Third Quarter 2009 Earnings Conference Call
October 28, 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 third 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 third 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, November 4, 2009. To access the replay, please call 1-800-642-1687 or 706-645-9291 and enter the conference ID number 32554354. 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 114 million dollars for the third quarter, or 31 cents per diluted share. This compares to net income of 136 million dollars, or 39 cents per diluted share, for the same period of 2008.

Operating income for the third quarter of 2009 was 287 million dollars compared to 337 million dollars for the same period of 2008.

Our electric and gas distribution utilities, and our interstate pipelines, which are our core regulated businesses, achieved solid results this quarter despite the challenging economic climate. Lower natural gas and liquids prices negatively impacted our field services business, but we continued to position this unit for the future with the addition of several new contracts in the Haynesville shale play. Due to reduced basis differentials, operating income at our energy services business was also negatively impacted.

Let me give you a little bit 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 187 million dollars, an 18 million dollar increase from the 169 million dollars reported for the third quarter of 2008. Last year's third quarter operating income, you may remember, was negatively impacted by 12 million dollars as a result of Hurricane Ike. After adjusting for this impact, Houston Electric achieved growth of over 3 percent in operating income. This improvement was principally the result of increased electricity usage due to warmer than normal weather throughout most of the quarter, the addition of over 26,000 customers since the third quarter of last year, and the benefits of a transmission rate increase implemented last November. Our service territory continues to grow at a one to one and a half percent annual rate, which is somewhat below our recent growth rate of 2 percent. We don't expect to return to that level for at least twelve months or so.

As we have discussed in the past, Houston Electric is in the process of installing an advanced metering system and we're pleased to report that the implementation and operation of the system is going well. We have installed over one hundred thousand smart meters so far, and we're on target to install approximately 145,000 smart meters by the end of this year. Under our current plan, we will deploy more than 2 million smart meters across our service territory over the next five years.

In early August, 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 our advanced metering system and 50 million dollars to support our intelligent grid initiative. Yesterday, the DOE notified us that we had been selected for award negotiations. Assuming that the project is funded in accordance with our application, we will accelerate our AMS deployment 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.

In a few moments, Gary will report on our storm cost recovery bonds we expect to issue later this year to recover our costs related to Hurricane Ike.

Our natural gas distribution business typically reports a loss in the third quarter due to its seasonal nature, and this year was no different. The operating loss this quarter was 15 million dollars compared to a 6 million dollar loss last year. The decline was principally due to an 8 million dollar increase in pension expense, as well as increases in other operating expenses, primarily employee-related and customer service-related costs. Mitigating the expense increases were benefits from rate changes and miscellaneous revenues, totaling approximately 8 million dollars, and lower bad debt expense of 4 million dollars.

In July, we filed two rate cases.

In our Houston service territory, which covers 29 cities serving nearly 1 million metered customers, we requested a revenue increase of a little over 25 million dollars. In Mississippi, we requested a 6.2 million dollar increase. In both cases, we asked to recover increased operating costs, driven in large part by higher pension and employee-related expenses, as well as costs related to increased investments in facilities since the last rate case. In Houston, we also requested a 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. The Commission should make its decision in December and issue a final order early next year.

Our competitive natural gas sales and services business reported an operating loss of 8 million dollars for the third quarter of 2009 compared to operating income of 35 million dollars for 2008. We recorded mark-to-market charges of 8 million dollars (Note: Should be 6 million dollars) this quarter compared to gains of 46 million dollars last year. As you know, these mark-to-market impacts are associated with derivatives we use to lock in economic gains. In addition, in the third quarter of last year, we recorded a 24 million dollar write-down of inventory to the lower of average cost or market. Excluding these items, our energy service business was down approximately 15 million dollars from last year. This decline is principally the result of reduced wholesale opportunities because of significantly tighter locational price differentials. Our retail business for the quarter was down about 3 million dollars due principally to reduced gas usage by our customers. However, for the year our retail sales have been stable.

Our interstate pipelines recorded operating income of 64 million dollars for the third quarter of this year compared to 55 million dollars for 2008. The third quarter of last year included a 7 million dollar write-down associated with pipeline assets removed from service. Adjusting for this write-down, operating income increased approximately 2 million dollars this quarter. Our core business continues to perform well, building on its strong fee-based foundation, with increased margins from our Carthage to Perryville pipeline as well as increased revenues related to new firm contracts to serve power generation facilities on our system. This core margin growth more than offset reduced ancillary and other transportation services as well as higher operating costs associated with new facilities and increased pension expense.

Our equity income from ongoing operations of the Southeast Supply Header, or SESH, our joint venture with Spectra, was 6 million dollars for the quarter. However, this gain was more than offset by an 11 million non-cash charge to reflect SESH's decision to discontinue the use of regulatory accounting. In the third quarter of last year, equity income was 18 million dollars primarily 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 third quarter of 2009 compared to 44 million dollars last year. Operating income for the third quarter of last year included a gain of 7 million dollars associated with the settlement of system imbalances compared to a gain of 3 million dollars this quarter. The remaining 17 million dollar increase (Note: Should be decrease) in operating income was primarily the result of significantly lower natural gas and natural gas liquids prices this year. We also experienced reduced gathering and processing in our traditional natural gas basins due to a significant decline in drilling activity. However, we more than offset this decline by increased gathering in the shale plays.

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. Again, the decline was primarily due to lower liquids prices.

Last month, we signed long-term agreements with subsidiaries of EnCana and Shell to provide gathering and treating services for their growing Haynesville Shale natural gas production. We acquired facilities that are gathering and treating production of over 100 million cubic feet per day and are expanding these facilities to gather and treat up to 700 million cubic feet per day. This expansion is expected to be completed in about 18 months, and cost up to 325 million dollars. The agreements have minimum volume commitments and provide us exclusive rights to gather and treat their natural gas production. As part of the agreements, EnCana and Shell can commit to additional volumes, and we will further expand the facilities to gather and treat up to an additional 1 billion cubic feet per day, which could cost up to an additional 300 million dollars.

Despite an over 50 percent year-over-year decline in drilling activity in the traditional basins, activity in the shale areas, particularly the Haynesville, Woodford and Fayetteville shales, has been minimally affected, although with less drilling activity than we anticipated. Producer activity has remained steady, and this is where we are concentrating our activities. Because of acreage dedications, volume commitments and/or guaranteed return contracts, we believe we are well positioned as drilling activity escalates.

In closing, I'd like to remind you of the 19 cent per share quarterly dividend declared by our Board of Directors on October 22nd. 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.

Third Quarter 2009 Earnings Conference Call
October 28, 2009

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 we have previously discussed, the Texas Legislature earlier this year passed a bill that authorizes utilities to issue non-recourse system restoration securitization bonds to recover costs associated with hurricanes and other major storms occurring 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 and have the dual benefit of allowing us to recover our hurricane-related costs in a timely fashion and lowering the ultimate cost to consumers.

The PUC has now issued the necessary orders to allow us to recover approximately 663 million dollars in storm restoration costs associated with Hurricane Ike. Of the 663 million dollars, approximately 643 million dollars is related to our distribution system and will be recovered through the issuance of bonds, plus carrying costs from September the first, 2009. The balance of 20 million dollars plus carrying costs relates to our transmission system and will be recovered in rates set in our next transmission cost of service proceeding.

In our financing order, the PUC allows us to issue bonds for the full amount of storm restoration costs incurred without reducing that amount by deferred tax benefits related to the storm restoration costs. Instead, we will apply a credit to our customers' bills to reflect the benefit of approximately 207 million dollars of deferred taxes, effective on the same date as the system restoration charges. In 2010, this will result in reduced operating income of nearly 24 million dollars at Houston Electric, decreasing over time as the deferred taxes reverse. Depending on market conditions we expect to issue the bonds in the fourth quarter of this year. Based on this expectation, and having the hurricane season effectively over for this year, Houston Electric terminated its 364-day, 600 million dollar secured credit facility on October 6th. This facility served an important purpose as a liquidity safety net for Houston Electric this past year.

Now, let me discuss our recent financing activities.

In August, SESH secured permanent financing through the issuance of 375 million dollars of 4.85 percent senior notes due in 2014. A subsidiary of CERC received a construction loan repayment of 186 million dollars, representing our half of the proceeds from the issuance of the notes. Proceeds from the construction loan repayment were used to repay borrowings under CERC's credit facility.

On October 9th, CERC extended its receivables facility for one year. The facility size ranges from 150 million dollars to 375 million dollars consistent with seasonal changes in receivable balances and provides additional liquidity for CERC.

We have continued to improve our balance sheet this year.

In September, we raised approximately 280 million dollars in an underwritten equity offering in conjunction with the announcement of our field services business signing excellent long-term agreements with EnCana and Shell to expand gathering and treating facilities in the Haynesville shale. Combined with the sale of common stock through our previously announced continuous offering program and the issuance of common stock through our Savings Plan and enhanced Dividend Reinvestment Plan, we have raised approximately 485 million dollars through the sale of 43.6 million shares of common stock through September 30th. The combination of internally generated cash and cash from our financing activities this year will allow us to reduce debt and we expect to end the year with a significant cash balance, and be un-drawn in our various credit facilities.

We continue to have a relatively large capital budget, which includes our regulated operations franchise-required capital and a number of very attractive projects, particularly in our pipeline and field services segments. Producer activity continues to be fairly active in the shale plays and we remain committed to pursue value-creating opportunities that this activity presents.

We have consistently stated that our objective is to improve our balance sheet and enhance our credit metrics 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 in line with our overall business risk profile.

My final topic will be 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 our performance to date as well as various economic, operational, financing and regulatory assumptions including the timing of the sale of storm restoration bonds associated with Hurricane Ike. We have assumed normal weather in both the electric and gas utilities, and we have excluded the effects of mark-to-market or inventory accounting on the earnings of our competitive natural gas sales and services business. We have also excluded any impact to income from our pending true-up appeal and from any change in the value of Time Warner stocks and the related ZENS securities. In addition, we have excluded the impact to income from the discontinued use of regulatory accounting at SESH. Finally, we have assumed a full year tax rate of 34 percent that takes into consideration our third quarter tax rate of 25 percent that reflected the recent settlements of tax audits for 2004 and 2005.

Now I would like to turn the call back to Marianne.

Marianne Paulsen – Director, Investor Relations

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

Operator: At this time we will begin taking questions. If you wish to ask a question, please press star then the number 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 handset. Thank you.

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

Lasan Johong: Thank you. Can I ask a question on this DOE grant money? I'm a little confused as to what the schedule looks like. It sounds like you're completing the AMI program by 2012, but earlier on, David said that it would take five years to complete 2 million meters. So I'm kind of wondering what I'm missing here.

David McClanahan: Lasan, I probably confused you. That's our original schedule. Our original schedule had us completing it by 2014. With the DOE funding and 150 million dollars of the stimulus funds goes to advance metering, we will accelerate that from 2014 to 2012.

Lasan Johong: I see.

David McClanahan: And then we've got 50 million dollars that we are going to put in - start putting in our intelligent grid, our mid-grid intelligence. So those two components add up to the 200 million.

Lasan Johong: I got you. The other question I had was on the acquisition – 100 million cubic feet per day of gathering potentially going to 700 million cubic feet, what would trigger those growth patterns and how do we, you know, monitor that and, you know, capex spending associated with that, and is the acquisition in general what you had expected?

David McClanahan: The Shell and EnCana, and these are two separate contracts, they have a very aggressive drilling program in the Haynesville area. So we expect, based on their production drilling schedule and estimated production schedule, that we're going to ramp up to that 700 million after we get all these facilities completed. However, the company has volume commitments. So if they don't hit their drilling schedule or their production schedule, we have protections to get, you know, get paid anyway. So we're hoping they do well. There are some upsides if they, in fact, produce and we don't have to rely on volume commitments. And of course, we'd like to see them be very successful where they could go ahead and elect to expand these facilities and we would even put in more.

Lasan Johong: And do you think this acquisition as you would expect it better than expected? How would you characterize it so far?

David McClanahan: This - we're delighted with this acquisition. It's - or these contracts. We've been working on them for a number of months. They're in our sweet spot. We gather gas in Northern Louisiana, have for a long time. We wanted to be in the Haynesville Shale play. We had some minor activities in that area, so no, we're really excited about this. I think it's exactly what we wanted to do and we're just hoping it's the start of something even bigger.

Lasan Johong: Gary, and the capex spending needs to get up to 700 million cubic feet, can you kind of give us timing and amounts?

David McClanahan: Lasan, we're going to expend - we'll spend about 125 million of the 300 million or so this year. And then the remainder of those expenditures will be spent in '010 and the first half of '011.

Lasan Johong: Great. Thank you very much.

David McClanahan: Thank you.

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

Faisal Khan: Hi, good morning.

David McClanahan: Good morning.

Faisal Khan: Just trying to figure out how the acceleration and the DOE grant kind of benefit the shareholders in terms of, you know, your capex planning for Smart Grid and the transmission lines.

David McClanahan: Well, first, you know, we only earn on our net investment here, and because of this funding by the federal government of 150 million dollars, we're going to have less invested in this program. But our customers are going to get the benefit of that because they're going to have to pay 150 million dollars less. We think that's a win/win situation. What's good for our customers in the long term is going to be good for us. And this is enabling technology. It will enable our customers to be - to do things with home area networks and smart appliances and time of day rates that they can't do today. So - and I think that along the way we're going to have some opportunities arise because of that.

The other piece of this is we get to start now investing in the mid-grid and putting sensors and automated pole-top switches and other things on the grid that's going to make the grid more reliable, it's going to make us more efficient, we're going to be able to heal the grid quicker following outages. We'll be more preventative, rather than reactive in our maintenance. So I think it's going to make us a more efficient utility, in the long run that's going to bode well for us.

Faisal Khan: In theory over the long - over the next five year your net rate base should go up with these investments, is that a fair statement?

David McClanahan: That's correct.

Faisal Khan: Okay. And just a follow-up question, your operating cash flows for the nine months to date were about 1.4 billion dollars and then you also talked about the bonds that you would issue for storm recovery. By the end of the year with all this cash coming in the door, including the equity offering you just - you had in the early in the second quarter, you know, what are you looking at your debt to cap to be within the year?

Gary Whitlock: Debt to cap will be about 73 percent. We will pay down debt, Faisal, this year of a little bit more than 1 billion dollars. We'll end the year with about between 600 million and 700 million dollars on our balance sheet.

Faisal Khan: Of cash?

Gary Whitlock: Of cash.

Faisal Khan: Okay, great. Thanks. I'll get back in line.

Operator: Our next question will come from the line of Scott Engstrom with Blenheim Capital Management.

Scott Engstrom: Gary, I just wanted to follow up on your comments on the guidance. You pointed out a number of exceptions. What I was trying to understand is are those exceptions, are you talking about those specifically as it relates to the fourth quarter or are you saying going back and adjusting the numbers so far through nine months for some of the things you pointed out?

Gary Whitlock: It would be going back for nine months. And we've been consistent on these and let me just give you third quarter and then year-to-date, Scott, to help you. If you look at the third quarter, we reported 31 cents a share, and if you adjust for the mark-to-market and inventory, the Time Warner shares and the SESH write-off, which was an accounting change, the application of an accounting standard, you're still back to 31 cents a share. If you looked at that for the nine months, and I'll just give you the numbers, we reported 74 cents. There's a 5 cent adjustment for mark-to-market and inventory. As you know, those are temporal. They should - they'll return to us. The Time Warner ZENS – 3 cents and then 3 cents the other way for the SESH write-off by adding that back, so you get to 80 cents.

So on our guidance for this year we really don't exclude that much, frankly, from our guidance. And what we're trying to show you is that we're at 80 cents for nine months. I think if you look at the tax rate earlier in the year, I started at a higher tax rate. We guided you to 35 percent. This quarter is a 25% tax rate because we actually settled those 2004, 2005 audits with the IRS, but for the full year you'll come back to 34 percent. In fact, our year-to-date tax rate is 33 percent. I want to remind you and others as you look forward to 2010, though, our tax rate should return to more of a normalized rate of 37, 38 percent – we'll give you some guidance on that early next year.

Scott Engstrom: Okay, great. That was very helpful. Thanks a lot.

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

Steven Gambuzza: Good afternoon.

David McClanahan: Hello.

Steven Gambuzza: I was wondering if you could just - the question about cash flow, 1.4 billion for the first nine months of the year, what would you expect cash flow from operations for the full year to be?

Gary Whitlock: Well I think you've got a - first of all I think the number you're picking up probably includes the securitization bonds, but if you look for our nine months, we will have - you know, our debt level at the end of this quarter is 7 billion 045. We will not increase debt in the fourth quarter. So you - we will end the year with about 7 billion dollars of debt, 7 billion 045, that sort of range, and with between 600 and 700 million dollars of cash on the balance sheet. So for this year in terms of operational cash flow - and again this has two elements I want to bring to your attention, one, we've done I think an excellent job managing working capital, putting new asset management agreements in place that really allow us to more effectively manage our working capital in the long term, plus we've had these benefits that I mentioned of the deferred, you know, continued some deferred tax benefits on accelerated depreciation, bonus depreciation. So for this year, Steve, we will fund fully our capex program, our dividend, and we'll, again, as I said, end the year with 600 to 700 million dollars of cash on the balance sheet. Now, of course, that includes the financing that we did at SESH that we were the beneficiary of. We had been funding that ourselves and we had 186 million dollars of really a total of 215 million coming back on that and of course we've had 485 million dollars of equity issuance this year, as well.

Steven Gambuzza: Okay.

Gary Whitlock: So I think what you see is an improved balance sheet, which was our commitment as we started this year. We've improved our balance sheet and put ourselves in a, I think, a very - you know, a strong position as we look to execute our business plan in 2010 and beyond.

Steven Gambuzza: Clearly the free cash flow has been fantastic.

Gary Whitlock: Yeah.

Steven Gambuzza: I can't - looking at the cash flow statement, I can't back out the securitization impact quickly, but, you know, the SESH cash flow looks like that came back on the investing section of the cash flow statement.

Gary Whitlock: It did.

Steven Gambuzza: I guess...

Gary Whitlock: And there's two elements of that, that was the financing that we did at SESH and then there was a payment that we received from Sonat that flowed back to us, as well.

Steven Gambuzza: I guess really my question is as we look to the fourth quarter, given your net income guidance, there's been very substantial cash flow benefits other than net income and depreciation for the first nine months of the year. You've pulled working capital out. You've had substantial deferred tax benefits.

Gary Whitlock: Right.

Steven Gambuzza: As we look to the fourth quarter of this year and thinking about fourth quarter cash flow, will there be other components to cash flow besides net income and depreciation of consequence, i.e. more deferred taxes and more working capital reductions?

Gary Whitlock: It's not.

Steven Gambuzza: Or would you expect it...

Gary Whitlock: Not material in the fourth quarter.

Steven Gambuzza: Okay. And then you also mentioned that you signed some new contracts in the Haynesville - or some of the shale plays in your opening remarks. I was wondering if you could please elaborate on those.

David McClanahan: Well, those are really the two that I mentioned was Shell and EnCana.

Steven Gambuzza: Okay.

David McClanahan: And, you know, these are terrific contracts, at least in our mind. We'll spend on the first phase up to 325 million to gather and treat up to 700 million a day. And then the - both parties have an option to increase their volumes in increments of 200 million a day up to a total of a billion a day. They have to just give us notice to do that. And it takes about a year to make these kind of - you have to acquire the equipment and right of ways and so forth. So - but we're excited about them.

We think it's a great - Haynesville is probably one of the most prolific gas plays discovered in the U.S. in many, many years, if not ever. And to be in there at this - you know, in a really good spot, we're excited about it.

Steven Gambuzza: When you look forward to 2010, you know, given the dynamics of kind of growth in the shale plays and potentially continuing declines off of some of the traditional areas, do you feel like, you know, volumes are apt to be positive to flat versus what they were this year for your field services business?

David McClanahan: Well, if you look at what's happened so far this year, we're kind of flat on a year-to-date basis. There's no question we're experiencing volume losses in our traditional basins. There hadn't been very much drilling at all in those basins and as a result of that, you're seeing volumes start to decline. We are offsetting those volumes with these new shale plays, both in the Fayetteville, Woodford and the Haynesville. And I expect that that will more than offset the declines that we're experiencing in our traditional basins. We also hope that, you know, if gas prices firm up a little bit, that we'll see a resumption of some level of activity in our traditional basins. And if we do, I think we have - you know, we're very well positioned then with both the shale plays and these traditional basins because we have very good facilities there. We only - not only gather the gas, we process a lot of it, so we're very well positioned, I think, once drilling picks back up.

Steven Gambuzza: Great. Thanks very much.

Operator: Our next question will come from the line of Mark Rogers with Gagnon Securities.

Mark Rogers: Thank you. I was just wondering. When you first started discussing Smart Grid initiatives, you had to come up with both internally and with the Texas PUC an agreed upon rate increase to cover the capital investment, correct?

David McClanahan: Correct.

Mark Rogers: Okay, so now with 150 million less being spent, are you revising that cap - that rate increase?

David McClanahan: What will happen are one of two things. One is that the tariff just won't go as long. We obviously have to recover 150 million dollars less, and that's, you know, what we'd prefer to happen because we're going to be funding a fairly large amount of capital over the next two or three years. The other thing is they could reduce the - the PUC could reduce the tariff to reflect this reduction in capital and we'll be going in I think next year for a reconciliation and I'm sure that will be discussed at that time.

Mark Rogers: Okay. So - but - and I'm not trying to be negative on this, I'm just wondering, for the foreseeable future, probably at least a year until this reconciliation, the customer is actually not going to be seeing any savings with the 150 million support from the DOE. It would have to be until the rate base is readjusted.

David McClanahan: Yeah, the tariff is not going to change, Mark...

Mark Rogers: Okay.

David McClanahan: But the value of the Smart Grid, of the advanced metering is what they can do with their energy consumption – how they can manage their home, you're going to have communications where they're going to be able to see essentially on a real-time basis how much energy they're using. You're going to be able to communicate with smart appliances. You're going to be able to have home area networks that are focused around energy. So there's going to be different ways for them to get value out of this. But you're right. Our plan is not to go in and change the tariff immediately. And so - but I think there's - the value of this is in it's an enabling technology and it's how you use it.

Mark Rogers: Absolutely. And then one quick follow-up, the meters on the Smart Grid really is one of the easier things to implement. You just, you know, turn on the meters, but the backhaul systems need to be there. With this two-year accelerated deployment schedule from 2014 to 2012, are the rest of your processes going to be able to ramp - to be able to be ramped up faster such as, you know, the dynamic pricing models, the substations, all the two-way communication modules necessary, the networking capability or are the meters going to be ready with everything else to follow?

David McClanahan: You know, we'll have to accelerate the implementation of our communications infrastructure. I think you've hit on a very important part. You have to have the communications network there in advance of when the meter gets there so you can communicate with it. But we have a plan that we've put together that, in fact, will do that. We'll probably begin that this year, in fact, so we can be ready as these new meters get here and we can start, you know, basically doubling our installation rate monthly. So - but we believe we have a good plan put together and we can handle it, yes.

Mark Rogers: Okay. And just one follow-up, the - you're using Itron for your meters. That's publicly disclosed. Are you using them for the communication modules, as well?

David McClanahan: No.

Mark Rogers: Oh, you're not.

David McClanahan: No.

Mark Rogers: Okay. So this doubling of deployment schedules, is this something that we can see starting - because you still have to get the checks. I've been looking at some of these, you know, delays. They say, maybe even three months. This is a Q1/Q2 story on deploying - doubling the deployment schedule?

David McClanahan: You know, I think that's right. You know, you have to negotiate these agreements and we'll start that the middle of next month. We expect by the first quarter, early the second quarter we will start this ramp up. But we're - you know, we are very confident we'll get it. So we're going to start planning on that and anticipating it from a communications standpoint.

Mark Rogers: Great. Congratulations.

David McClanahan: Thanks Mark.

Mark Rogers: Take care.

Operator: Our next question is a follow-up question from Lasan Johong with RBC Capital Markets.

Lasan Johong: … on Faisal’s question, cash balance is 6 to 700 million by year end. That’s a pretty large chunk of cash to have on your balance sheet. Do you have any preliminary plans on what you want to do with it?

Gary Whitlock: Well, look, we’re going to fund operations and capital going forward. I think the decisions on that and we’ll give you more - a view of that when we release fourth quarter earnings. We really need to look at our capex program next year, both franchise required capital. And as David mentioned and I mentioned, as well, we have a number of projects we’re continuing to look at both in pipelines and field services. So we really want to see our capex program but I think the real takeaway, Lasan is that we’ve been executing our business plan, which is improving this balance sheet and raising this equity capital, it has been very hopeful to our company. And of course recovering the securitization - the Hurricane Ike costs through the sale of these bonds, and that’s the real key to having the cash. We expended that cash. Now we’re getting it back plus a return. So we’re going to be very thoughtful about it and we need to really look at our capex program as that unfolds with more specificity in the next 60 days or so.

Lasan Johong: Specifically I was wondering if you thought of any potential shareholder initiatives like share repurchase program or something like that.

Gary Whitlock: No, not really. Look, I think where we are, you know, we still look at our leverage. We’ve made good progress, we’ve paid down debt, we’re undrawn at our facility - at our credit facilities. But over the long term for us to execute our - Lasan, to execute our business plan, we want to continue to improve the balance sheet, obviously, and I don’t think that would be in our best interest of our shareholders at this point. I think we’re going to continue to focus looking at our dividend. The board will take a very thoughtful look at that early in the new year and, you know, I think we’ve been paying our dividend so far in a very thoughtful way. We’re going to continue to look at that. So I think that’s - our shareholders should be rewarded to the dividend and then our ability to invest our capital and grow this company over the long term.

Lasan Johong: Understood. Thank you.

Operator: Our next question will come from the line of Steven Huang with Carlson Capital.

Steven Huang: Hi, good morning guys.

David McClanahan: Morning.

Steven Huang: Just had a follow-up on the field service business. I know you guys have like 100, 125 million dollars I think for next year on top of the Shell, EnCana deal. How does that look today based off, you know, what you talked to the producers and how should se think about that for next year and kind of like ‘11?

David McClanahan: Well, you know, we have the Shell, EnCana schedule, and so we feel pretty confident in that. So we’ll be spending after the 125 million dollars this year in ‘09, 175 million on those projects the next year, year and a half. But we have some other significant projects that we’re going to continue. We had a capital budget this year of 277 million dollars in field services. We’re going to probably spend about 185 million or so, maybe 200 million of that budget. The rest of it is going to be carried over into ‘010 and then we have the Shell, EnCana on top of that. So we’re going to have a sizable capital budget in field services next year. At least we hope we are because these are very attractive projects that have good - and they’re good contracts and we look forward to getting the facilities in the ground.

Steven Huang: But David I thought that next year’s capex for field service before the rollover was already 100 million to 125 million, excluding Shell, EnCana.

David McClanahan: Let’s just - let me look and see if I can refresh my memory on our capex for...

Steven Huang: I guess just how should I think about capex for field services all in for next year?

David McClanahan: Let’s see here. Last year we said that field services capital budget was going to be 142 million dollars. We will spend that plus probably 130 million more on the Shell EnCana, plus we’ll have some carryover from this year of 70 million or 80 million dollars on top of that. Now we’ll have to look at some of our assumptions. We may bring that 142 down a little bit, but we’re going to have - you know, this year we had 277 million dollar capital budget. We’re not going to probably have quite that big a budget. We’re going to have pretty close to that budget next year I would expect, if not - it’s going to be right around that 250 to 300 million level.

Steven Huang: Okay. Yeah, I just wanted to make sure that that 70 to 80 million carryover didn't - you know, wasn't cutting down the 142.

David McClanahan: No...

Steven Huang: But it...

David McClanahan: You know, the 142, of course, that's a year old now and...

Steven Huang: Yes.

David McClanahan: …that had some Greenfield projects that we assumed, so there'll be some averaging out there, but we're doing to spend 142 plus some on - from - without the Shell and EnCana.

Steven Huang: Okay. And how should we kind of think of like milestones for the incremental 1B on the Shell, EnCana. Like you said it takes one year out, I mean, next year is there even a possibility that they could come on - you know, that it could - you know, indicated next year or is this more of a 2011 event?

David McClanahan: I would say it's 2011. You know, they have to give us notice so we can order the equipment and then install it. I will say that once we get notice, I'm sure that we'll tell the market about it, so we'll let you know if we're going to expand these.

But I think both Shell and EnCana will - it's going to be based on the success of their drilling program. And as they get more experience there, I think they'll decide what they want to do.

Steven Huang: And then just the last one here, following up with kind of your comments here on the pipeline side of the business, based off, you know, with all the how prolific the shale play has been, should we anticipate, you know, any expansion of SESH coming up especially with FPL losing their approval on their pipeline in Florida or even the - I think you guys are also looking to do additional Haynesville pipe? How should we think about what's going on there?

David McClanahan: You know, we continue to talk with shippers on SESH, and when the timing is right there, we'll expand that. And we're continuing to talk to the

- you know, the folks that are shipping on it now, as well as others. So I don't think that's imminent, but I think, you know, we're clearly in talks with folks about it. We still are looking at the Haynesville area and whether or not additional pipe is needed there and talking to producers and others about that. But in order to do a pipe like that, we'd have to have substantial commitments by producers to do that. And - but those conversations go on every week.

Steven Huang: Okay.

David McClanahan: So we continue - actively looking at new projects in that area.

Steven Huang: But the SESH contracts this summer I think you had some short-term contracts. Has there been any new longer term contracts signed up for SESH?

David McClanahan: You know, I don't think so. We had about 205 million a day that we could sell this year. Part of that was the shippers' firm commitments didn't start until next year and then '011. There's about 85 million that really isn't sold. I think they sold through the middle of the fall about - all but about 65 million of that. But to my knowledge, there are no new long-term contracts. All these are short-term firm contracts or just interruptible contracts.

Steven Huang: Okay, thank you.

Marianne Paulsen: Okay, Tina, we'll take one more question.

Operator: Thank you. Your final question will come from the line of Faisal Khan with Citigroup.

Faisal Khan: Just a couple more questions. Gary, can you elaborate a little more on the tax rate for the quarter? I think you talked about it, but I may have missed your commentary on it. It's a little bit lower than you expected.

Gary Whitlock: Yeah, I'd be glad to. First of all, Faisal, think about the full year first and let me come back to that. Full year tax rate now we're guiding at 34 percent. Our year-to-date tax rate now is 33 percent. In the sec - excuse me, in the third quarter, though, we actually completed or finalized our 2004, 2005 audits with the Internal Revenue Service. As such - and had some other minor adjustments but that was the bulk of it. We had about a

16 million dollar favorable entry to taxes. So our tax rate in the third quarter is 25 percent.

Faisal Khan: Got you. Okay, understood.

Gary Whitlock: Is that helpful?

Faisal Khan: Yeah, it is. Thank you. And then last question, given your kind of - your strong balance sheet position going into next year, is it fair to say that you are properly capitalized for most of your projects along with the potential expansion of the gathering and processing system for Shell, EnCana. I know you have this 700 million cubic feet a day expansion, but there's also the incremental BCF a day above and beyond that. Does the equity you raised and the balance sheet position you'll be in at the end of the year fully fund that development of that expansion, also?

Gary Whitlock: I think the way, you know - that's a good question. It's a fair question. We've raised, as we mentioned, 485 million dollars of equity capital. At this point we still have turned on our DRIP program and our saving plan, as well, which generates around 75 million dollars or so of equity capital. So I think at this point we feel good about our position to execute our business plan. I will say this, though. It's dependent on, Faisal, our capital plan for next year. So to the extent we have more capital in field services or significantly more capital, we'll have to always make sure we have the correct mix of debt and equity.

Faisal Khan: Okay.

Gary Whitlock: So it really depends on that go-forward capital. And by the way, I'd be excited if David said if we can execute some really great contracts similar to the Shell, EnCana. That would be a great thing for our shareholders.

Faisal Khan: Makes sense. Thanks a lot. Appreciate the time, guys.

Marianne Paulsen: All right. Thank you very much to everyone. I would like to thank you for participating on the call today and appreciate your support very much. Have a great day.

Operator: Ladies and gentlemen, this concludes CenterPoint Energy's Third Quarter 2009 Earnings Conference Call. Thank you for your participation.