CenterPoint Energy

Fourth Quarter and Full Year 2011 Earnings Conference Call
February 29, 2012

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 fourth quarter and full year 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 fourth quarter and full year 2011 results and will also provide highlights on other key activities. In addition to David and Gary, 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-K filed earlier today are posted on our website, which is www.CenterPointEnergy.com, under the Investors' section. This quarter, we have created supplemental materials, which are also posted under the Investors section of our Web site. These materials are for informational purposes, and we will not be referring to them during prepared remarks.

I 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 David begins, I would like to mention that a replay of this call will be available until 6 p.m. Central time through Wednesday, March 7, 2012. To access the replay, please call 1-855-859-2056, or 404-537-3406, and enter the conference ID number 41632104. You can also listen to an online replay of the call through the website that I just mentioned. We will archive the call on CenterPoint Energy's website for at least one year.

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

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.

2011 was a very good year for the company. Four of our five business units had strong years, both operationally and financially. We resolved the long standing issues associated with our 2004 true-up proceeding and last month recovered almost 1.7 billion dollars of additional true-up costs through the issuance of securitization bonds. We're pleased this matter is finally behind us and we can now focus our full attention on the future.

This morning we reported full year earnings of 1.36 billion dollars, or 3 dollars and 17 cents per diluted share. Excluding the impacts of the true-up proceeding, net income would have been 546 million dollars or 1 dollar and 27 cents per diluted share compared to 442 million dollars or 1 dollar and 7 cents per diluted share in 2010. So, this was an outstanding year either way you look at it.

Our fourth quarter results were also solid. Net income was 117 million dollars or 27 cents per diluted share compared to 124 million dollars or 29 cents per diluted share for the fourth quarter of 2010. Fourth quarter earnings for 2011, on the same basis as we provide earnings guidance, would have been 26 cents per diluted share. This was above our expectations due principally to a lower effective tax rate associated with state income taxes.

Our press release and 10-K provide the details around our financial results this past year so I won't repeat the specifics. I will, however, summarize the performance of each unit and describe their prospects for 2012 and beyond.

Houston Electric had its best year financially. Core operating income was 496 million dollars compared to 427 million dollars in 2010. Fourth quarter income was 62 million dollars, up 6 million dollars from 2010. Last summer's record heat was the biggest driver of Houston Electric's increased income. In addition, we saw strong growth in Houston with over 45,000 new customers added last year.

Our gas LDC's also had a good year. Operating income for the full year was 226 million dollars or about 5 million dollars below the record level of 2010. Fourth quarter income was 73 million dollars compared to 86 million dollars in 2010. While margin growth was modest last year, we were successful in our expense management efforts. As a result, on an overall basis, we earned at or near our authorized rate of return for the second consecutive year.

Our interstate pipelines achieved operating income of 248 million dollars last year, down from 270 million dollars in 2010. Income in the fourth quarter was 52 million dollars compared to 63 million dollars in the previous year. The decline in earnings for the full year and fourth quarter were almost completely attributable to the expiration of a backhaul contract on our Carthage-to-Perryville line.

Our field services unit had a very strong year as a result of the investments we've made to gather and treat gas in several developing shale plays. Full year operating income was 189 million dollars compared to 151 million dollars the previous year. Fourth quarter earnings were 53 million dollars compared to 57 million dollars in the fourth quarter of 2010. It is worth noting that operating income for 2010 reflected a gain of 21 million dollars from the sale of some non-strategic assets. Excluding that one-time gain, last year's fourth quarter earnings were up over 45 percent from 2010.

Our competitive gas sales and services business continued to struggle in 2011. Full year earnings were 6 million dollars compared to 16 million dollars in 2010. Fourth quarter earnings were 3 million dollars compared to no operating income in the previous year. For the past few years this unit has been burdened with uneconomic pipeline capacity contracts. However, we were able to accelerate the termination of some of those contracts last year and most of the remaining uneconomic contracts will expire over the next twelve months.

Now, let me turn to the future and give you some insight into each business unit's prospects.

Year-in year-out, Houston Electric has been able to earn its regulated rate of return since we formed CenterPoint Energy in 2002. I expect it will again perform well this year. It has a solid and growing service territory. The Houston metropolitan area was the first area in the nation to replace the jobs lost during the economic downturn and more than 80,000 jobs are expected to be created this year. We estimate that customer growth will equal or exceed the growth we experienced last year, which should add approximately 25 million dollars in base revenues. However, Houston Electric is unlikely to equal its 2011 financial performance which as I indicated earlier, was driven by record heat. This unusual weather added approximately 60 million dollars to base revenues last year. In addition, the negative impact of the rates implemented in September of last year will be experienced for the full year in 2012. We estimate this to be approximately 35 million dollars.

Over the longer term, Houston Electric should experience significant rate base growth. Annual capital expenditures are forecast to average between 500 and 550 million dollars over the next five years, resulting in annual rate base growth of over 4 percent. Because of the recently approved distribution cost recovery factor, together with the long standing transmission cost recovery mechanisms, we don't anticipate the need for a major Houston Electric rate case for the next several years.

We anticipate rate base growth at our gas LDC's as well. Over the next five years, capital expenditures are expected to exceed 350 million dollars a year compared to an historical run rate of about 200 million dollars a year. These increased expenditures are primarily related to new pipeline integrity and safety requirements and will result in annual rate base growth of over 6 percent. Although we have rate adjustment mechanisms in most jurisdictions, we will likely need to file a number of rate cases over the next 12 to 18 months.

While the current low natural gas prices are positive for both Houston Electric and our gas LDC's, they can negatively affect our midstream business. This is particularly true for our field services unit. As we've indicated in the past, we retain over one and a half percent of all the gas we gather. While the majority of our revenue stream is fee based, we do earn revenues from the sale of this retained gas. We estimate that each one dollar change in natural gas prices would have about a 20 million dollar impact on operating income this year. In addition, as gas prices have fallen, rig activity in dry gas basins has also declined. This is most significant in our traditional gathering area where we've seen some gathering volumes decline over ten percent since 2010. Increasing gathering volumes in the shale plays, however, have more than offset this decline. Overall gathering volumes increased almost 30 percent last year and by year end we were gathering about 2.6 billion cubic feet per day. We expect total gathering volumes under our current contracts will increase about 15 to 20 percent this year.

Low natural gas prices and compressed basis differentials are also expected to impact our interstate pipelines. It is unlikely any significant new pipelines will be needed in the near term in our current mid-continent footprint and there will be increased competition for new and existing customers. In addition, the expiration of a backhaul agreement last year will reduce operating income by approximately 10 million dollars this year. However, we believe there are continuing opportunities to serve customers on or near our pipelines, particularly power generation customers.

Over the last few years our energy services business has suffered like many others in the industry. As I indicated earlier, the principal drag on earnings has been related to uneconomic pipeline capacity agreements. We've taken action to reduce our exposure to such agreements by an estimated 15 million dollars this year. Our retail business continues to do well and we expect 2012 will be a year of significant improvement for this business.

Of course, we also expect to realize earnings benefits from the 1.7 billion dollars of additional true-up costs we recovered last month. Earlier this year, we called or tendered for 375 million dollars of debt at the parent company. Gary will provide the details and earnings impact from this debt reduction in a few minutes. As we indicated in our third quarter earnings call, we expect to invest the remaining proceeds in our existing businesses and to acquire similar assets. While we are not in a position to make any announcements today, I feel confident we will be successful in deploying a portion of these proceeds to expand our present businesses and we are currently evaluating several possibilities - particularly in the field services sector. As I indicated earlier, we will also be required to make significant new capital investments in our existing regulated businesses to satisfy both growth and regulatory requirements.

I'd like to remind you of the 20 and a quarter cent per share quarterly dividend declared by our Board of Directors on January 19th. This marks the seventh consecutive year that we have raised our dividend. 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.

Let me conclude by expressing my gratitude to our employees through whose hard work we achieved not only an outstanding 2011 but excellent operating and financial performance since our inception in 2002. As many of you know, we faced some significant challenges in our early years, but I think we are stronger today because of our success in overcoming them and I'm convinced our future is even brighter. We have terrific employees, well positioned assets and business units and a balanced and diversified portfolio which can excel under a variety of market conditions.

Thank you, again, for your interest in the company.

I'll 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 a few items with you.

First, since the formation of our company in October of 2002, we have significantly improved our balance sheet. As you know, subsequent to the favorable resolution of the true-up case last year the rating agencies have taken positive actions to up-grade the long-term ratings of the debt of CenterPoint Energy, CEHE and CERC. Each company now has solid investment grade credit ratings and the ratings outlook for each company is either stable or positive. In addition, our businesses generated solid cash flows, and when combined with the benefits of bonus depreciation, essentially funded our capital program and dividends in 2011. We ended 2011 with net debt of approximately 6.7 billion dollars and a debt to total capitalization ratio of 61.2 percent.

In January of this year we closed on the sale of approximately 1.7 billion dollars in transition bonds with an effective annual weighted average interest rate of approximately 2.5 percent. We were very pleased with this offering, which resulted in one of the lowest rates of any utility securitization. The company received proceeds of approximately 1.7 billion dollars from the offering.

Our solid balance sheet, cash on hand, internally generated cash and other liquidity provides the company with the financial flexibility to effectively execute our business plan.

I know you are all interested in how we are currently using the cash we received from the sale of the transition bonds. First, we used a portion of the cash to pay off outstanding commercial paper. In addition, as we continue to evaluate a number of opportunities to invest the cash in long term accretive projects, we made the decision to reacquire tax-exempt debt at the parent company having an aggregate principal amount of 375 million dollars with a weighted average interest rate of 5.4 percent, as this clearly enhances earnings and cash flow relative to the alternative of maintaining cash in money market funds earning approximately 20 basis points. The result will be a reduction in interest expense in 2012 of approximately 18 million dollars, or 3 cents per diluted share. This action supports our long-standing objective of de-leveraging the parent company.

As David pointed out, we have a significant capital plan for 2012. We estimate our 2012 capital expenditures to be approximately 1.3 billion dollars, an increase of approximately 100 million dollars from 2011. About 86 percent, or a little more than one point one billion dollars of capex, will be spent by our regulated businesses this year, compared to 78 percent in 2011.

Let me give you a breakdown by business.

In our electric business, we expect to spend 575 million dollars, an increase of 37 million dollars, or 7 percent, from 2011. Capex will be used primarily to support our investments in infrastructure to serve new loads and enhance reliability.

We expect to spend 354 million dollars in our natural gas distribution business reflecting a 20 percent increase, or 59 million dollars from 2011. This increased level of spending will be used primarily for infrastructure related to pipeline safety and integrity.

Our pipelines' capital budget is 181 million dollars, which is significantly more than our 2011 spend of 98 million dollars. This increase will be used primarily for routine maintenance, major line replacements related to pipeline safety and integrity as well as spending associated with meeting anticipated new regulatory requirements.

With the completion of our Magnolia and Olympia systems, our 2012 capital budget for field services is 139 million dollars. However, this estimate does not include any new capital, which may be required if we were to have significant new opportunities.

To the extent we need financing in connection with future growth opportunities we expect we can finance them at attractive interest rates at the operating company level. However, we are often asked about our financing strategy for our midstream business, especially whether or not we are considering the formation of an MLP. We continue to think the formation of an MLP can be an efficient structure to finance significant new growth, and thus remains a viable option for our company as we evaluate various midstream projects.

Now, let me turn to my final topic, our 2012 earnings guidance. This morning in our earnings release, we announced 2012 earnings guidance in the range of one dollar and 8 cents to one dollar and 20 cents per diluted share. This somewhat broader guidance range takes into consideration a number of economic and operational variables that may impact our actual earnings performance.

Although the strength of the U.S. economy in general, and the Texas economy in particular, can have a significant impact to earnings, the most important variables are commodity prices, volume throughput, weather, regulatory proceedings and our effective tax rate. We have developed our guidance range by using combinations of these variables. We have also taken into account the benefit of the 375 million dollar debt reduction at the parent and we are using an average share count of approximately 430 million shares. In addition, we have not assumed any additional use of the remaining true-up proceeds in developing this range. 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. 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 touchtone keypad. To withdraw your question, press the pound key.

Operator: The company requests that when asking your question callers pick up their telephone handsets. Thank you. Once again that's star one to ask a question. The first question will come from David Frank with Catapult.

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David Frank: Oh yes, hi, good morning guys.

David McClanahan: Hey, David.

David Frank: Gary, you kind of mentioned there at the end that some of the factors that drive the earnings within the range you've given for '12 include commodity prices and midstream volumes. Can you give us a sense of how much of the range is dictated by commodities and could you give us a sense of the – maybe the range in gas prices that you have embedded in that range?

David McClanahan: David let me take a shot at that. We tested against a series of a range of natural gas prices anywhere from two dollars and fifty cents at the low end up to a little less than 4 dollars at the high end. Obviously the gas prices have been coming down since we started putting together our plans last fall and you know our current thinking is that the gas prices are going to be hovering at the low end of that range. But we clearly looked at those and tested those. And we also looked at natural gas liquids prices as well. We're not as sensitive but we have some processing on both our pipes and our field services business. And we tested liquidity - or liquids prices as well.

David Frank: Great, great. And David, you made a comment that you're interested – it sounded like you are interested in making complementary asset acquisitions in the midstream area. Can we infer that corporate acquisition or M&A is then off the table?

David McClanahan: I don't think you should draw that conclusion David. I think clearly there is – it's – some asset acquisitions are perhaps easier to do and there is more opportunities there but we continue to look at, you know, on all fronts. So I don't want you to draw that. But I will say that the most active opportunities we're looking at are in this field services sector.

David Frank: Okay, thanks a lot guys.

David McClanahan: You bet.

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

Carl Kirst: Thanks, good morning everybody. Actually, maybe just leveraging off of David's question there, and I just wanted to, you know, be clear when you were just sort of answering that as well as the opportunities that you're seeing in field services and midstream, are you talking about actual field services midstream M&A or are you talking more about the organic like the Mississippi Lime proposal or I guess, is it a combination?

David McClanahan: Carl, it really is a combination. We have opportunities on all fronts. We have a number of proposals out to producers. But we're also looking at some assets that we might purchase outright from either existing gatherers or producers.

Carl Kirst: Okay, that's helpful. And just staying on field services, can you help us give a breakdown between sort of the in the fourth quarter which looked like it was very good throughput in midstream what was traditional, what was shale and if you had any color from maybe how that's changed here in the first quarter, if it's changed?

David McClanahan: Yes, let me kind of give you a December kind of look for a minute or maybe fourth quarter. But we were gathering in total about 2.6 billion at the end of last year. I would say out of our traditional basins that's more like 750 to 775, something of that nature.

We've seen that the traditional basins declined in the fourth quarter more than it did in any other time during the year. As you might recall, the first three quarters were pretty flat. But we saw a decline in the fourth quarter. I'm not sure that's going to be sustainable, but there is not a lot of rig activity in those dry gas basins at these gas prices.

So year-to-year in our traditional basins, we saw about a 10 percent, maybe a little bit more drop, in traditional basins gathering. Of course, offsetting all of that is the Haynesville gathering we're doing in Magnolia and Olympia. Fayetteville gathering continues to increase.

We've got some wet gas in our traditional basins. And that's kind of helping us too because there is some drilling in these basins where there is wet gas. So you know it turns out we had an excellent year from a gathering standpoint, ending at 2.6 billion a day, which was up, I don't know, 25, 30 percent from 2010. You know you'd have to attribute that to all of this – I mean substantially to shale plays and the new investments we made.

Carl Kirst: Sure no, and appreciate that and then with respect to first quarter and I guess maybe just to narrow the question, have you seen any rollover or declines in the Haynesville I guess, specifically?

David McClanahan: I think the way we would answer that is it appears to us that the producers are maintaining their production levels from what we saw at the end of last year and they've got enough rig activity to continue to do that. And I think that's kind of our expectation for a while until, you know, we see exactly where natural gas prices or they see – see where natural gas prices are going to go, but our producers are telling us they're going to try to maintain their volumes. But they're not talking about any substantial increase in volumes at this stage.

Carl Kirst: No, fair enough, very much appreciate that. And maybe last question if I could just because on the marketing you'd sort of eluded to 2012 maybe being a significant improvement and I didn't know if maybe you could parse that into what your expectations are between retail and wholesale?

David McClanahan: You know we've been saying for some time that if you just take our retail business alone we think it ought to produce 30 to 35 million dollars worth of operating income, but because of some un-economic contracts, we haven't been able to achieve that. These contracts are starting to roll off. Certainly we can see 15 million dollars worth of improvement in 2012 around those contracts rolling off versus what we incurred in 2011 and you know, who knows what's going to happen with some of the other ones, maybe things will improve a little bit. So we see improvement. Do we think we'll get it all revealed in 2012? No, it'll probably be 2013 before all these contracts have rolled off and we can start really focusing everybody on our retail business and what it will produce.

But we still feel good about the retail business, but as you know these - basis collapsed and storage spreads have gone down and where we were making a fair amount of money 3 or 4 years ago, we’re not – we’re losing money today.

Carl Kirst: Understood, thank you so much for the color.

David McClanahan: You bet.

Operator: The next question will come from Ali Agha with Sun Trust.

Ali Agha: Thank you. I wanted to come back to the ‘12 items David, or Gary for that matter, if I heard you correctly you know for Houston Electric you are assuming a down year given the trends you mentioned, but can you give us a sense for the other segments…should…I think pipelines has some headwinds you mentioned, field services has headwinds as well, should we assume them to be flat to down as well - you know just given those trends and also the tax rate, Gary, you eluded to, can you remind us the – what effective tax rate we should assume for ’12?

Gary Whitlock: Do you want me to take the tax rate?

David McClanahan: Yes, go ahead Gary.

Gary Whitlock: Yes Ali, this is Gary, on the tax rate maybe let me describe it like this. If you have a normal blend of our federal rate and our state rate you should – or state tax rates you should have about 37 and a half percent. This year we came in at about 34.4 percent. There's really kind of two issues. It was the lower state blended tax rate in terms of the allocation of sort of the apportionment factors for the income. And then we had the resolution of the normalization issue. So we picked up some benefit this year. Going forward I gave you a range of 34 and a half to 37 and a half and the reason for that is, again, I think we have to look at the apportionment factors and see how that plays out in terms of the state tax blended rate.

And then we continue to look at a number of tax reserves that we have related to various outstanding issues with the IRS. So you know I'd like to give you a mid-point of that but I'm going to say, we do have a range of 34 and a half to 37 and a half percent on our tax rate.

And, of course, like any company we're working diligently to have that as low as possible but I think we have to sort of stay with a range on that at the moment.

Ali Agha: Okay.

David McClanahan: And as to your other questions, first just on Houston Electric, because of hot weather in 2011, it's going to be hard to repeat that. I will tell you that current weather forecasts are suggesting it's going to be hot and dry again. So it's not out of the question. But our model suggests we got almost 60 million dollars from normal weather in 2011. So we'll just have to wait and see what happens there. Our growth in customers should add at least 25 million dollars. We've got transmission revenues of another 10 that should benefit 2012. And you know we saw some customer actual usage growth in 2011. We're not sure whether that was real usage or whether it was weather. It was so hot it's hard to distinguish it. So there could be a little upside there as well. And then we have the full year of the rate case which might kind of offset some of the things I talk about. So we think we're going to have a good year. We think we can earn our regulated rate of return next year. But unless we get this hot weather you know we probably won't – we won't set the same kind of records we did in 2011.

I would also say, pipelines, it does have a little bit of headwind there because we have that – the tail end of that back haul agreement that we didn’t feel in the first four or five months of last year. We're going to feel it this year and we estimate that's about a 10 million impact. As you might – I'm sure you know, there's lots of pipes in the mid-continent area that are going to be competing with us as we – as contracts roll off and we tend to believe that that could put a little pressure on rates. But having said that, each year we've been able to overcome a lot of these things. So I'm not ready to say that pipeline is not going to have a good year. But they have a little headwind in front of them that's for sure.

Field services, it really depends on gas prices. I think that they should have a good year whether – it's not going to be the 30 or 40 percent increase we saw in 2011, though.

Ali Agha: David, one other question if I could. On the use of proceeds, in the past I think you also alluded to the fact that after field services you know there may be interest in electric utility, you know, acquisitions. Just from your comments today, should we infer that you're not seeing any good opportunities in that area and that the focus is really field services? And to the extent that's the case just conceptually, what kind of return are you targeting or we should be thinking about in terms of thinking about the earnings potential that that cash could give CenterPoint?

David McClanahan: First, I think David asked this first question, Ali. I think we don’t see a lot of properties on the market. There are some, I think gas LDCs, that may be coming on the market. And we'll clearly take a look and see if we have any interest there. But on the field services side, we look at a range from the low teens to the mid teens on an unleveraged basis. And it really depends on the contract terms and how much if we get throughput guarantees or guaranteed rate of returns. If we do it will be on the lower end of that. If we don't, it would be, you know 14 to 15 percent probably.

Ali Agha: On a pretax or after tax?

David McClanahan: That's after tax unlevered.

Ali Agha: Thank you very much.

Operator: The next question will come from Faisel Khan with Citigroup.

Faisel Khan: Thanks. Good morning.

David McClanahan: Good morning.

Faisel Khan: David, on the pipeline segment, I was trying to figure out what you know what the opportunity is on the power generation side. So we've seen, I guess, the headwind from back haul contracts and restructuring of contracts, but you know what kind of opportunity do you guys have in your kind of territory to sign up more power generators to firm capacity?

David McClanahan: You know, I think, Greg, you might want to weigh in on this as well, but what we see is we have 20 or 30 coal fired plants near our pipe or within reach of our pipe and some of those will be converted, but let me get Greg to give you a little bit more color around that, Faisel.

Greg Harper: Yes, Faisel. How are you doing?

Faisel Khan: Hanging in, thanks.

Greg Harper: On the power generation side, we're currently connected, we have about 800 million a day of load contracted on power generation. With those existing customers we've looked to kind of high grade those services. We put together a new tariff last year that provides kind of shaping to meet their load profile which is different than a gas (inaudible) profile. We've been able to do that and do it successfully last year on kind of limited basis but I think we'll be able to do more of that. As David mentioned, there's several coal generation facilities…there is also… around our footprint, plus other utilities just talking about placing new gas generation around our footprint in the mid-continent. So we will be chasing those. There is competition for them, but um… I'd say there's another 1,000 to 2,000 megawatts around our footprint that we can go after.

Faisel Khan: Okay, got you. And then on the T & D side, the electric T & D side, CEHE, just looking at the year over year, sort of you know O & M creep kind of you know 9 percent in the quarter and then 8 percent year-over-year, can you guys discuss what's driving that. It seems to be, kind of, you know, more than inflation.

David McClanahan: You know there is some cats and dogs there, but let me see if I can give you any sense of that. Labor and benefits were a fair amount of it 8, 9 million dollars on that front. A big part of that was pension expense. We started, you know, reflecting the true pension expense in earnings once we implemented this rate case. Remember we were deferring those before, so part of it is pension. We spent a fair amount of money last year because of the drought. We had to do a lot of insulator washing and stuff like that. And we spent a fair amount of incremental money around taking trees out because we had a lot of dead trees and we really upped our tree-trimming budget.

So, those just kind of added to what looked like some unusual O & M expenditures, but we did that because we had the revenues to spend it.

Faisel Khan: Okay.

David McClanahan: And we felt it was a good investment, especially as we went into 2012 and 2013, especially if we have any, any bad weather come through here.

Faisel Khan: Understood. And last question for me, you mentioned in some of your remarks that you have exposure to some of these liquids gas plays. Is there any way for you to quantify what percentage of your overall gathering volumes are exposed to kind of liquids plays or liquids associated plays?

David McClanahan: You know, Faisel, it, it's a fairly small percent …

Faisel Khan: Okay.

David McClanahan: Greg's thinking it's in the 5 to 10 percent range. But we, we really hadn't done that calculation.

Faisel Khan: Okay, fair enough. Thanks for the time. Appreciate it.

Operator: Please remember if you wish to ask a question to press star one. Thank you for your cooperation. And the next question will come from Yves Siegel with Credit Suisse.

Yves Siegel: Good morning. If I could, could you elaborate, perhaps Gary, on the, on your comment on potentially doing an MLP. What, what kind of factors would you be factoring in to on that decision?

Gary Whitlock: Well I think the key one, I think the hurdle that we're over is that the MLP certainly could be a viable vehicle, financing vehicle for us. So Yves, I think the real key is that we have visibility on the long-term growth opportunities in our midstream area. I think that's the real key, is that we can see that that there's significant growth in front of us and that the vehicle would then be used and we have ability to use it to finance continued growth. I think that's the key one.

Yves Siegel: And as you sit today, how do you view that long term growth? Is it contingent primarily on doing an acquisition or do you think you have the footprint that would allow you to grow at this juncture?

Gary Whitlock: You know, I don’t think there's any one answer to that. Look, certainly I think if you look historically we've been able to originate a lot of business. Greg and his team are working very diligently to continue to originate new business. So I don't want you to say, you know, it is going to be one event that we have a large acquisition. I think if we can see continued growth in our organic growth, it's certainly, there may be some acquisition opportunities that are assets that are complementary to our business. So, I don’t think there's any one thing. I think it's really again, visibility around the growth, Yves.

Yves Siegel: Okay, great. And if I could just last two questions, is you know when you have these proposals that are out there, and if you win them or lose them, what do you think is the major factor that would cause, allow you to win it or perhaps you know lose it?

David McClanahan: Greg, you probably can speak to that.

Greg Harper: You know Yves, I think we've said before in some of our other calls, and at some of our conferences we've been at that a lot of the producers have elected at least in this past year we saw do things themselves. So we're actually bidding into their projects, designing stuff for them, and then they elected to go ahead and do it themselves. And we actually had two major deals go that way. But we're also starting to see some producers wanting to give back some gathering systems and sell those. So those are going to be some opportunities in our near future, we think.

Yves Siegel: Okay, great. And then last question, Gary, do you have any sense of what the impact of bonus depreciation could be in 2012 or what deferred taxes might look like in 2012?

Gary Whitlock: As you know bonus depreciation in 2012 is at 50 percent. I'll give you a couple of numbers. Last year 2011 we estimated we probably had about a 400, 435 million dollar benefit. I think 2012 we're probably thinking less than 300. I think about 275 million. So it still will be a benefit from a cash perspective this year.

Yves Siegel: Thanks gentlemen.

Operator: The next question will be a follow up question from Carl Kirst with BMO Capital.

Carl Kirst: Thanks, this is I guess a question for Gary. I just wanted to make sure I've got all sort of the moving parts right and it's a little bit more perhaps micro on the stranded cost recovery. We do have sort of both earnings and cash flow impacts. There was the… I guess the statement in the press release of the roughly 250 million over the… of future gains to be coming over the life of the bonds. Should we basically just take that as, kind of, you know that number divided by the 10 year average life and that's what is going to be the EPS impact, if you will, on an annual basis from that? And where does that show up?

Gary Whitlock: Well are you talking about where does it show up in Houston, in the segment itself?

Carl Kirst: Yes, I didn't know if that would come under like the transition bond company or I just ….

Gary Whitlock: No, that will be in Houston Electric but you take the 258 which I believe is an after tax, it's an after tax number, a pre-tax number is north of 400 million dollars. I think this year I think we can just give you the 2012 estimate of what we think that number will be…about 16 million increase.

Carl Kirst: And I'm sorry Gary, is that a pre-tax or after tax?

Gary Whitlock: That's pre-tax. But I think that's a schedule we can provide you because this is well, this is known, we have the bonds sold now. Just let me check here. The total, I think you can say next year, about on a…let's see, about 36 million dollars next year. Or this year, 2012.

Carl Kirst: I'm sorry, 36 million in 2012?

Gary Whitlock: 36 million in total.

Carl Kirst: Okay. Okay, no, that's what I needed. That's very helpful. I just wanted to make sure we had the i's dotted, so…great, thanks guys.

Gary Whitlock: Okay.

Operator: Please remember if you wish to ask a question, to press star one on your telephone keypad. Thank you for your cooperation. And we do have a follow up question from David Frank with Catapult.

David Frank: Yeah, hey guys. Just a question on the kind of competition you're seeing now in the field services, in the midstream, I'm sorry, in the liquids rich regions of gas. Obviously we hear a lot of talk from the producers moving rigs into the liquids rich, so you would think there's going to be more opportunities there but, can you give us a sense of you know – what are you seeing as far as traditional competition getting into these regions?

David McClanahan: You know David, what I'd say is we're seeing the same level of competition as we've always seen from the same companies. There's lots of folks out there that you're aware of their names just like we are, that we compete with and so I don't think, I think we're seeing the same, same cast of companies after this business as we've always seen.

David Frank: It's no tighter or, it's not greater or less given more or less opportunities that could be out there?

David McClanahan: I think there's lots of folks interested in what we're doing. But that's not new. That's been there for, for several years.

Greg Harper: Yeah, and this is Greg. I would say that in some of these plays, you know we're as well positioned as anybody. You know, Mississippi Lime, Tuscaloosa Lime, we're, there's not really a competitive advantage so we can go in there with maybe a partner and be able to take, you know capture some business. But again, in some of these areas, producers like to do their own little start-up gathering systems as they try to prove out their production, so…

David Frank: Right, right. Okay. Thanks a lot.

David McClanahan: You bet.

Operator: You do have a question from Jack Moore with Hartswell Capital.

Jack Moore: Good afternoon. Most of my questions are answered, just wondering if you could comment on the virtue of the two, I mean, separate businesses and the virtue of, of keeping both of those and have you considered, or reviewed the option of focusing more on one and perhaps selling one to somebody that, where it would be more strategic for them?

David McClanahan: Are you talking about gas versus electric, regulated versus unregulated, Jack? I want to make sure I understand your question.

Jack Moore: Yes, yes, I mean, along those lines, I guess it's split, but I was thinking gas versus electric, and regulated versus unregulated. It seems like you can slice the company in a few different ways, and you've got great assets, and I'm not sure how much, while management is certainly capable of doing a great job of, if there's more value to be created by having two companies or two parties that are focused independently on their specific business?

David McClanahan: You know, in the past, we've looked at, we've looked at selling parts of our businesses, there's no, especially four or five years ago, we never could make that work from an after tax basis and we're glad we didn't split it up. I think, you have to look at the scale of the remaining two businesses if you split them up, and I think, I think scale would be questionable if they weren't, if they weren't combined. So do we, from time to time, look at that? Yes, we do, but I think at this stage we're not, we don't believe that would be the right, the right direction for the company.

Jack Moore: That's fine, thanks very much.

David McClanahan: You bet, Jack.

Operator: At this time, there are no further questions. I would like to turn the call back over to Ms. Paulsen for any closing remarks.

Marianne Paulsen: Okay, thank you very much again, Thea. Since we do not have any further questions, we're going to end the call. Thank you very much, everyone, for participating today. We appreciate your support very much. Have a great day.

Fourth Quarter and Full Year 2011 Earnings Conference Call
February 29, 2012

Operator: This concludes CenterPoint Energy's fourth quarter and full year 2011 earnings conference call. Thank you for your participation. You may now disconnect.

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 2012, future financial performance and results of operations, the future growth expectations for the field services business, including the anticipated growth in gathering volumes, customer growth rates, future levels of natural gas production and drilling activity, the anticipated impact of the recent rate case on CenterPoint Houston Electric's operating results, anticipated capital expenditures, the expected need and timing for future rate cases, the impact of changes in natural gas prices on the field services business, expectations regarding the future development of pipelines, and other statements that are not historical facts are forward-looking statements. Each forward-looking statement contained herein speaks only as of February 29, 2012, and we undertake no obligation to publicly update or revise any forward-looking statements except as required by law. Factors that could affect actual results include (1) state and federal legislative and regulatory actions or developments relating to the environment, including those related to global climate change; (2) 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; (3) timely and appropriate rate actions and increases, allowing recovery of costs and a reasonable return on investment; (4) the timing and outcome of any audits, disputes or other proceedings related to taxes; (5) 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; (6) 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; (7) 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, including the effects of these circumstances on re-contracting available capacity on CenterPoint Energy's interstate pipelines; (8) 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; (9) competition in CenterPoint Energy's mid-continent region footprint for access to natural gas supplies and to markets; (10) weather variations and other natural phenomena; (11) any direct or indirect effects on CenterPoint Energy's facilities, operations and financial condition resulting from terrorism, cyber-attacks, data security breaches or other attempts to disrupt its businesses or the businesses of third parties, or other catastrophic events; (12) the impact of unplanned facility outages; (13) timely and appropriate regulatory actions allowing securitization or other recovery of costs associated with any future hurricanes or natural disasters; (14) changes in interest rates or rates of inflation; (15) 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; (16) actions by rating agencies; (17) effectiveness of CenterPoint Energy's risk management activities; (18) inability of various counterparties to meet their obligations; (19) non-payment for services due to financial distress of CenterPoint Energy's customers; (20) 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; (21) 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; (22) the outcome of litigation brought by or against CenterPoint Energy; (23) CenterPoint Energy's ability to control costs; (24) the investment performance of pension and postretirement benefit plans; (25) potential business strategies, including restructurings, acquisitions or dispositions of assets or businesses; (26) acquisition and merger activities; and (27) other factors discussed in CenterPoint Energy's Annual Report on Form 10-K for the fiscal year ended December 31, 2011, and other reports CenterPoint Energy or its subsidiaries may file from time to time with the Securities and Exchange Commission.