



First Quarter 2010 Earnings Conference Call May 5, 2010

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 first quarter 2010 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 first quarter 2010 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, May 12, 2010. To access the replay, please call 1-800-642-1687 or 706-645-9291 and enter the conference ID number 66178412. You can also listen to an online replay of the call through the Web site that I just mentioned. We will archive the call on CenterPoint Energy's Web site for at least one year.

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

David McClanahan – President and CEO

Thank you, Marianne. Good morning Ladies and Gentlemen. Thank you for joining us today, and thank you for your interest in CenterPoint Energy.

I'd like to begin with an overview of our first quarter 2010 results. Overall, this was a very solid quarter with most business units performing at or ahead of our expectations.

This morning we reported net income of 114 million dollars for the first quarter, or 29 cents per diluted share. This compares to net income of 67 million dollars, or 19 cents per diluted share, for the same period of 2009. Like a number of other companies, we were required to take a first quarter charge as a result of the recent health care legislation. This charge reduced earnings by 21 million dollars, or 5 cents per diluted share, due to an increase in federal income tax expense arising from the elimination of the future tax deductibility of certain retiree health care costs.

Operating income for the first quarter of 2010 was 357 million dollars compared to 285 million dollars for the same period of 2009, an increase of about 25 percent.

I will begin my review of our individual business segments with our regulated electric and natural gas distribution utilities. These businesses achieved very strong results this quarter.

Houston Electric, our transmission and distribution utility, reported operating income of 71 million dollars compared to 37 million dollars for 2009, an increase of 34 million dollars.

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This increase was primarily due to higher energy usage due in part to much colder winter weather this year. In addition, you might recall that in the first quarter of last year, we experienced a noticeable decline in energy usage, which was not attributable to weather. We did not experience a similar decline this year. We also benefited from higher net transmission-related revenues as well as the addition of nearly 22,000 customers over the last twelve months. Operation and maintenance expenses remained essentially flat.

Since late 2006, we have been operating under the terms of a settlement agreement that froze our electric distribution rates through June of this year. Under the terms of that agreement, we must file a rate case by June 30th. We are currently preparing our rate filing and, while we have not yet determined the amount of rate relief or the specific tariff changes that we will request, we will be requesting a higher equity capital percentage than the 40 percent currently reflected in rates. We will also seek the recovery of our increased annual pension costs, and the amortization of the pension costs we have deferred since the beginning of last year and the 20 million dollars of transmission-related costs we incurred in restoring service after Hurricane Ike. We anticipate a final order in early 2011.

As we have discussed in the past, Houston Electric is progressing well in implementing its advanced metering system. Through April, we have installed over three hundred thousand smart meters, along with the supporting communications equipment and information systems. This complex undertaking is going well with no significant issues arising so far.

We also successfully completed negotiations with the Department of Energy, and in March signed the contract to receive 200 million dollars in federal stimulus funds. 150 million dollars will go to accelerate the completion of our advanced metering system to 2012, rather than 2014 as originally planned. The remaining 50 million dollars will be used to support our intelligent grid initiative. Under the terms of the agreement, the DOE will reimburse 50 percent of the costs of both projects as costs are incurred until the grants are fully funded.

Now let me turn to our natural gas distribution business.

This segment reported operating income of 139 million dollars compared to 118 million dollars for 2009, a 21 million dollar increase in operating income. The increase was driven by higher system throughput, in part due to colder winter weather in our southern service territories, higher non-volumetric revenues, such as connect and disconnect fees, and operational efficiencies, the most significant of which were reductions in credit and collection costs. We have worked diligently on reducing customer delinquencies and bad debt expense, and I'm pleased to say that we continued to see the benefit of that effort in the first quarter. These efficiency improvements resulted in a small reduction in total operation and maintenance expense for this segment in the first quarter. Like our electric business, our gas business also had customer growth during the last twelve months, adding over 16 thousand customers, mostly in Texas and Minnesota.

Final rates from our Houston rate case were implemented on March 15th, and we are currently working with the regulators in Minnesota to finalize the implementation of the new decoupling mechanism approved as part of that rate case. With these two rate cases essentially behind us, our natural gas distribution business will assess the need for additional long-term rate

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relief. In the near term, margin growth will come from tariff adjustment mechanisms, revenue sharing from asset management agreements and customer additions.

Our competitive natural gas sales and services business reported operating income of 15 million dollars compared to 2 million dollars for 2009. We recorded mark-to-market gains of 3 million dollars in the first quarter of 2010 compared to charges of 19 million dollars in 2009. As you know, these mark-to-market impacts are associated with derivatives we use to lock in economic gains. In addition, the first quarter of 2009 included a 6 million dollar write-down of inventory to the lower of average cost or market. Excluding these items, our energy services business would have reported operating income of 12 million dollars for the first quarter of 2010 compared to 27 million dollars for 2009. Our natural gas sales to commercial and industrial customers this quarter remained at levels comparable to last year. However, we continued to experience fewer wholesale opportunities due to significantly smaller locational price differentials and decreased winter storage spreads.

Now let me turn to our interstate pipelines unit.

Interstate pipelines recorded operating income of 72 million dollars compared to 69 million dollars for 2009. Our core business performed well, building on its strong fee-based foundation, with increased margins from firm contracts. A primary driver was Chesapeake's increasing Haynesville production, which began moving to market on our Carthage to Perryville pipeline last April. The February completion of Phase IV of this pipeline also allowed us to provide additional firm service two months ahead of schedule.

Our equity income from ongoing operations from the Southeast Supply Header, or SESH, our joint venture with Spectra, was 3 million dollars for each of the first quarters of 2010 and 2009. During the first quarter of last year, we took a 5 million dollar non-cash charge to reflect SESH's discontinued use of regulatory accounting.

Our field services segment reported operating income of 23 million dollars compared to 26 million dollars for the first quarter of 2009. Revenue growth from higher gathering volumes and higher natural gas liquids prices was more than offset by lower natural gas prices for our retained volumes and higher operating expenses primarily related to facility expansions. Field services achieved a 12 percent increase in throughput in the first quarter of this year versus the fourth quarter of 2009, primarily associated with the Haynesville, Fayetteville and Woodford shales. I'll provide more detail around our Haynesville gathering activities in a minute.

In addition to operating income, we also recorded equity income of 2 million dollars from our jointly-owned natural gas processing facilities for each of the first quarters of 2010 and 2009. Higher natural gas liquids prices this year were offset by lower processing volumes due to a third party's supply line rupture and unscheduled maintenance at a customer's plant.

Now let me update you on recent developments regarding our projects in the Haynesville shale.

Last September we signed long-term agreements with subsidiaries of Shell and Encana to provide gathering and treating services for their growing northern Haynesville Shale natural gas production. The trunk line and amine facilities to gather and treat 700 million cubic feet per day are nearly complete and substantial volumes are already flowing. Volumes on this system, which we call the Magnolia Gathering System, averaged about 300 million cubic feet per day in

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the first quarter, and recently, throughput has increased to more than 550 million cubic feet per day.

Our overall investment for the 700 million cubic feet per day project is expected to be around 325 million dollars, with all major facilities in service by year end. We have spent about 260 million dollars through the end of the first quarter.

Under these agreements, Shell and Encana can request us to expand the system up to an additional 1 billion cubic feet per day. In March they made their first request for an expansion to provide gathering and treating services for an additional 200 million cubic feet per day and increased their volume commitments accordingly. We expect to spend 50 to 70 million dollars in 2010 on this expansion, primarily for additional amine treating capacity and partial looping of the gathering trunk line. If we are ultimately requested to expand our facilities to the full 1 billion cubic feet per day of incremental capacity, our total capital investment in the Magnolia Gathering System could be as much as 625 million dollars, and total capacity would be 1.7 billion cubic feet per day.

On Monday of this week, we announced additional agreements with Encana and Shell to gather and treat their southern Haynesville production. These contracts are structured very similarly to the Magnolia system agreements, with minimum throughput commitments and the exclusive rights to gather and treat their natural gas production in designated Haynesville acreage. As part of these new agreements, we acquired their existing facilities and will expand those facilities to gather and treat 580 million cubic feet per day, with the potential to add additional capacity of 520 million cubic feet per day at their election. We refer to this project as the Olympia Gathering System, and the capital investment for the initial phase is approximately 400 million dollars, of which 300 million dollars is expected to be spent this year. The total cost of this system is expected to be as much as 600 million dollars if all of the incremental capacity is elected to bring the Olympia system to 1.1 billion cubic feet per day.

In summary, a total of 1.5 billion cubic feet per day of capacity has been contracted to date under the various agreements with Encana and Shell, with corresponding throughput commitments over the first ten years. These facilities are expected to cost up to 800 million dollars in capital. If all incremental expansions are elected, total capacity for the combined systems would be 2.8 billion cubic feet per day with up to 1.25 billion dollars invested in facilities. Committed volumes would be increased accordingly.

Overall, we are very proud of our project execution and high level of customer service, two attributes that helped forge a great working relationship with these customers and help secure these long-term agreements for our field services business.

In closing, I'd like to remind you of the 19 and a half cent per share quarterly dividend declared by our Board of Directors on April 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.

Gary Whitlock - Executive Vice President and CFO

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

Let me start with the credit rating agencies. We are very pleased with the positive rating actions recently taken by both S&P and Moody's. S&P revised its outlook on the CenterPoint family from negative to stable, affirmed our long-term ratings and raised the short-term rating. Moody's placed the ratings of CEHE under review for possible upgrade and changed the ratings outlooks for both the CenterPoint parent and CERC to positive from stable. Obviously, we are very pleased with these actions as they reflect the business performance and financing actions we have taken to date, and our consistent commitment to improve our financial position in order to effectively execute our business plan.

In his comments, David updated you on the status of the contracts we executed last year with Shell and Encana in the northern Haynesville shale, including their first request for a system expansion. He also discussed the new agreements we have just signed to gather and treat their southern Haynesville production. The estimated capital for the commitments we have made so far for both the north and south is expected to be approximately 800 million dollars. For 2010, our revised capital estimate for field services is approximately 575 million dollars, an increase of 350 million dollars from our original 2010 capital estimate.

The company's total capital spending for all of our businesses in 2010 is now estimated to be approximately one point five billion dollars.

We are very pleased about these additional high-quality value-creating capital investment opportunities.

Our overall business performance remains solid and we will continue to generate significant cash from operations. However, as we have consistently stated, 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.

We remain in a very strong liquidity position and our various credit facilities are essentially undrawn, other than relatively small amounts supporting letters of credit. In the first quarter, we reduced non-securitized debt by approximately 386 million dollars, and today remain in an investment position.

Finally, let me discuss our earnings guidance. We were pleased with our overall business performance in the first quarter, and this morning we have reaffirmed our 2010 earnings guidance in the range of a dollar two to a dollar twelve cents per diluted share. As David mentioned, as a result of the recent health care legislation, we were required to take a 21 million dollar charge to income tax expense that reduced our first quarter net income by 5 cents per diluted share and increased our tax rate to 47 percent for the quarter versus a normal rate of approximately 37 percent. We have excluded this item from the determination of our earnings guidance.

In providing earnings guidance, we have taken into consideration our first quarter performance, as well as various economic, operational and regulatory assumptions. We have also assumed normal weather for the remainder of the year in both the gas and electric utilities. And, as you know, in providing guidance, we routinely exclude the effects of mark-to-market and inventory accounting as they are timing related. Also, we do not try to include any potential

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impact to income from our pending true-up appeal, the change in the value of Time Warner stocks and the related ZENS securities, or any mandated accounting changes that may occur during the year.

As the year progresses, we will keep you updated on our earnings expectations.

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 one on your telephone key pad. To withdraw your question, press the pound key.

The company requests that when asking a question, callers pick up their telephone handsets. Thank you. And our first question will come from the line of Carl Kirst with BMO Capital Markets.

Carl Kirst: Thanks. Good morning, everybody and nice quarter and certainly congratulations on the Olympia contract, which is actually my first question. David, you may have mentioned that the contracts are structurally similar. Given that we've seen a little bit increased competition coming into the Haynesville-Kinder Morgan, Enterprise, et cetera. Were you able to maintain the same very strong economics you had on the Magnolia or has that slipped a little bit?

David McClanahan: No, they're very comparable, I would – I'd consider the economics equivalent between the two and really the terms of the contracts are essentially equivalent. There's a few changes just because of the different locations but these are essentially all the same contracts.

Carl Kirst: Ah, that's great. And then just on a second question on the sales and services, and appreciate you kind of breaking it out on a kind of mark-to-market adjusted basis. Given that we continue to be in a relatively flat basis market that's probably not going to be changing anytime soon.

Should we look for this sort of zero to 10 million dollars in kind of sales and services going forward or do you still expect a lot of volatility in there? Just hoping to get some color.

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- David McClanahan: You know I don't think – we don't know what's going to happen that could trigger basis but right now it looks like basis is pretty flat, which is going to hold back wholesale opportunities on that front. We think there'll be some storage opportunities as the year goes by and we see a little bit of that now and we're locking in a little of that. And I think that – the retail business though continues to do very well. We're adding customers and winning new customers. And that business is fine, but the wholesale is going to be a drag on the business like you said. So I don't think we're going to see any huge upside there at least in the near term.
- Carl Kirst: Right. I'll jump back in queue. Thank you.
- Operator: Our next question will come from the line of Lasan Johong with RBC Capital Markets.
- Lasan Johong: Thank you, great quarter. Gary, the five cents healthcare charge is one time but do you have any ongoing charges or effects?
- Gary Whitlock: We do. They're pretty minimal going forward, so we've excluded this from guidance. Going forward it's fairly minimal.
- Lasan Johong: Like under a penny, basically?
- Gary Whitlock: Yes, under a penny is the way to think about it, exactly.
- Lasan Johong: OK. David, drilling acceleration, are you still seeing acceleration in drilling particularly in the liquids-rich areas?
- David McClanahan: You know we're not seeing any drilling in – any increase in drilling in our traditional basins where the liquids were. The shale plays that we're gathering are not liquids-rich, they're pretty dry. We did see a little uptick in the second, third quarter of last year with a few more rigs going into some of the more traditional basins. They've stayed there, but it's not anything to write home about. So, almost all of the real significant drilling activities are in the shale plays.
- Lasan Johong: Great, one last quick question. Any impact from the Gulf of Mexico oil spill?
- David McClanahan: No, we haven't seen anything.

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- Lasan Johong: Great, thank you.
- David McClanahan: You bet.
- Operator: Our next question will come from the line of Ali Agha with SunTrust.
- Ali Agha: Thank you, good morning.
- Gary Whitlock: Good morning.
- Ali Agha: Gary, could you quantify what exactly was the weather impact to you guys of favorable pickup in the quarter?
- Gary Whitlock: I'll let David take that.
- David McClanahan: Yeah, you know we have weather models that predict this – or try to predict it. They tend to think it's in the 8 to 10 million dollar range. I would say that we think they understate weather a little bit. So we're thinking weather was – had about 10 to 12 million dollar impact on operating income across our LDCs and our electric business. We did, as I noted – last year we saw a fairly steep decline at Houston Electric in usage that we didn't attribute to weather. We really attributed it to the fallout from Hurricane Ike, the weak economy, and really high electric prices that still remained in Texas. The good news is, that all came back. We didn't see that kind of decline this year so we're hoping that bodes well for the rest of the year.
- Ali Agha: And second question David, on Houston Electric as you're going in to file the rate case, could you just remind us on an LTM basis what your ROE is both on a assuming a 40 percent equity ratio and then perhaps assuming a 45 percent equity ratio?
- David McClanahan: Yeah, as I recall, we have a little over 45 percent equity in the business on an actual basis. Last year we earned on a unadjusted basis a little over 11 percent, but on a weather adjusted basis we earned I think about 9.8 percent. Now that's obviously – I don't have the numbers, maybe somebody around the table can get them for us. It's probably 10.7, 10.8 if you take it down to the 40 percent equity level. But it would be up in that upper 10's I imagine.
- Ali Agha: And just to clarify David, your trends – the sort of the bench mark would be what, 10.5, is that considered the reasonable ROE?

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David McClanahan: That's what we've seen the commission, those levels being authorized here recently, yes, that's right. You know I might also say that we don't really expect this rate case to be an earnings driven, where we're going to get a lot of new operating income that falls to the bottom line. It's really a cash flow rate case where we'll get to recover increased expenses whether they're – mainly the pension and the deferred pension and amortize these transmission costs that we incurred during Hurricane Ike that we haven't gotten recovery for. There could be some improvement in the bottom line but I tend to think of this as a cash flow type of case as opposed to a big earnings type of case.

Ali Agha: Understood. Thank you.

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

Steven Gambuzza: Good morning.

David McClanahan: Good morning.

Steven Gambuzza: I think when you provided your outlook in the last – at year end, you indicated that you expect field services to have positive or growing operating income in 2010 versus 2009. And I was just curious that you know given the drop in gas prices and perhaps some decline in volumes from when you originally issued guidance in some of the traditional basins, has your outlook for field services changed at all?

David McClanahan: No, it really hasn't. You know we were essentially on plan in what we expected to occur in the first quarter so it's tracking really right along what we thought it would do. As you know you tend to incur some expenses especially on these big facilities we're building in the Haynesville before all the volumes come through. And it'll be the – third and fourth quarter is where we're going to see you know the full impact of that first phase starting to show up. We might see a little bit of it in the second quarter, but we still believe that this year is going to be a good solid year for field services.

Steven Gambuzza: I guess I was more concerned about the potential for some of the producers in the Fayetteville or the Woodford to stop producing at the current gas prices, or if gas prices were to go down a little bit from current levels. And that might affect your volumes. Is that something

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that you think is a possible or is it not something – you don't expect at current gas prices?

David McClanahan: Well, I guess it's possible but you know a lot of the drilling being done in Haynesville today is to hold the leases. They've got to drill within three years of the date they sign those leases or they'll lose them. And they paid a fair amount to get those leases, so it's driven by that today. But I think if you look at the economics of the shale plays and even where the prices are today, you know they can still make money at this level if you believe the published numbers. And that's really what I'm basing my comments on. Haynesville has almost the lowest cost of any of the shale plays other than maybe the Eagle Ford, so.

Steven Gambuzza: But the Woodford and – you also operate the Woodford and the Fayetteville, is that right?

David McClanahan: Yes, that's right. And the other thing I was reminded, most of these producers have hedged their volumes, for not only this year, but for next year and a little into 2012, so. They're not getting compensated based on today's prices. They've hedged these at significantly higher prices.

Steven Gambuzza: Fair enough, and final question. It sounds like you've spent a significant amount of at least the first phase of the Shell/Encana JV. Have you already invested a good amount of capital through the end of the first quarter, or from a budget standpoint do you feel like you're tracking well in terms of the cost of the project versus your initial estimates?

David McClanahan: Yes, we are. There have been no surprises. We're tracking right what we expected so no budget surprises there.

Steven Gambuzza: Thanks very much.

David McClanahan: You bet.

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

Daniele Seitz: I was wondering if you anticipated capex to be a bit higher next year as well?

David McClanahan: There will be a little more capex because of these contracts we've signed – I would say I think we're estimating a little over 100 million dollars of incremental capital above what we had in our 10-K due to these

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contracts. And that could increase if they elect any further expansions. You know we've seen our first expansion on the Northern properties and we'll see really how their production goes. But I think a minimum of an incremental 100 million dollars for next year on field services.

Daniele Seitz: And your sensitivity to gas prices regarding field services – do you sense that it is working according to your forecast as well. I mean has that changed somehow?

David McClanahan: It really hadn't. We had most of our projected retained volumes this year so we're not as sensitive to gas prices the remainder of this year. Obviously, we're going to be a little bit more sensitive once these hedges fall off if gas prices stay low but we really expect volumes – retained volumes to increase over time, which is going to more than offset any price declines. So we feel good about where we are. Our fee base is still, you know without even taking into account the gas we retain, is still 75 percent of our margin there.

Daniele Seitz: Thanks. And on the competitive natural gas business, is this something that you really feel there is growth there or is the outlook for gas prices just changing a little bit of the aspect of what you were expecting?

David McClanahan: You know I think the growth is really in the retail side. You know gas – we're competing hard for new customers, we're winning new customers. I think gas in a carbon-constrained world is going to be favored so I think it's really on the retail side where we see some opportunities. On the wholesale side, because of where you make money, is really through basis differentials and through our storage. We see storage being very favorable but we see basis being the area that's going to be limited in the future.

Daniele Seitz: Thanks, thank you very much.

David McClanahan: OK.

Operator: Our next question will come from the line of Barry Klein with Citi.

Barry Klein: Hey, guys.

David McClanahan: Good morning.



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- Barry Klein: Just a clarification – you talked about conservation not doing as bad as last year at the T&D division. Is that – was there a rebound or was it just not a decline when you looked at the numbers there?
- David McClanahan: No there was a rebound – it went back to the levels we would have expected the first quarter of last year to be. But we saw that decline and it was one that we couldn't fully explain. Well, it went back to levels that we would have expected it to be. And when we ...
- Barry Klein: Even ex-weather?
- David McClanahan: Excluding weather right. Now it was – I mean we saw some increase in margin there that we didn't fully predict because we weren't fully sure where, if this was going to come back or not. So I think you have to be cautious – one quarter is too early to be a trend, but we do feel pretty good about the – what we saw the usage – we saw both at the electric side, and at the gas side – you know we have seen continued decline in residential usage on a weather-adjusted basis for a long time. This quarter we didn't see that. We didn't see a decline and matter of fact we think we saw some increase in weather-adjusted usage, which is good news. You know that could be related to the economy, it could be related to lower gas prices – a lot of factors, but I think the news is good coming out of first quarter.
- Barry Klein: OK thanks a lot.
- Operator: Our next question will come from the line of Stephen Huang with Carlson Capital.
- Stephen Huang: Morning, guys.
- David McClanahan: Good morning.
- Stephen Huang: Just a quick question here on something that you guys mentioned before – the Eagle Ford shale, can you give us any update on any of the opportunities there since I know you guys have that extra capacity in your pipeline there.
- David McClanahan: You know we continue to talk with producers there. We have some of our customers that have acreage in there and we're talking to them. I don't think we can say much more than that, we don't have any contracts or anything of that nature. We do have some capacity, it's really our

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energy services business on NGPL and that runs very near there, which I think is going to be valuable at some point in time. So, but really not anything else to say other than you know we're interested in moving to that area. We think it's going to be a pretty interesting area. It's a lot more liquids heavy than other shale areas that we're in today.

Stephen Huang: Are you involved with any like RFPs or I guess is there like a time frame we should kind of just look for kind of like the Haynesville.

David McClanahan: You know no, we haven't been, these have been just kind of private discussions, one-on-one, and not responding to RFPs.

Stephen Huang: OK and then on Southeast Supply – on SESH, Spectra mentioned that there's an opportunity to expand there for phase II in the not too distant future. Can you kind of help us give – update in terms of your thoughts on that?

David McClanahan: You know I think that comments are probably based on the utilities in Florida shifting to gas for power plant production. We fully expect it will be expanded. We're not sure exactly when, I know they've got folks on the ground talking to the Florida utilities you know all the time and they would probably have a lot more insight into that. But we do believe that's going to be expanded at some point in time. We still have about 80 million a day that is not subscribed on the original capacity and obviously, we've got to sell that before we think about expanding.

Stephen Huang: And the last thing I had – on Olympia, is it similar to Magnolia in terms of the elections by Shell, is it in increments of 100 or 200?

David McClanahan: Yes, that's exactly right.

Stephen Huang: OK. Thank you.

David McClanahan: OK.

Operator: Our next question will come from the line of Neil Stein with Levin Capital.

Neil Stein: Yes, hi, good morning, and forgive me if you've already answered this question. Equity needs associated with any of your recent mid stream investments? Will you be requiring external equity funding?



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Gary Whitlock: Well, I think the way we think about that really is just the evaluation of our capital structure, which is to continue to improve our capital structure, ensure we can execute our business plan. Certainly, capex related to field services, which are non-rate regulated businesses, will require a portion of equity, but let me maybe describe it like this. At this point you know we started the year with a significant amount of cash on hand that we've used to pay down debt. Our businesses still generate a significant amount of cash, they're performing solid, after dividends certainly, with a 1.5 billion dollar capex program, we'll have a shortfall there. But we're going to do this in a thoughtful way and continue to look – we don't think of it as financing for a project, we think of our capital structure and how we can continue to improve that. But over the long term as we are able to execute more of these very accretive growth opportunities in field services, there will be the right mix of debt and equity in our balance sheet.

Neil Stein: When do you think you would make a final decision on that?

David McClanahan: I wouldn't comment – I couldn't comment on that. I think this is ongoing evaluation and we're looking at our sources and uses of cash and timing.

Neil Stein: OK, and you know all these projects you announce are all very sound and seem to be you know have very attractive economics. But when we look at your earnings power over the last four or five years it's been you know plus or minus a dollar you know and fairly steady for a long period of time. Can you talk about you know just longer term you know what you're targeted growth rate is and do you hope to grow EPS from here?

David McClanahan: Well, we do hope to grow it – there's no question about that. I think you have to look at the balance – you know our portfolio. About 80 percent of it – 75 to 80 – no I guess 80 percent is really rate regulated. A big part of that is Houston Electric and the LDCs and that probably represents a little over 60 percent and that's going to grow at a rate that a typical distribution company would grow. And it's based on service area growth – it's in the two to four percent range probably. We believe that there's substantial growth opportunities in field services and it's been growing at a clip of about 20 percent. And then pipeline went through a big burst of growth where we built two new pipelines. That's slowed down some but we still are looking at additional opportunities there. So we think the growth in that sector – pipelines and fields services – is in the five plus percent and maybe in field services it could be repeating the

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20 percent for a while that we've seen the last five years. So we think there's going to be growth. As you may have seen, and we have issued a fair amount of equity you know we're in that – and that obviously takes its toll on earnings growth when you do that. Last year we issued over 500 million. There's good reasons to do that, we kind of started out in life with a pretty leveraged balance sheet and we've had to strengthen it over time and we've been able to do that. And now we're really focused on growing the business and hopefully that'll produce positive growth in earnings per share.

Neil Stein: And when you talk about you know those growth figures, is that net income growth or is that EPS growth? Because you know as you alluded to there has been this big difference.

David McClanahan: Yes, I was referring to the growth in each individual business segment. We tend to think about that as operating income. That will flow through down to the bottom line, but obviously it depends to some extent on the way you finance those opportunities. But overall you know our – if you look at our company we're not going to grow at double-digit growth rates as a company. If we could grow at the five percent annual growth rate I think we'd be very pleased with that, given our very solid regulatory base that we're working with.

Neil Stein: And do you think you could actually demonstrate five percent EPS growth in the near term meaning 2011, 2012?

David McClanahan: I think it's you know we haven't provided guidance for those years. I don't think it would be appropriate to comment on that. I will tell you that we're working hard to grow the business you know we know that's – our shareholders want good dividends, solid dividends, secure dividends but they also want some growth in those dividends and so we're focused hard on trying to grow our earnings so we can grow dividends.

Gary Whitlock: But I think it is clear to say we will grow net income, absolutely, during this time frame. And I think if you look at our capital structure, we're going to thoughtfully evaluate that capital structure. But these are very good solid businesses obviously, and then if you look at the growth opportunities that we've been executing only speak for themselves.

Gary Whitlock: No, I mean the net income growth has been pretty clear and demonstrable.

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- Gary Whitlock: Very clear.
- Neil Stein: It's been the EPS growth that's been the challenge.
- David McClanahan: Right.
- Gary Whitlock: Well, I say a challenge, I mean you can describe it as a challenge but I think you know the equity raises that we have and in the future will be to be fund growth as we've said. I think we've done a good job repairing our balance sheet and getting ourselves in a position to execute on very accretive growth. That be will our objective going forward.
- Neil Stein: OK. Thanks very much.
- Operator: Our next question is a follow-up question from Carl Kirst with BMO Capital Markets.
- Carl Kirst: Appreciate the time. Actually just a couple of follow-ups from Neil and Steven. The first is on SESH – refresh my memory. There were some – aside from the 80 million that's not sold out, there were some long-term contracts that were being phased in over time. Does that finish phasing in this year or do they finish phasing in next year.
- David McClanahan: No, it's actually next year. There is still about 200 million this year that we can sell and in fact we've sold part of that on a short term basis. It runs through the fall. And then they'll still be a piece next year that's unsold but I think all of the – there is something like out of the one BCF we've sold 950 million a day or I'm just rounding now. And all that will come into play I think toward the end of next year where it's fully – fully you know subscribed or implemented.
- Carl Kirst: Absent the 80 million which hasn't been contracted.
- David McClanahan: Right.
- Carl Kirst: OK. I appreciate that. The second question was just on the timing of the Olympia system. It sounds like with the bulk of the spend here this year we might be able to get the Olympia fully up and running by next spring. Is that fair assessment?

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David McClanahan: I think early first quarter of next year we would expect to see a lot of volumes flow through there. And you know we're – we bought existing facilities so there is going to be a little contribution this year but we have to build a trunk line and some amine facilities and you know we've got all the amine facilities on order. But it'll be toward the end of this year before they get in and get put in place.

Carl Kirst: Yes, fair enough. And then last question if I could, and it sort of goes to the capital structure Gary. Obviously you guys are looking to be prudent with your balance sheet and you know it's starting to be reflected in the rating agencies. Are there opportunities because I guess perhaps the uncertainty of whatever the Texas Supreme Court may rule and whether or not there may be any cash that ultimately comes to the balance sheet. Is there any way to fund things using synthetic or other you know not common equity in the near term? I know it's a difficult question to answer but...

Gary Whitlock: Well, we haven't really looked into that. I think as I said earlier in my prepared comments we have a very significant liquidity and cash on hand so I think as a separate issue around liquidity and funding. Our capital structure both the utilities and of course the parent company which we will over the long-term as you know Carl continue to delever the parent. We think of the capital structure in the long-term, not the near term. So funding is not an issue. We'll certainly hope that the true up proceeding is finally over with and justice is done. But we'll just have to wait and see how that plays out. So I don't really – again the way we think about the capital structure is clearly the long-term not the short term.

Carl Kirst: OK, no, I appreciate that. And then just to ask what is probably fairly obvious but no word from the Texas Supreme Court, right?

David McClanahan: Hadn't heard a thing.

Carl Kirst: Fair enough. Thanks guys.

David McClanahan: Thank you.

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



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- Tom O'Neill: Good morning. I was just curious to round out the questions, get your kind of current thoughts on the formation of an MPL versus raising common equity?
- David McClanahan: You know we continue to look at an MPL. I think the MPL equity market is much better this year than it has been for probably 12, 18 months. It kind of went into the ditch in late '08. So we continue to look at that and we think there is some arguments, fair arguments to be made. If you can raise equity at a less expensive price at the subsidiary through the MLP as opposed to the parent you ought to look at it. And we do. It's kind of continuously on our agenda but as you know we've looked at it in past have chosen not to do it, but that doesn't mean we won't in the future.
- Tom O'Neill: Great. Thank you.
- Operator: Our next question is a follow-up question from Lasan Johong with RBC Capital Markets.
- Lasan Johong: My question has been answered. Thank you.
- Operator: Thank you. Our next question will come from Daniele Seitz with Dudack.
- Daniele Seitz: I was wondering do you see a possibility for a settlement in Texas since most of the issues have already been possibly understood by the Commission?
- David McClanahan: On the – on our rate case?
- Daniele Seitz: Yes.
- David McClanahan: You know we always work to settle and if you look at what we've done the last few times that we've been at the Commission we have settled. So I think there is a – that's certainly something that will be considered and we'll look at it. I don't know that, what the other parties will do...
- Daniele Seitz: I mean there is no ...
- David McClanahan: ... unintelligible ...



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- Daniele Seitz: reasons to go through the full rate case or is there really a major reason at this point?
- David McClanahan: Well, you know there are going to be some points of contention. There is no question about it and it just depends on if and if we can find common ground. And so I – Daniele, it's really hard – it's hard for us to estimate it but we always look to settle if we can.
- Daniele Seitz: Thank you.
- David McClanahan: OK.
- Operator: As an additional reminder, if you would like to ask a question please press star one. Our next question will come from the line of Steve Gambuzza with Longbow Capital.
- Steve Gambuzza: On the financing front could you remind us if you have a dividend reinvestment plan and how much equity you would expect to issue under the plan.
- Gary Whitlock: Yes, this is Gary. We do. We have a – our benefit plans, both the drip plan and our savings plan, and I would think this year think of 70 to 80 million dollars. As I said those plans have been turned on and will continue to go forward, so think of 70 to 80 million dollars.
- Steve Gambuzza: OK and were you at something close to that run rate in Q1?
- Gary Whitlock: Yes.
- Steve Gambuzza: OK. And then do you also have a periodic stock issuance program that's effective now. I know you had one previously. I just don't know if that's still ...
- Gary Whitlock: No. No, no we do not.
- Steve Gambuzza: OK. So that presumably is one of the tools you'll evaluate to meet your needs?
- Gary Whitlock: Yes, again as I said we're looking at this capital structure for the very long term as we execute a business plan and I think all those things are in the toolbox.

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- Steve Gambuzza: OK, thanks very much.
- Gary Whitlock: You're welcome.
- Operator: Our next question will come from the line of Ali Agha with SunTrust.
- Ali Agha: David, just wanted to clarify the Texas filing, the rate case filing coming up for Houston Electric. As you point out, and depending on the equity ratio calculation and other issues, you may end up you know having a higher ROE than the threshold – weather, et cetera, as you said points of contention. Are you concerned that you know at the end of the day there could be a ruling that you need to give back because of excess earnings? I mean after all they called you in primarily to justify the ROE. So how concerned are you of any potential give back when all is said and done.
- David McClanahan: I'm not – you know we're not overly concerned. Obviously anytime you go in you run a risk. You never know what the other side – other parties are going to do and I fully expect that some parties are going you know push for a big rate reduction because you always see that happening because they take fairly extreme issue – you know measures on or positions on some issues. So I'm not – I'm not overly concerned about it but it's always a risk.
- Ali Agha: Yes. OK. I will keep track on that. Thanks.
- David McClanahan: OK.
- Marianne Paulsen: OK. I think that's about all the time we have left. So thank you very much to everyone. I would like to thank you very much for participating on the call today. And we appreciate your support very much. Have a wonderful day.
- Operator: This concludes today's CenterPoint Energy's first quarter 2010 earnings conference call. Thank you for your participation and you may now disconnect.

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