Second Quarter 2011 Earnings Conference Call
August 4, 2011

Marianne Paulsen – Director, Investor Relations

Thank you very much, Thea.

Good morning, everyone. This is Marianne Paulsen, Director of Investor Relations for CenterPoint Energy. I'd like to welcome you to our second quarter 2011 earnings conference call. Thank you for joining us today.

David McClanahan, president and CEO, and Gary Whitlock, Executive Vice President and Chief Financial Officer, will discuss our second quarter 2011 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 Thursday, August 11, 2011. To access the replay, please call 1-800-642-1687, or 706-645-9291, and enter the conference ID number 75341557. 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 the company.

This morning, I will update you on our true-up appeal, then describe our second quarter financial results and provide the operating results for each of our business segments.

Let me begin with our true-up appeal.

As most of you probably know, the 1999 law which restructured the electric industry in Texas allowed electric utilities to recover stranded costs and certain other transition expenses in what is known as a true-up proceeding. In 2005, the Texas PUC issued a decision that failed to allow us to recover some of the amounts which we had requested in our application. As a result, we took a 1.5 billion dollar pre-tax charge to earnings and appealed the PUC decision. The appeal was heard in the District Court, followed by the Court of Appeals and finally the Texas Supreme Court. In March of this year, the Supreme Court issued a favorable decision in our appeal and reversed the PUC on a number of points. Several parties subsequently filed motions for rehearing, which have been denied by the Court. The case has now been remanded to the Commission for implementation.

Based on the Court's decision, we will be seeking recovery of approximately 1.9 billion dollars in the remand proceeding, an amount which includes interest through October of this year. Intervenors have asked the Commission to hold hearings to review several issues, including the tax normalization issue that arose from the PUC's original decision, the interest rates to be applied to the true-up balance and certain tax benefits, and the recoverability of transaction costs associated with the sale of Texas Genco and rate case expenses. We believe the Commission can promptly complete any necessary reviews of these issues, and while there has not been a procedural schedule established, we hope these proceedings can be concluded by early fall.

Now let me review the company's overall results for the second quarter.

This morning we reported net income of 119 million dollars, or 28 cents per diluted share. This compares to net income of 81 million dollars, or 20 cents per diluted share, for the second quarter of 2010.

Operating income for the second quarter was 303 million dollars compared to 263 million dollars last year. We also reported 10 million dollars in lower interest expense this year compared to the second quarter of 2010.

Houston Electric had a strong quarter, reporting operating income of 153 million dollars, about 31 million dollars above the second quarter of 2010. Operating income benefited from increased usage, primarily related to warmer weather, higher transmission revenues received from other providers, partially offset by higher transmission costs, and lower depreciation expense. We also benefited from growth of more than 32,000 customers since the second quarter of last year. This represents a growth rate of over 1.5 percent and is an indication that our service territory continues to rebound. Offsetting these benefits were higher operating expenses.

The second quarter results do not reflect the impact of our recent Houston Electric rate case. Although there are pending motions for rehearing, we now expect new tariffs to be implemented in early September. As I indicated earlier this year, the cash flow impact from this case should be minimal but we anticipate Houston Electric's operating income will be negatively impacted by approximately 30 million dollars on an annualized basis once the new rates are in effect. Assuming rates are implemented on September 1st, we expect the negative impact on operating income this year to be approximately 10 million dollars.

Our natural gas distribution business had a solid quarter, reporting operating income of 13 million dollars, or about 3 million dollars above the second quarter of last year. This increase resulted primarily from rate changes, increased usage due in part to weather and growth of over 27,000 customers, partially offset by increases in operating expenses.

We are progressing well in the implementation of advanced metering technology in both our electric and natural gas distribution utilities in Houston. Houston Electric is now more than two thirds through the deployment of an advanced metering system having installed approximately 1.5 million smart meters. We expect this deployment to be completed by the middle of next year.

Earlier this year, we began installing remote electronic transmitters on the 1.2 million natural gas meters in and around our Houston service territory. We have completed installation of over 250 thousand transmitters, which is a bit ahead of schedule, and expect to be completed in the first half of 2013.

This new technology is expected to not only provide customer benefits, but to improve the operating efficiencies of these two business units.

Our competitive natural gas sales and services business reported operating income of 3 million dollars compared to an operating loss of 6 million dollars for the second quarter of 2010. After adjusting for mark-to-market accounting for derivatives, the second quarter of 2011 would have reflected an operating loss of 1 million dollars compared to operating income of 2 million dollars for last year. Our retail business continued to perform well. We saw an increase in both retail customers and sales volumes. Overall, however, throughput was down, and we continue to face a challenging market environment mainly as a result of reduced basis spreads.

Now let me turn to our midstream businesses – interstate pipelines and field services.

Our interstate pipelines recorded operating income of 60 million dollars compared to 67 million dollars for the second quarter of 2010. In the second quarter, we received lower revenues due to an expiring backhaul contract as well as restructured long-term contracts with our natural gas distribution affiliates. We also experienced lower off-system sales and higher operating expenses. However, this was offset somewhat by increased revenues from ancillary services, including new services available to our power generation customers.

Equity income from SESH, our joint venture with Spectra, was 5 million dollars compared to 4 million dollars in the second quarter of 2010.

Our field services unit reported operating income of 39 million dollars compared to 31 million dollars for the second quarter of 2010. The increase in operating income was primarily the result of long-term agreements in the Haynesville and Fayetteville shale plays. This was somewhat offset by lower prices that we received from selling retained gas as well as higher expenses primarily related to facility expansions, and a one-time 2.7 million dollar sales tax adjustment.

In addition to operating income, we also recorded equity income of 3 million dollars for both the second quarter of 2011 and 2010 from our jointly-owned Waskom facilities.

Our gathering volumes were up significantly this quarter. Average gathering volumes were approximately 2.2 billion cubic feet per day, an increase of about 26 percent from the second quarter of last year and up more than 6 percent from last quarter.

Gathering volumes related to shale reserves accounted for approximately 63 percent of our total volume this quarter compared to about 46 percent for the second quarter of last year.

Gathering volumes from our traditional basins were at levels comparable to the first quarter of this year, but were down approximately 16 percent from the second quarter of last year.

We have completed the major construction milestones on our Magnolia and Olympia gathering systems in the Haynesville shale. The Magnolia system was completed last year. The Olympia system, as well as a 200 million cubic feet per day expansion of the Magnolia system, were substantially completed earlier this year. Our remaining expenditures relate primarily to the connection of additional wells to the system. We are also investing in additional compression and amine facilities in the area that will provide opportunities to gather volumes for other producers.

During the second quarter, throughput on the Magnolia system averaged approximately 535 million cubic feet per day, which is slightly below the first quarter of this year due to continuing gas quality issues, which are being addressed by our customers as well as delays in well completions. The Olympia system averaged about 430 million cubic feet per day during the second quarter, an increase of more than 30 percent over last quarter. We expect throughput on these two systems to increase over the course of the year, and be at or near system capacity in early 2012.

In addition to the Haynesville shale area, we have also realized throughput growth of about 9 percent since last quarter and over 40 percent compared to the second quarter of last year in the areas that include the Fayetteville and Woodford shales, primarily driven by projects we are developing for ExxonMobil. As we've discussed in the past, our principal contracts in the Haynesville and Fayetteville shales provide for throughput or rate of return guarantees, which reduces our sensitivity to throughput volumes.

While a number of producers are shifting their emphasis from leaner shale plays to more liquid rich plays, our principal customers have maintained a consistent level of drilling in the Haynesville, Fayetteville and Woodford shales since the beginning of the year. While we anticipate continued growth in the development of these areas, the current low gas price environment may slow the pace of expansion. However, as mentioned on previous calls, we are interested in expanding our business to the more liquid rich plays and continue to pursue projects in the Eagle Ford, Granite Wash and Marcellus plays.

In closing, I'd like to remind you of the 19.75 cent per share quarterly dividend declared by our Board of Directors on July 19th. We believe our dividend actions continue to demonstrate a strong commitment to our shareholders and the confidence the Board of Directors has in our ability to deliver sustainable earnings and cash flow.

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

Gary Whitlock - Executive Vice President and CFO

Thank you, David, and good morning to everyone.

Today, I would like to discuss the recent positive actions taken by the credit rating agencies, provide an update on the status of our revolving credit facilities and discuss our earnings guidance.

Let me start with our credit ratings. You may recall that during our first quarter investor call, I noted that S&P had affirmed the CenterPoint family corporate credit ratings and revised their ratings outlook to positive from stable. I am very pleased to note that we have experienced two favorable developments since our last investor call.

Following the Texas Supreme Court's decision in our true-up case, Moody's placed under review for possible upgrade the ratings of CNP and our operating subsidiaries. On June 29th, Moody's announced that it had concluded its review and upgraded the long and short-term ratings of both CNP and CERC. The senior unsecured ratings of CNP were upgraded to Baa3 from Ba1, and the senior unsecured ratings of CERC were upgraded to Baa2 from Baa3. In addition, the ratings of CEHE were confirmed and the outlook for all three companies is stable. This means that the senior unsecured ratings of our parent company are now investment grade at all three of the agencies, which as you know, has been one of the key objectives for our company since its inception. In addition, on June 22nd, Fitch revised the ratings outlook on CNP and CEHE to positive from stable. We are very pleased with the actions of these agencies.

Now let me describe the status of our revolving credit facilities. We are in the process of working with our banks to replace our various revolving credit facilities, which are scheduled to expire in June of 2012. We have begun the general syndication of these facilities and expect to close on them in the third quarter. Each of the replacement facilities should be approximately the same size as the ones expiring and we are proposing five year maturities for each. We expect the economic terms to be in line with the terms of other similar facilities that have been syndicated in the market recently. In common with the experience of most borrowers, drawn and undrawn costs under the new facilities will be higher than the costs under the facilities we negotiated in 2007.

We are taking this action now to take advantage of what looks to be a very receptive market in order to lock in our short-term liquidity sources for the next 5 years.

Finally, let me discuss our earnings guidance. As David mentioned, we are pleased with the overall financial performance of our businesses so far this year, and, this morning we reaffirmed our 2011 earning guidance in the range of a dollar four to a dollar fourteen cents per diluted share. As a reminder, this guidance does not include the earnings impact of the true-up case. In addition, in providing earnings guidance we have taken into consideration our year-to-date performance, as well as various economic, operational and regulatory assumptions. 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, and 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. Thea, 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 one on your touch tone keypad. To withdraw your question press the pound key. The company requests that when asking a question callers pick up their telephone handset. Thank you. The first question will come from Jim Krapfel with Morningstar.

Jim Krapfel: Hi guys. How are you doing?

David McClanahan: Good morning.

Jim Krapfel: Are you having any discussions with Shell Encana with regards to exercising their expansion rights or has the low natural gas environment, you know, are - they're taking more of a delay in regard to expanding their throughput capacity.

David McClanahan: You know, we haven't had any discussions recently. We obviously continue to, we talk regularly about their production schedule and where they're headed. In our five year plan we've got about half of their expansions options assumed to be exercised. I think based on the low gas price environment, our thinking today, we may push that out a little bit. But we're not, we still think they're going to exercise and expand this system. It may be a little later than we had originally thought about.

Jim Krapfel: OK, great. Thank you.

Operator: The next question will come from Carl Kirst with BMO Capital.

Carl Kirst: Hey thanks. Good morning everybody. I was just wondering, David, as you mentioned that obviously you guys are still looking at doing things more in the liquids-rich, be it Eagle Ford, Granite Wash, Marcellus. Last we spoke we were thinking maybe we might get more color on that by the end of the year. Is that still roughly the timeframe we're tracking to, or is there any additional color around those efforts at this point?

David McClanahan: No, Carl. I think that is pretty much the same timeframe. We had thought that there was going to be some, at least some paring down of the bidders in one RFP by mid-summer, but the customers delayed its action until later on this year. So we still think by the end of the year we'll have some insight into whether or not we're going to get any Eagle Ford facilities.

Carl Kirst: Understood. Also just on the pipeline side. One, it might be too early but didn't know if you had any comments on the open season of Thunder. But the other that I wanted to ask about was in the text of the press release, there mentions the backhaul contract. I don't know if that's the Chesapeake contract. I thought that expired July 1, and so I just wanted to get a better sense of the timing of that expiration and indeed if we've been able to offset it even if somewhat.

David McClanahan: The Chesapeake backhaul did expire. The original contract I think the first of June. They are still continuing to take certain services from us under a different modified contract. So they still are buying backhaul services from us. I don't think that's a long term agreement. And we are having some progress in selling some additional capacity on CP that's been made available by some additional compression we put on the system and just running the system a little better. So I think we have made some progress. Our view was that this was going to be 20 million dollar impact plus or minus, and we still think that's the case over the long term. So I think things are going according to plan there, and that was the Chesapeake contract that we referred to. In terms of Thunder, it is a little bit too early. We did get a fair amount of interest and we're in discussions with the folks that expressed their interest. And I think it's too early to tell if there's a need for additional pipe there or whether existing facilities can be used to service some of these needs.

Carl Kirst: Great, thank you.

David McClanahan: Okay.

Operator: Please remember, if you wish to ask a question, simply press star one on your telephone keypad. Thank you for your cooperation. The next question will come from Andrew Weisel with Macquarie.

Andrew Weisel: Hi. Thank you. Couple questions on the utility. We see higher O&M and I know a lot of that was expected. Any way to quantify how much of that is related to the drought conditions down there and the stress on the grid from extreme weather?

David McClanahan: You know, if you look at this, Andrew, most of the O&M increases were in labor. A little overtime, some medical benefits and kind of cats and dogs. There's no one big item. I don't really think it's related to the drought situation. We do have some increased transmission costs but those are offset by transmission revenues - more than offset the revenues do. So I don't think the drought is having that big a deal. But this grid is stressed. We've been under alert all week and it's hot in Texas. So but I don't think that's creating any operating expense increases to speak of.

Andrew Weisel: OK. Great. And I will say I'm glad I'm not living in Texas as we follow the weather reports. Other question for you on that, I see that you appealed the rate case in Houston. Are you able to comment at all on what specific issues you're debating there and when we might get some more clarity?

Scott Rozzell: This is Scott Rozzell. Actually the appeal that we filed on that rate case was a procedural nicety that lawyers love to talk about. The case is still active before the Commission on motions for rehearing, and there will be other appeals issued by the parties once the order on the final order of rehearing is issued. There's a question about whether or not procedurally you have to appeal an order on a first order of rehearing when there is a

	second order of rehearing coming, and just to make sure we were protected, we filed an appeal of the first order. So I think what you can look for is the real appeals of the parties will be on the second order for rehearing which we expect to either have a new order or the old order denied by operation of law here this month.
Andrew Weisel:	Great, thank you.
Operator:	Once again, if you would like to ask a question please press star one. Thank you for your cooperation.
Marianne Paulsen:	Do you have any other questions?
Operator:	There are no further questions, ma'am.
Marianne Paulsen:	OK. Thank you very much. Since we do not have any other questions I'll end the call. Thank you very much for participating today. We appreciate your support very much. Have a great day.
Operator:	This concludes Center Point Energy's second quarter 2011 earnings conference call. Thank you for your participation.

Cautionary Statement Regarding Forward-Looking Information

This information includes forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Actual events and results may differ materially from those expressed or implied by these forward-looking statements. Statements regarding CenterPoint Energy's earnings outlook for 2011, future financial performance and results of operations, the anticipated future recovery as a result of the Texas Supreme Court's true-up decision, including the amount, timing and method of recovery, the expected accounting treatment and cash flow impacts of the true-up decision, the future impact of the PUC's rate case decision and the anticipated timing for the new rates, the timing for deployment of smart meters and remote electronic transmitters, the future growth expectations for the field services business, including the anticipated growth in gathering volumes in certain shale plays, customer growth rates, future levels of natural gas production and drilling activity, and other statements that are not historical facts are forward-looking statements. Each forward-looking statement contained herein speaks only as of August 4, 2011. Factors that could affect actual results include (1) the resolution of the true-up proceedings, including future actions by the Public Utility Commission of Texas in response to the decisions by the Texas Supreme Court and the Texas Third Court of Appeals, and any further appeals thereof; (2) state and federal legislative and regulatory actions or developments relating to the environment, including those related to global climate change; (3) other state and federal legislative and regulatory actions or developments affecting various aspects of CenterPoint Energy's businesses, including, among others, energy deregulation or re-regulation, pipeline integrity and safety, health care reform, financial reform and tax legislation; (4) timely and appropriate rate actions and increases, allowing recovery of costs and a reasonable return on investment; (5) the timing and outcome of any audits, disputes or other proceedings related to taxes; (6) problems with construction, implementation of necessary technology or other issues with respect to major capital projects that result in delays or in cost overruns that cannot be recouped in rates; (7) industrial, commercial and residential growth in CenterPoint Energy's service territories and changes in market demand, including the effects of energy efficiency measures, and demographic patterns; (8) the timing and extent of changes in commodity prices, particularly natural gas and natural gas liquids, and the effects of geographic and seasonal commodity price differentials; (9) the timing and extent of changes in the supply of natural gas, including supplies available for gathering by the Field Services business and transporting by its interstate pipelines; (10) weather variations and other natural phenomena; (11) the impact of unplanned facility outages; (12) timely and appropriate regulatory actions allowing securitization or other recovery of costs associated with any future hurricanes or natural disasters; (13) changes in interest rates or rates of inflation; (14) commercial bank and financial market conditions, CenterPoint Energy's access to capital, the cost of such capital, and the results of financing and refinancing efforts, including availability of funds in the debt capital markets; (15) actions by rating agencies; (16) effectiveness of CenterPoint Energy's risk management activities; (17) inability of various counterparties to meet their obligations; (18) non-payment for services due to financial distress of CenterPoint Energy's customers; (19) the ability of GenOn Energy, Inc. (formerly known as RRI Energy, Inc.) and its subsidiaries to satisfy their obligations to CenterPoint Energy and its subsidiaries; (20) the ability of retail electric providers, and particularly the two largest customers of the TDU, to satisfy their obligations to CenterPoint Energy and its subsidiaries; (21) the outcome of litigation brought by or against CenterPoint Energy; (22) CenterPoint Energy's ability to control costs; (23) the investment performance of pension and postretirement benefit plans; (24) potential business strategies, including restructurings, acquisitions or dispositions of assets or businesses; (25) acquisition and merger activities; and (26) other factors discussed in CenterPoint Energy's Annual Report on Form 10-K for the fiscal year ended December 31, 2010, CenterPoint Energy's quarterly reports on Form 10-Q for the quarters ended March 31, 2011, and June 30, 2011,and other reports CenterPoint Energy or its subsidiaries may file from time to time with the Securities and Exchange Commission.