opportunities that we have. So that's basically where we are.

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- Tom O'Neill: Okay so this year was probably a bit oversized just in terms of balance sheet repair and capex.
- Gary Whitlock: Well I think it was an appropriate - I think that the continuous offering program was I think a thoughtful way to raise equity capital, and I think it's in line with what we expected to do this year and the growth that we are already executing on.
- Tom O'Neill: Okay thank you.
- Gary Whitlock: You're welcome.
- Operator: Our next question will come from the line of Steven Gambuzza with Longbow Capital.
- Steven Gambuzza: Good afternoon.
- David McClanahan: Hello.
- Steven Gambuzza: I just had a question on the capex. It looks like in field services you spent about 66 million in the first half of 2009 and your full year guidance was - in the 10-K was 277 million dollars. Have you revised your growth plans there and can you - if you have can you give us a sense of as to where you think it might come out for the year?
- David McClanahan: You know, I think we've spent close to 100...
- Gary Whitlock: 104, 104
- David McClanahan: ...100 million dollars in the first half of the year. We're monitoring this pretty close. My guess is we're not going to spend the full 277 based on the producers' drilling activity, but we'll spend well in excess of 200 million, so we'll match the first half of the year plus a little bit more I would imagine. We're - we've got some very attractive projects in the shale areas that we're working with really good producers on and we stay in close contact with them as we said. And if they throttle back we throttle back and we'll see a little bit of that this year but we'll spend the majority of that 277.
- Steven Gambuzza: Okay and, you know, it looks like, you know, from the guidance that you've provided for the full year, you know, it implies kind of earnings in the second half above what you've put up in the first half. And I suppose



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part of that is just normal seasonality but, you know, as it relates to field services and the pipes specifically, would you expect relatively stable financial performance in terms of operating profit in the second half of the year versus what you posted in the first half of the year?

David McClanahan: I think so. You know, we'll have to watch the - on the field services side the volumes to make sure that, you know, with the more conventional areas drilling really falling off, we'll start seeing some of that start impacting us later on this year. But we think we have more than that coming online with these new projects so we probably should see about the same level. And then of course the commodity sensitive part of both pipelines and field services, you know, it's anybody's guess there, but we think it ought to be pretty much the same as the first half of the year.

Steven Gambuzza: You mentioned that this year it's going to be 75 percent/ 25 percent fee based and that it was higher in 2008. Can you just give me some kind of broad sense as to what that was in 2008? Was it 60 percent or 50 percent fee based?

David McClanahan: It was probably more like - oh let's see if I can do this - it's probably more like 60 percent.

Steven Gambuzza: Okay, helpful. And then final question for Gary, on the securitization you mentioned that the cash proceeds will be dependent upon how the PUC treats deferred taxes, and I guess you guys had a fairly substantial deferred tax benefit in 2008. Can you just kind of bracket what the potential cash, you know, if you get the, you know, what the potential range of outcomes with respect to the treatment of deferred taxes is in terms of the cash in the door later this year?

Gary Whitlock: You know, well look, I think part of it's binary in terms of whether they decide to do it on a gross or net basis on that. But I think - let me just kind of give you these numbers because it really is - to the extent the PUC decides to reduce the amount by the present value of the deferred taxes, then it depends of course upon the tranching and the tenor of the bonds whether it's 14 years or 10 years. So there's some, you know, you need some of that information as well. But I think you would probably think of around 100 million dollars would be the number. But again that's something that they're looking at as we speak so we'll know more about it.

Steven Gambuzza: Thanks very much.

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- Operator: Our next question will come from the line of Nathan Judge with Atlantic Equities.
- Nathan Judge: Good morning. Just wanted to ask if you could give us an update on the Texas Supreme Court case, there's anything (unintelligible).
- David McClanahan: Yeah we'll ask Scott Rozzell to give you an update on that.
- Scott Rozzell: Hi Nathan. Oral argument is set before the Texas Supreme Court on both the true-up appeal and the associated CTC interest rate appeal for October 6th and so we'll - and that's about on the schedule that we've been anticipating all year. And as you know the court doesn't have a required date by which it has to act, but I think we would expect to get a decision from them in the first half of '10.
- Nathan Judge: Thank you. And also I think you mentioned something about pension expense deferrals related to the gas businesses but could you just discuss, I think there are some efforts to try to defer the pension expense or do some type of regulatory solution to higher pension expense at the Houston Electric? Can you just give us an update on that?
- David McClanahan: Okay Houston Electric, we are able to defer our pension expense increases. We had a little bit of increase in the first quarter, but essentially from here on out we're deferring those increases. In the gas side we don't have the same mechanism in place that we can't defer. We are talking with some of our regulators and staff about different ways that we might approach that short of having to file a rate increase. But at this stage we're not deferring any of that and so it's fully hitting the earnings, and I think it's a fairly substantial amount, 10 million or so in the second quarter and 20 million so far this year. So if you look at the gas LDCs' earnings and you look at where they would have been but for this, we're having an awful good year. It's just unfortunately we don't have any way to defer this.
- Nathan Judge: The NRG takeover of Reliant Energy on the retail business is now your largest customer in Houston Electric and you noted something about lower bad debt expense. Can you just talk us through if there's been any changes in the relationship there and how that's playing out? Thank you.
- David McClanahan: Yeah, not really. We haven't had any change. We have a good relationship with NRG and we did with the old Reliant as well. We had some - we had

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a half a dozen or so REPs that went under last year during these really high electric price areas and we haven't seen a repeat of that. So the improvement we've had is really the fact that the market hadn't had those kind of impacts so far.

Nathan Judge: Thank you very much.

Operator: Our next question is a follow-up from Carl Kirst with BMO Capital.

Carl Kirst: Hey thanks for the time guys, just a few follow-ups. Can I just clarify what we were talking about with respect to the stimulus application, that if we get the 200 million, if the DOE were to approve that really we're just going to be reducing the total project cost, so effectively we can look at it at the same sort of debt equity split if you will in returns. We just reduce that project by 200 mil?

David McClanahan: Well yeah that's true, Carl, except that 150 million goes to the advanced metering project which is the project we announced earlier this year. There's 50 million that goes to what we call the intelligent grid which is automation of the distribution system, which was not part of the advanced metering system. It is new for us and that would advance something that we actually weren't going to start for a couple of years.

Carl Kirst: Okay I appreciate it.

David McClanahan: And it just improves the operation of the system, better service restoration, better monitoring, sensors throughout the system.

Carl Kirst: Great, I appreciate the clarification. And then lastly just a quick question on the 14 million of carrying costs of debt costs -- so is that basically a true-up if you will from the interest expense basically beginning from September 11th or whenever Ike hit us?

David McClanahan: That's right, that's right. That is a calculated number and it offsets interest expense that we've been incurring and recording since we started incurring these restoration costs.

Carl Kirst: All right, perfect, thanks.

David McClanahan: Okay.



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- Operator: Our next question will come from the line of Debra Bromberg with Jefferies & Company.
- Debra Bromberg: Hi, good morning.
- David McClanahan: Good morning.
- Debra Bromberg: I was wondering if I could get clarity on your comment about the effective tax rate for the year of 35 percent. I may have missed something because I had thought that it would be a bit higher than that based on guidance from earlier in the year.
- Gary Whitlock: No, that's correct, Debra. Earlier in the year we said 37 to 38 percent, but we've been able to settle two outstanding years with the Internal Revenue Service and then based on those moving parts what we're guiding you now is to use an annual rate of 35 percent. So you had it right before, we just have lowered that.
- Debra Bromberg: Was there a one-time gain of some sort in this particular quarter, because the tax rate was even lower than 35 percent this quarter?
- Gary Whitlock: That's right, I think some of it is reflected in this quarter and some will be reflected in subsequent quarters. But you put it all together, use 35 percent rate for the full year and it was 33 percent in this quarter, that's right.
- Debra Bromberg: Could that put you at the higher end of your guidance? It seems like it's a few cents per share.
- Gary Whitlock: Yeah, we - it's about, you know, if you move it from 37 to 35 or 38 to 35 it's 3 to 4 cents so think about 4 cents. But again we provide a range between a dollar five and to a dollar fifteen so there are a number of moving parts and certainly that was a positive when looking at the total, that's correct.
- Debra Bromberg: The other question I had pertained to the trailing ROE at the electric company of roughly 10 percent. Do you know what that figure would be roughly if you normalize for Hurricane Ike effects?
- David McClanahan: Well Hurricane Ike really didn't impact us that much, Debra. It took away 17 million dollars of revenue but there were about 11 or 12 million dollars of expenses we did not incur as a result of that. So, or we will incur them later really what's happened, we just deferred some stuff. So, net impact is

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5 million dollars or so, 6 million. So I don't think it really changes the result any.

Debra Bromberg: Okay, thanks guys.

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

Danielle Seitz: Thanks, I just have two more questions. One, do you already have a sense of what the output was in July in your electric distribution? It seems that you had above average demand.

David McClanahan: I think we did have an above average demand. I don't have those numbers in front of me but I would suspect that, you know, we're talking about 5, 10 million dollars of base revenue that we could be, you know, that we could receive as a result of this unusually warm weather.

Danielle Seitz: Mmhm... Better than last year I guess, comparable.

David McClanahan: Yeah last year was not as warm as this year. Now the first couple of - in the second quarter that was not true. Actually '08 was a little warmer overall than '09. But I think July has been a very - was a very hot month relative to last year so we, you know, we'll get some benefit from that.

Danielle Seitz: Uh huh. And the SESH pipeline, does this first half roughly represent a normal return for you or there were so many pieces in there that it's really not very representative?

David McClanahan: I hope it's not representative. There's a few things that are going on. One as you might recall we took a 5 million dollar hit, because we came off FAS 71 in the first quarter so you'd need to adjust that. And we had a fair amount of capacity that we've sold, but it comes in over time and we hadn't sold a lot of that this year and there's a couple hundred million a day of capacity there that we're - we've been selling, trying to sell on a short term or an interruptible basis. So I really don't think we're going to see a normalized run level until we get all these contracts in effect which is going to be a year or two down the road. Hopefully it's going to get better than what we've seen this year.

Danielle Seitz: Okay, next year will be better I mean, it should be.

David McClanahan: Yeah I think next year's going to be better but this is not going to be the same profitability level as our Carthage to Perryville pipeline.

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- Danielle Seitz: I understand, thank you very much.
- David McClanahan: Okay.
- Operator: Please remember if you wish to ask a question press Star then the number 1. Thank you for your cooperation. Our next question will come from the line of Lasan Johong with RBC Capital Markets.
- Lasan Johong: Thank you, just a couple of clarification questions. The demand data that you presented is weather adjusted, is it not?
- David McClanahan: On the electric side?
- Lasan Johong: Yes.
- David McClanahan: No, those are raw (unintelligible).
- Lasan Johong: Oh those are raw numbers, okay. Then just a quick follow-up, obviously C&I business was pretty lackadaisical. Do you - are you at all seeing signs of kind of recovery in the C&I section?
- David McClanahan: [Note: Answer relates to competitive natural gas sales and services business.] You know, we've seen both, you know, customers that we're having to put on prepay and new customers that we're able to sell to. Volumes are off a little bit on the retail side, but by and large I think our retail business has been pretty solid this year especially given the economy. I think where we've seen the most weakness is in the wholesale sector, because there's just not a lot of seasonal variations in basis that we've seen in the past. Now the second quarter is historically a very mild, the lowest quarter of the year from a wholesale base, you know, side so, you know, but the business is doing okay on the retail side. I think the wholesale side is where we're seeing a little weakness.
- Lasan Johong: Are you seeing any signs of recovery on the wholesale side?
- David McClanahan: Not a lot at this stage.
- Lasan Johong: Okay and I'm assuming the July weather is equally as cooperative so far as or was as June month, month of June, is that correct?
- David McClanahan: Yes.

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Lasan Johong: Thank you very much.

David McClanahan: Okay.

Marianne Paulsen: Okay I think that's about it. Thank you very much to everyone. I would like to thank you for participating on our call today. We appreciate your support very much. Have a great day.

Operator: This concludes the CenterPoint Energy's Second Quarter 2009 Earnings conference call. Thank you all for your participation.