Second Quarter 2010 Earnings Conference Call
August 4, 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 second 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 second 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, August 11, 2010. To access the replay, please call 1-800-642-1687 or 706-645-9291 and enter the conference ID number 86603138. 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.

Today I'm going to give my prepared remarks in a somewhat different fashion. I'm first going to talk about new developments that occurred during the second quarter and provide some details around certain business operations that I believe are of interest to many of you. I'll briefly describe our overall financial results and Gary will provide details regarding the performance of each of our business units.

Recently, there have been three questions that I am asked most often when talking to analysts or shareholders about CenterPoint Energy. First, what can you tell me about the Houston Electric rate case? Second, how are your new investments in field services doing and what are the key sensitivities around profitability in that business? And finally, is there anything new with the true-up case?

Let me take the last one first. There still has been no decision by the Texas Supreme Court on our true-up appeal. While the Supreme Court has already ruled on some appeals that were heard after ours, we know our case is complex and are not surprised the Court has yet to render a decision. We still believe that there is a good chance that the Supreme Court will reach a decision before the end of this year.

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As most of you probably know, we filed a Houston Electric rate case on June 30th. This filing was required as part of the settlement we reached in our last rate case over four years ago. Our rate request has two pieces – a 76 million dollar increase in our distribution rates and an 18 million dollar increase in our wholesale transmission rates. Since our filing, we have determined that our present distribution rates will not produce quite as much revenue on a normalized basis as we first calculated and accordingly the revenue deficiency in our filing may actually be another 15 million dollars or so higher. The increases we have requested in our base rates are influenced significantly by three factors: First, we are shifting to base rates the investment we have made to-date in our Advanced Metering System. This increased our revenue requirement by about 38 million dollars. Secondly, we requested an increase in the equity component of our capital structure from the 40 percent level currently in rates to 50 percent. As a rule of thumb, each 5 percent movement in equity capitalization would have about a 20 million dollar revenue requirement impact. We have also requested an eleven and a quarter percent return on equity. This is the return set by the Commission in our last fully-litigated rate case in 2001. For each 25 basis point change in ROE the revenue requirement impact would be about 7 million dollars. In addition to these three factors, we have requested recovery of increased pension costs as well as the amortization of pension costs we deferred over the last few years. The impact of the pension cost is substantially offset by lower depreciation expense due to revisions we have requested in our overall depreciation schedule. There have also been other typical increases in our cost of service since 2006 when our present rates were set.

As part of this filing we also requested a distribution cost recovery mechanism that would allow us to annually adjust distribution rates to reflect changes in expense, capital investment and customer usage. The Commission currently has a rulemaking under consideration that encompasses some of these same principles. Last Friday, the Commission severed this part of our rate application due to this rulemaking. While we were aware that the timing of our request for the adjustment mechanism was not ideal due to the pending rulemaking, we felt it was important to include it in our filing. We hope that the distribution rates that come out of our case will be the baseline for any future adjustment mechanism. We expect the Commission will render a decision in our case around the end of this year.

Now, let me turn to our field services business. This is our fastest growing business segment and one that is changing very rapidly. I believe a good way to think about this business is to divide it into two pieces – our traditional basins where our customers develop their projects using vertical drilling, and our shale plays where horizontal drilling is the norm.

In our traditional basins we both gather and process natural gas. We typically have dedicated acreage provisions in our contracts but no throughput guarantees. The majority of our processing, whether from our wholly-owned plants or our Waskom joint venture, comes from our traditional basins. For the first 6 months of this year, approximately 66 million dollars, or nearly 60 percent, of our total operating margin was realized from our traditional basins on gathering volumes of approximately 156 billion cubic feet. For clarity, I would note that our operating margin is our reported revenues less natural gas expense. This operating margin includes gathering and processing fees and the sale of retained gas and natural gas liquids. We estimate that the year-to-date operating margin from our traditional basins is about 20 million dollars lower than last year primarily as a result of the decline in drilling and production. However, we have seen some recent indications that this decline has begun to moderate.

Our gathering business in the shale plays is different. In these areas, we have either volume commitments or rate of return guarantees and, thus, we're not exposed to the throughput risk of the traditional basins. There are minimal amounts of liquids in the natural gas we currently gather from the shales and, therefore, limited processing opportunities. Our three largest customers in the shale plays are Shell, Encana and Exxon-Mobil, the successor to our long-time customer, XTO. Gathering for Exxon-Mobil is concentrated in the Fayetteville and Woodford shales, while gathering for Shell and Encana is concentrated in the Haynesville Shale.

The majority of our activities and investment this year have been in Haynesville, so let me focus on that area for a moment. We have two major gathering systems in this region. The Magnolia system, which is in north Haynesville, is substantially complete with only well connect activity remaining. To-date, we've spent about 286 million of our projected 325 million dollar budget for the original 700 million cubic feet per day system. In addition, Shell and Encana have made their first request for an expansion to this system for an additional 200 million cubic feet per day. This expansion, which should cost approximately 60 million dollars, is under way and should be in service in the first quarter of next year.

The Olympia system in southern Haynesville is under construction and is expected to be substantially complete, except for well connects, by the end of this year at a cost of approximately 400 million dollars. This includes the existing facilities we purchased at closing. Construction on the trunk line is underway and permits are pending for the necessary treating facilities.

Our gathering volumes in the Haynesville area have increased substantially during the first six months of this year, and include some third-party volumes not related to Shell and Encana. In the second quarter our average gathering volumes from the Magnolia and Olympia systems were about 500 million cubic feet per day.

We have also seen some modest increases in gathering from other shale areas. In total, our estimated average daily volume year-to-date from all the shale areas was approximately 700 million cubic feet per day. Operating margin from these areas was about 42 million dollars, or about 35 percent of our total margin, for the first six months of this year on gathering volumes of approximately 128 billion cubic feet. Once again this margin includes both our gathering fees and sales of retained natural gas. In the first 6 months of last year, we had only minimal operating margin from the shale areas.

We've been asked how to estimate the impact of changes in natural gas prices on the operating margins of our field services business. As a reminder, our gathering revenues are primarily derived from fees, but there is a portion related to sales of retained natural gas. We retain gas from either a usage component of our contracts or from compressor efficiencies. As a rule of thumb, we currently retain about one and one half percent of all gathered volumes. So for example, if we gathered 100 billion cubic feet of gas, we'd retain 1.5 bcf. Thus, a one dollar change in the price of gas would impact our operating margin by approximately one and a half million dollars.

I've covered this fairly quickly, but we can spend more time during the Q&A session if further clarification is needed.

With respect to our operating results for the second quarter, we had a good, solid quarter overall with most business units performing at or ahead of our expectations.

Operating income was 263 million dollars this quarter compared to 253 million dollars last year. Our net income was 81 million dollars, or 20 cents per diluted share, compared to 86 million, or 24 cents per diluted share, in the second quarter of last year. Gary will give you additional detail regarding our segment results in a moment.

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 July 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 flows.

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.

Let me give you a little more detail about the performance of our individual business units.

Houston Electric reported operating income of 122 million dollars compared to 129 million dollars in 2009. As part of our securitization of Hurricane Ike restoration costs late last year, we were required to implement a tariff that gave our customers credit for the time value of the accelerated tax benefits associated with those storm costs. The credit mechanism chosen by the Commission resulted in a larger securitized amount but required a credit to customer bills during the life of the securitization bonds. The reduction in revenues from this credit accounts for substantially all of the decline in Houston Electric's operating income this quarter. Increased revenues associated with our customer growth of approximately 21,000 and higher income from our Advanced Metering System investments offset our operating expense increases.

Our gas LDCs had another solid quarter, and are having a very good year. Operating income was 10 million dollars compared to 2 million dollars last year. This increase was primarily due to rate changes, non-volumetric revenues such as reconnect fees and lower operating expenses. The continued success of this unit is a reflection of the efforts we've devoted to improving our rate structure as well as the continued focus on minimizing delinquencies and bad debt.

Our competitive natural gas sales and services business reported an operating loss of 6 million dollars compared to operating income of 6 million dollars last year. Adjusting for the mark-to-market impacts associated with derivatives, this year's operating income would have been 2 million dollars compared to 3 million dollars last year. While the second quarter is not typically a strong quarter for this unit, this year there was less market volatility and therefore fewer opportunities to optimize our transportation and storage assets. Without such opportunities operating income will be primarily tied to margins from natural gas sales to commercial, industrial and wholesale customers.

Finally let me turn to our pipelines and field services segments. Our interstate pipelines reported operating income of 67 million dollars compared to 61 million dollars last year. Our core business performed well with increased margins from Phase IV of our Carthage-to-Perryville line and reduced operating expense. However, off-system sales declined due to a tightening of basis spreads across our system, and ancillary revenues were also down. Our equity income from SESH, our joint venture with Spectra, was 4 million dollars for the second quarter of 2010 compared to 9 million dollars last year, which included 5 million dollars related to a reduction in estimated property tax and a one-time fee received in connection with the construction of the pipeline.

Our field services segment reported operating income of 31 million dollars compared to 23 million dollars in 2009. Substantially all of the increase was a result of increased volumes associated with our new gathering systems in the Haynesville area and higher retained natural gas volumes and prices. Although production from the traditional basins was down significantly, overall gathering volumes increased from a daily average of 1.1 Bcf in the second quarter of 2009 to 1.7 Bcf this year, a 53 percent increase, due to increased production in the shale plays. Natural gas prices received from sales of retained gas were about one dollar more than last year.

Now, before I talk about our second quarter financing activities, I would like to share with you some good news that we received yesterday. Following the conclusion of its rating review, Moody's upgraded the ratings of Houston Electric's debt and assigned it a stable outlook. Houston Electric's senior secured ratings, which are the ratings assigned to Houston Electric's mortgage bonds, were upgraded to A3 from Baa1, and its senior unsecured and issuer ratings were upgraded to Baa2 from Baa3. Houston Electric was the only one of our companies that was on ratings review at Moody's. Moody's continues to have positive rating outlooks on the parent company and on CERC. We have worked very hard to strengthen our balance sheet, and are gratified by this action.

Turning to financing activity in the second quarter, on June 9th we executed a 326 million dollar equity offering consisting of 25.3 million shares following the announcement of our second set of field services agreements with Shell and Encana. As has been our practice the last several years, we have raised another 55 million dollars year to date by issuing approximately 4.4 million shares through our benefit and investor choice plans. The proceeds from the issuance of these shares are being used primarily to fund growth in our field services unit and to strengthen our balance sheet. We now estimate our 2010 capital budget to be approximately 1.4 billion dollars with more than 550 million dollars of that amount being invested in our field services business.

As you know, over the last 18 months we have significantly improved our balance sheet through the issuance of new shares. In addition, we have reduced our debt levels, improved our credit metrics and credit ratings and remain in a very strong liquidity position. Our overall business performance remains solid and we will continue to generate significant cash flow from operations. Therefore, absent a very significant new capital project, we feel we have the balance sheet strength and the financial flexibility to execute our business plan without any additional equity issuances other than the modest amount of new equity that we will continue to raise through our benefit and investor choice plans.

Finally, let me discuss our earnings guidance. We are pleased with our overall business performance through the second quarter, and this morning we reaffirmed our 2010 earnings guidance in the range of a dollar two to a dollar twelve cents per diluted share. This guidance reflects the earnings per share impact of the new shares we have issued this year and an estimate of the shares being issued in our benefit and investor choice plans.

In providing earnings guidance, we have taken into consideration our year-to-date performance, as well as various economic, operational and regulatory assumptions. And, as you know, 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 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 touchtone keypad. To withdraw you question press the pound key. The company requests that when asking a question, callers pick up their handset. Thank you. And our first question will come from the line of Carl Kirst with BMO Capital.

Carl Kirst: Thank you, good morning everybody and David, really appreciate the added color on the–on the midstream. Maybe I can start there and you know with the track record that you're putting in place getting Magnolia in service a little bit ahead of schedule, winning Olympia, how do we stand right now about the potential for exporting this franchise to other basins, whether it's with Encana and Shell or with any of the other players?

David McClanahan: Yes, we continue to talk to all of our customers including Shell and Encana about some of the basins that we'd like to get into. You know Eagle Ford is probably one that gets the most attention but we are in discussions and we hope to be successful there. But you know Carl, there's lots of competition for this business and hopefully we're demonstrating though to our customers that we can do this well, meet their expectations and get it in on time and that's our goal there. But I would say we're just in discussions now. We really have nothing to report at this time but we're working hard on it.

Carl Kirst: OK, and then maybe a follow-up just also on the pipeline side. Looking at least, basis for Florida in July has widened out quite substantially. Is that having any benefit onto SESH right now? And if I recall correctly, there's some additional contracts to be layered on that come into service with SESH anyway, maybe mid-2011 is that correct?

David McClanahan: Yes you know we have about 155 a day that's not – wasn't sold or it starts later. But we've already sold that on an interim basis through October …

Carl Kirst: OK.

David McClanahan: … so we did that I think back in May, so we have no additional capacity that we're – that's on the market there to my knowledge.

Carl Kirst: OK, so the interim is sold out through October and then the final remaining contracts will come in service next year, is that?

David McClanahan: That's right.

Carl Kirst: OK.

David McClanahan: And we still have about 80 a day that isn't sold on a long-term basis. But we know some of these contracts kind of come in over time. And what, there's 75 that's coming in middle of next year on a long-term basis. We still have that 80 we need to sell.

Carl Kirst: Great, thank you.

David McClanahan: OK.

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

Lasan Johong: Great, thank you. Gary, David, just going over this rate change again …

Operator: Mr. Johong, your line is open, please go ahead sir.

Lasan Johong: Hello?

David McClanahan: Yes, go ahead.

Marianne Paulsen: Tina, we hear – we hear Lasan.

Lasan Johong: Oh, OK. Rate case, just going over the numbers again, 38 million dollars for the smart meter, 40 million dollars for the equity component of 50 percent, 11.25 percent ROE, it's 7 million dollars per 25 basis point, I believe it was a 75 basis point increase …

Operator: Mr. Johong, please speak up we cannot hear you, sir.

Marianne Paulsen: Tina, we can hear him.

Gary Whitlock: We can hear him fine, Tina.

Marianne Paulsen: He can't be heard over the – over the conference call network?

Operator: No, ma'am.

David McClanahan: Well, we can hear him. Lasan we'll try to answer your question and we'll repeat your question.

Lasan Johong: OK, wow. Well basically to cut the conversation short, it looks like the amount of rate increase you said you're requesting is 15 million dollars, but I'm looking at a number more like 21 million dollars. Does that mean that this other components are accounting for the difference?

David McClanahan: Now, as you know we've got an 18 million dollar transmission case and a 76 million dollar distribution case. I did mention that we think the 76 is really more like 91. And the 18, so you know you add those two together and you get, what, 109 million. A little bit of the transmission is embedded in our distribution because our distribution customers pay for that. But let's just say 105 million or so. And what we tried to do is just give you the sensitivities. Of that 105, 38 is AMS, and we were required to reconcile our AMS investments and we moved that into base rates. So that accounts for part of it. 40 million accounts for the increase in the capital structure, the equity component. Now, we firmly believe that the Commission, at least some of the commissioners have indicated that you know they think we need a thicker equity component. And we believe that, too, and we asked for 50 percent. If we get 50 percent, that has that 40 million effect. If we get 45 percent, well, take 20 million off of that. And then the ROE is simply we're giving sensitivities around that. And you know you can guess kind of what the Commission might do there as well as we can. So, these are the big components. But there were some other big components, but they were offset by other things we did that reduced expenses. So net-net those are the big items, and I think those are the ones that our case is most sensitive to.

Lasan Johong: Understood. On the field services business, NGL spreads have been going up and down like a yo-yo. And as of late, it's been strengthening. Obviously, this doesn't necessarily have a direct impact on CenterPoint. But wondering if there's some sensitivities on the drilling front around movement in NGL and if you're seeing the effects of that? Sorry, NGL pricing and if you're seeing the effects of that and if you think there's an overabundance of NGLs coming down the line with all the shale drilling?

David McClanahan: Well, we have seen natural gas liquids prices higher this year than last year. There's no question about it. I think they have started to come down a little bit, both in – from the – in the second quarter from the first. And we still see a little weakness there, still not to the levels they were you know in '09. We've seen some, and I will speak to our basins. We've seen some traditional drilling this year. There's probably 65 or 70 wells in our traditional basins that have been added to our system. That's more than last year. But I'm not sure if that's what's driving that. Certainly, the Eagle Ford area is hot because of all the liquids and the oil in that – in that play. And I think a lot of producers are moving into that area for that very reason. But we still see a fair amount of activity in the basins we traditionally gather in.

Lasan Johong: OK. Last question, is it fair to say that third quarter got off to a pretty good start in July?

David McClanahan: We got good, warm weather here in Houston, so that bodes well for the electric business, as you know. And our other businesses are doing fine. There's – we're optimistic.

Lasan Johong: Excellent. Thank you so much.

Marianne Paulsen: Thanks, Lasan.

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

Daniele Seitz: I just was wondering, how much were the pension cost and the reduction in depreciation?

Daniel McClanahan: Yes. I think pension was something like 26 million. Amortization was 20 and the offset in depreciation was a little less than 40, like 38 million, 39 million dollars.

Daniele Seitz: Great. And as far as the number of smart meters that are installed so far, and how much do you expect to install in next year and for the full year of 2010?

David McClanahan: Yes, we've got about a half a million meters installed now. Our installation rate is about 80,000 per month. So by the end of this year, we'll have a little less than a million. And then we'll install close to a million next year – not quite. And then by probably the mid-2012 we'll be complete.

Daniele Seitz: Right. And just one quick one – can you put some details on the joint venture with FPL?

David McClanahan: Yes, you know we don't – that's kind of in abeyance right now. It's not formally ...

Daniele Seitz: OK, I was not sure, yes.

David McClanahan: Yes, we're still looking at that Haynesville area. If there's anything there, now we think it's a smaller project that's really probably an expansion of our existing system, which doesn't really kind of fit with the joint venture. But we're still talking with them. And we're still watching the market. As you know, we had an open season in Haynesville. And we're still talking to customers that responded to that open season and have made no decisions yet around that.

Daniele Seitz: But it looks like a small project?

David McClanahan: Yes, we don't see a big, new bullet pipe in the near term ...

Daniele Seitz: Right.

David McClanahan: ... at least from our vantage point.

Daniele Seitz: Thank you.

Operator: Our next question will come from the line of Paul Patterson with Glenrock Associates.

Paul Patterson: Good morning, guys.

David McClanahan: Good morning.

Paul Patterson: Just really quickly – I'm sorry if I missed this. What was the ROE that you guys earned in the last 12 months – the actual earned ROE? And is the capitalization ratio already up to 50 percent?

David McClanahan: I'll take the last one first. We're about – we filed at about 46 percent, which was our actual equity structure. You know we want to take that up to 50 percent. Our earned ROE was 11.13 for the last – or for 2009. That's the latest number I have. But if you adjust that for weather, it's about 9.8 percent on our – on our actual cap structure, which was 46 percent equity.

Paul Patterson: OK, great. And then, just finally, you guys made sort of a notable change in a relatively short time after you filed it. What was it that caused it to move up – the rate increase?

David McClanahan: You know we, actually, Paul, haven't officially filed the errata yet to our case. We're gonna probably do that next week. Really in answering some interrogatories, we looked at how we normalized certain rate classes and we’ve concluded we think we have overstated the amount of revenues that our current rates will produce. That's still being studied pretty hard. And so we haven't filed it yet. But we feel pretty confident that we probably overstated it. Now, it doesn't affect our request. You know what we're requesting is the same. It just affects the deficiency between what our current rates will produce versus what we requested. So it's not uncommon to have errata in these kinds of cases.

Paul Patterson: OK, great. Thanks a lot.

David McClanahan: All right.

Operator: Our next question will come from the line of Leon Dubov with Catapult.

Leon Dubov: Hi, good morning.

David McClanahan: Morning.

Leon Dubov: You guys held an open season for an expansion to Carthage and Perryville, I believe. Can you update us on how that went?

David McClanahan: You know we held that open season and the open season has ended. We are now talking with the customers that responded to that open season. But we have – we have reached no conclusion yet around that other than we don't think there's a big bullet pipe, new bullet pipe that we would be part of. But there could be some other things that come out of that. But we're just – we're still talking I guess I would say.

Leon Dubov: Do you think we'd have an answer by the end of the year?

David McClanahan: Well, we'll have an answer of some sort. Yes, I think we will. Yes.

Leon Dubov: Fair enough – thank you.

Operator: Our next question will come from the line of Ali Agha with SunTrust.

Ali Agha: Thank you. Good morning.

David McClanahan: Good morning.

Ali Agha: Gary, can you remind us what was the weather impact in this quarter? And what was the delta year-over-year from weather?

David McClanahan: There was no – there was no difference in weather between the second quarter of last year and the second quarter of this year. They were – they were both a little warmer than normal. I think if you looked at it from a normalized basis, we probably gained 9, 10 million dollars from weather. But we gained the same amount in '09, so really very little difference between years.

Ali Agha: I see, and David, also if you can sum up for us once your current projects on the field services side are completed, can you just remind us what total capacity will you then have at that time? And what would be the mix between you know the new versus the old, and how should we compare that to what you know the full year 2010 may end up looking like?

David McClanahan: Yes, let me try to attack those one at a time. We currently have about – we're building 1.5 Bcf of system capacity in the Haynesville. And there's an additional expansion option that Shell and Encana could elect on both of those systems that could take that capacity to 2.8. So we've got 1.5 committed, and it could go to 2.8. If you look at where we were in our traditional basins a year ago, we were gathering 1.1 Bcf a day. So the shale plays are going to quickly be the biggest part of our system, and we have seen some erosion in our traditional basins. So I expect that we're going to see the shales overtake the traditional basins this year. And then going forward, we're going to have more and more of our revenues are going to be from these throughput-guaranteed contracts and rate of return guaranteed contracts. You know I haven't done the mix, but we tried to give you a little flavor around you know so far this year, we've got 158 Bcf a year in total from traditional and 128, or 126 from shale plays. My guess is by the end of this year the shale plays will catch up and surpass the traditional basins.

Ali Agha: OK.

David McClanahan: Or be very close to it.

Ali Agha: Very helpful. Last question, also to clear up, you talked about having a balance sheet now to meet the current needs. Are there projects out there, potential projects, David or Gary, that you know are attractive enough that may cause you to reconsider perhaps raising more equity you know sooner rather than later?

Gary Whitlock: No, I don't think there's anything sooner rather than later. Look, as I said, we have strengthened our balance sheet. We can execute our business plan, at least the visible plan that we have in front of us. Certainly, if there is a terrific new project, we'll step back and look at our balance sheet to ensure that our credit ratings are secure and that we can execute our business plan. But I don't think there's anything in the foreseeable future or the near term. Let's say that.

Ali Agha: Right. OK. Thank you.

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

Tom O'Neil: Good morning. Just a quick question on the Houston rate case with the errata filing, does that at all change the rest of the schedule, or are we still on track for intervener and staff testimony, I think it’s mid-next month?

David McClanahan: Scott, what do you think about that?

Scott Rozzell: We file that errata on Monday, the parties will discuss it with us whether or not they think that that's the kind of thing that would justify a change in the schedule, I can't predict that right now. But right now we're working on a schedule that calls for a decision by the commission towards year-end.

Tom O'Neil: OK. And then just a question on the equity layer, I know Chairman Smitherman made some comments in an open meeting about the equity layer for the TDUs, but has there been anything on the record from the other commissioners?

David McClanahan: You know I do not – not that I recall. The comment that I recall is Chairman Smitherman's.

Tom O'Neil: OK, great. Thank you.

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

Faisel Khan: Good morning.

David McClanahan: Good morning.

Faisel Khan: Gary, I think, or David, you talked about the 7 million dollar sort of deferred tax balance that was being credited to investors for the storm recovery costs. Is that 7 million dollars a quarter? Is that right?

David McClanahan: It's about 23 million dollars a year.

Gary Whitlock: For the year.

David McClanahan: So there was about 6 million dollars I think in the second quarter and a comparable amount in the first quarter, so it's about 23 million dollars for the total year.

Faisel Khan: And that continues for the duration of the transition bonds?

Gary Whitlock: That's correct.

Faisel Khan: OK.

David McClanahan: Except it declines.

Gary Whitlock: It declines over time. Yes.

Faisel Khan: Oh it declines over time?

Gary Whitlock: Yes, and I think we have a schedule on that don't we, Kristie, that we provided? I mean it's calculated. It's in a filing.

Faisel Khan: OK, got you. And then on the incremental 200 million cubic feet a day that Shell and Encana exercised their option on is that recently? Is that a new sort of announcement by you, or is that something that we kind of expected along with the initial 700 million cubic feet a day ramp up?

David McClanahan: Greg Harper, why don't you answer that question?

Greg Harper: The expansion was executed in April, and we – that is 200 million of a Bcf potential expansion of the 700 million a day existing system that we're building. And then on the Olympia System, they have the option to expand it by 580 million a day.

Faisel Khan: OK, got you.

Greg Harper: 520

Faisel Khan: Got you. And then, last question, on the – what are your plans going forward with the DRIP?

Gary Whitlock: Yes. You know as I said earlier, in terms of our benefit plans and our DRIP, we've raised that 55 million. You really can't extrapolate that out because of the timing of those contributions, but think about 3 million shares for the balance of the year is what you – you know the price will be determined at that point in time. But think about an additional 3 million shares coming from the combination of our investor choice plan and our benefit plan.

Faisel Khan: OK, great. Thanks for the time. Appreciate it.

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

Steven Gambuzza: Good morning.

David McClanahan: Good morning.

Steven Gambuzza: Just wanted to clarify the comment on future equity needs. Is that – I know you have a five-year capex plan that was posted in your 10-K, and there've been some I guess adjustments to that for some announcements made since the 10-K was filed versus these expansion plans. With the comment of no new equity except via the dividend reinvestment plan, does that relate to that you know that five-year capex plan?

Gary Whitlock: Yes. It does.

Steven Gambuzza: OK. So we should assume for modeling purposes that you know a normal level of DRIP issuance to accommodate that capex – to the extent there were large growth projects layered on top of that, that might require some equity, but absent those projects …

Gary Whitlock: (Inaudible).

Steven Gambuzza: … share count shouldn't change.

Gary Whitlock: Yes. That's correct. I mean at that point we'd evaluate if we have a project significantly above and beyond that. But as you know, Steve, these businesses produce a lot of cash. We're able to, obviously, retain earnings. And we have debt capacity. So we can execute our visible business plan.

Steven Gambuzza: OK. And I just can't recall what exactly is assumed in the five-year capex plan versus the expansion options on these contracts? So does that – if your partners elect to go forward with the expansions that you just discussed on this call you know do you think your internally generated funds and debt issuances can accommodate those expansions?

Gary Whitlock: Yes. I think so.

David McClanahan: Yes, Greg, you might – do we have any expansion options in our five-year capital budget?

Greg Harper: We built in several expansion options being elected over the next five years, not the full elections though.

Steven Gambuzza: OK. All right. Thanks very much.

Operator: Our next question will come from the line of Nathan Judge with Atlantic Equities.

Nathan Judge: Good afternoon. My questions actually are centered around equity issuances and equity offerings as well. With regard to the true up case, could you just give us the sensitivity of what your plans would be if – on both sides of the coin – if you win or if you lose, and what that could potentially mean for equity offerings?

Gary Whitlock: Well, first of all, we'll see how that plays out. And again, just to remind you Nathan, to the extent there was to be some downside, this is not a significant cash need, immediate cash need. There'll be some, but it's not immediate because the refunds will be over the remaining life of the securitization bonds. So from that perspective. To the extent as I've said before, justice is served and we do receive a significant amount of dollars, then we've not determined at that point. Certainly that's going to allow us to fund growth in the future and certainly would substitute for any need for equity to the extent we're able to execute on value creating growth in the future above and beyond our current plans.

Nathan Judge: Are you managing to a debt-to-equity ratio now, or is there a targeted internal ratio that you're looking to achieve? Or is the current ratio appropriate for the future?

Gary Whitlock: Well, I think over time we're going to continue to improve the overall ratio. As you know, we still do have some holding company debt although we'll be paying down or retiring some debt in September. So over the long term, and I think probably 60/40 is probably a better capital structure, but our utilities remain strong. And that's our focus is to do our financing going forward at the utilities. So we'll over time reduce the debt at the parent company and finance at the utilities.

Nathan Judge: And just at the utility level, to get from that 46 percent equity ratio that you had actual in the rate case filing to the 50 percent, is there ability to take equity from the parent down to Houston Electric, or how will that functionally be done?

Gary Whitlock: I think we'd adjust it through a dividend.

Nathan Judge: OK. So just not paying dividends up to the parent …

Greg Whitlock: Right.

Nathan Judge: … would get you up to that ratio quite quickly then?

Gary Whitlock: Yes. That's right.

Nathan Judge: OK. And just – thank you very much for your patience but one last question with regard to the DRIP, you mentioned 3 million. Should we just annualize that, i.e. 6 million annual basis going forward?

Gary Whitlock: Well you know I don't think you can think of it like that because it's variable depending on the timing of the contributions and the matches in our – in our benefit plan. So, as I've said, we've issued I think about 4.5 million shares year-to-date. You can't really double that so that's why I've given you sort of a estimate of 3 million. Again, that can be – that can be varied. So think about 7-1/2 million shares for the full year. That's an estimate.

Nathan Judge: So 7-1/2 million in 2011 and thereon?

Gary Whitlock: Well, I think if you think 2011 it's, again, still some moving parts but it's – I think you have to think of that sort of number of shares, yes.

Nathan Judge: OK. Thank you very much.

Operator: Our next question will come from the line of Yves Siegel with Credit Suisse.

Yves Siegel: Oh, thank you. Just two questions, one is on the option to, in the Haynesville, to expand. Is there a timeframe that – or an expiration on that option?

Greg Harper: Yes. Yes, it's the – both contracts, or all four contracts, with our customers for Olympia and Magnolia are five-year windows for those expansions to be elected. And then after that we would negotiate expansions after that with them for the 15 years.

Yves Siegel: Do you have a sense of what kind of gas prices they need you know versus you know the drilling activity just to maintain leases versus you know trying to get a little bit more aggressive, what kind of gas prices they may need?

Greg Harper: You know Yves, I really can't answer that but I would point you to Encana's June slide presentation for their earnings call. I think they give a pretty good idea of what gas prices they'd like so – and their drilling program around that is (unintelligible) the presentation.

Yves Siegel: OK. And then – and then thirdly and lastly, as it relates to the question on trying to you know export your you know expertise in field services, how do you folks think about you know potential acquisitions?

Greg Harper: Well, we're looking at them all the time with our customers. You know of course Shell and Encana deal was a – is a derivative of an acquisition of their existing facilities there they were building to you know test their production. So we're always looking at acquisitions within our footprint and outside.

Yves Siegel: OK. Then this is my final thought and I'm curious on you know how you may or may not respond to it. You know around – you know the questions, all the questions around the equity were if there was a big organic growth project. And so am I reading too much into the fact that you didn't mention acquisitions that maybe you're not warm on any or I mean how would you respond to that?

Gary Whitlock: No, I don't think – don't read anything into that. I think if you think of an acquisition you'd think of that as a major or significant project, whether it be organic or from another source.

Yves Siegel: OK. Thank you very much.

Operator: Our next question will come from the line of Scott Senchak with Decade Capital.

Scott Senchak: Hi, thanks. Sounds like your capex at the pipeline, some of these projects, Carthage to Perryville, the FPL JV, may be not as big as you thought. Is this capex guidance that you guys kind of have out there, did this include some of that stuff? Does it need to come down a little bit? Or I guess what should we be thinking as far as that?

David McClanahan: You know it didn't include any major pipeline project. It does include some estimates of some growth projects and some of those we deferred. We don't think we're going to execute on this year and they may be pushed out into the future. But I think it's still a fair representation of the future capex short of a – of a big project.

Scott Senchak: OK, great. And is there like a level of kind of base maintenance kind of capex there that we should think about? Or does it work like that?

David McClanahan: Yes, we do have a – it's like 90 million or so. Yes, I would say that as we look forward it ranges from 90 to 75 million depending on the year, but that's kind of the maintenance capital.

Scott Senchak: OK, great. Thanks a lot.

Operator: As an additional reminder if you would like to ask a question please press star then the number one on your telephone keypad. Our next question will come from the line of Carl Kirst with BMO Capital.

Carl Kirst: Hey, appreciate the time. Most of my follow-ups were hit, just one quick clarification on CenterPoint Electric, the errata that's being filed, the 15 million dollars. And I apologize, is this coming from, David, did you say it was a – was a customer class revenue recognition issue or from higher expense? I just want to make sure I'm completely understanding of this.

David McClanahan: No, Carl, what we do when we prepare a case and this is part of the rules that you have to go by, is you have to normalize your current revenues based on you know the year-end number of customers and volumes. And in normalizing one class, and it's really the large commercial class, we think we may have attributed too many revenues to the current – to the current rates, i.e., we overstated what the current rates will produce. It doesn't affect our request, but it does affect kind of how we look at the delta between current rates and what we requested. As I say, we're still looking at that. You know it's 15 million or so is our calculation. If we get comfortable with that we will file the errata early next week. And we feel pretty strongly that we're probably – we probably overstated or I wouldn't mention it. And I just didn't want you guys to be – think that we didn't tell you something here two or three days in advance of having to file it. But that's what it is. It's simply we have to normalize revenues and in normalizing we think we overstated the current rates.

Carl Kirst: Great, thanks for the clarification.

David McClanahan: OK.

Operator: Our next question is from Lasan Johong with RBC Capital Markets.

Lasan Johong: My question was asked and answered. Thank you.

Operator: Thank you. And our next question will come from Daniele Seitz with Dudack Research.

Daniele Seitz: I just was wondering if you could clarify what the Texas Commission is mulling over? Is it a system of riders which would allow companies not to file as often and basically recover automatically some specific cost?

Scott Rozzell: Daniele, it's Scott. The commission has before it a rulemaking, a proposed rulemaking that would provide for a periodic adjustment in distribution rates. The proposal that the commission issued centered around a periodic adjustment to reflect capital investment. Whereas in our rate case we had asked for an adjustment that took into account not only capital but operating expenses as well. We're in the early stages of the comment process on that rulemaking. As you probably know, the Commission issues a proposal. People comment on it. The Commission then may choose to revise their proposal. It's then published further and then at some point adopted in final form. And so this may take some twists and turns before we see what the Commission finally wants to do with it. But we will urge them in the rulemaking proceeding to expand the adjustment mechanism to include expenses, and there are other parties who will have different ideas about how the Commission should do it. But I think what's driving this is just a recognition on the part of the Commission that the process for setting rates in Texas could stand to be modernized a little bit.

Daniele Seitz: Great. And you anticipate the finalization of all of these rules to come roughly by year-end?

Scott Rozzell: Well, I think that's a good guess. A rulemaking, again, doesn't have a fixed schedule upon which it has to play out. A lot of it depends on how quickly the parties and/or the commission can come to a consensus on what ought to be done here.

Daniele Seitz: Yes.

Scott Rozzell: I would say that's a – that's a good guess of how long it might take, but I wouldn't be surprised if it played out a little longer than that.

Daniele Seitz: Thank you.

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 in our call today. We appreciate your support very much. Have a great day.

Operator: This concludes CenterPoint Energy's Second Quarter 2010 Earnings conference call. Thank you for your participation.

END

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