First Quarter 2009 Earnings Conference Call
April 29, 2009

Marianne Paulsen – Director, Investor Relations

Thank you very much, Tina.

Good morning, everyone. This is Marianne Paulsen, Director of Investor Relations for CenterPoint Energy. I'd like to welcome you to our first quarter 2009 earnings conference call. Thank you for joining us today.

David McClanahan, president and CEO, and Gary Whitlock, Executive Vice President and Chief Financial Officer, will discuss our first quarter 2009 results and will also provide highlights on other key activities. In addition to Mr. McClanahan and Mr. Whitlock, we have other members of management with us who may assist in answering questions following their prepared remarks.

Our earnings press release and Form 10-Q filed earlier today are posted on our Web site, which is www.CenterPointEnergy.com under the Investors section.

I would like to remind you that any projections or forward-looking statements made during this call are subject to the cautionary statements on forward looking information in the company's filings with the SEC.

Before Mr. McClanahan begins, I would like to mention that a replay of this call will be available until 6 p.m. Central time through Wednesday, May 6, 2009. To access the replay, please call 1-800-642-1687 or 706-645-9291 and enter the conference ID number 94424104. You can also listen to an online replay of the call through the Web site that I just mentioned. We will archive the call on CenterPoint Energy's Web site for at least one year.

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

David McClanahan – President and CEO

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

This morning we reported net income of 67 million dollars for the first quarter, or 19 cents per diluted share. This compares to net income of 122 million dollars, or 36 cents per diluted share, for the same period of 2008.

Operating income for the first quarter of 2009 was 285 million dollars compared to 336 million dollars for the same period of 2008.

While on its face, this may look like a disappointing quarter, I believe we had better operating performance than the reported numbers would indicate. Included in our earnings are mark-to-market charges and natural gas inventory write downs of almost 25 million dollars. These charges are primarily a matter of timing and are expected to turn around as the year progresses. We also incurred a charge of almost 12 million dollars related to our ZENS securities as a result of the change in the value of the Time Warner stock being greater than the associated derivative liability. Without the impact from these items, our earnings would have been approximately 26 cents per diluted share, more in line with the first quarter expectations.

Let me give you a little more detail regarding the performance of each of our business segments, beginning with Houston Electric.

Our regulated transmission and distribution utility, Houston Electric, reported operating income of 37 million dollars compared to 54 million dollars in 2008.

The decline in operating income was the result of two primary factors. The largest impact was from reduced throughput, which had a negative impact of 18 million dollars. This was partially due to mild weather and partially due to conservation. While I think it's too early to draw any longer-term conclusions, it appears that our customers were more energy conscious in this first quarter. The second factor was increased pension expense of 5 million dollars. Partially offsetting these two factors was an increase in customers of nearly 35,000 since the first quarter of last year and increased transmission revenues primarily from a tariff change implemented last fall.

Beyond this quarter, we do not expect pension expense to impact earnings at Houston Electric as we will be able to defer any increase for consideration in Houston Electric's next general rate case. Under Texas law, an electric utility may elect to defer changes in pension expense over a base year, which in our case was 2007. We made this election in the first quarter of this year, and will defer approximately 29 million dollars in pension expense this year.

As many of you may be aware, Houston Electric is in the process of installing an advanced metering system as the result of a settlement agreement approved by the Texas PUC in December. We have installed 10,000 smart meters in the first 2 months of the program, and are on target to deploy approximately 145,000 smart meters by the end of the year. Over the next five years, we will deploy approximately 2.4 million smart meters across our service territory at a capital cost of approximately 640 million dollars. We are recovering the cost through a surcharge that went into effect in February. Because of the structure of this tariff and the timing of deployment, we expect the project will have a small negative impact on cash flow and a small positive impact on earnings in 2009.

Now, I'll turn to our natural gas distribution business.

This unit reported operating income of 118 million dollars, a slight decline from the 121 million dollars we reported for the first quarter of 2008. Benefits from rate changes and miscellaneous revenues totaling approximately 13 million dollars were more than offset by increased pension expense of 9 million dollars and reduced customer usage, which had a 6 million dollar negative impact. Unlike our electric utility, we are not able to defer the increases in our pension expense at our gas utilities.

We continue to pursue rate mechanisms to decouple revenues from the volume of gas sold to help mitigate the trends of reduced customer usage. As an example, in our Texas Coast jurisdiction we recently gained approval for an annual cost of service adjustment mechanism to recognize changes in usage, operating costs and rate base.

As we mentioned on our last call, we filed a request with the Minnesota Public Utilities Commission last November to increase our Minnesota rates by approximately 60 million dollars, and implemented a 51 million dollar interim rate increase in January, which is subject to refund. As part of the filing we asked to decouple revenues from the volume of gas sold. We do not expect final action on our request until early next year.

Our competitive natural gas sales and services segment reported operating income of 2 million dollars for the first quarter of 2009 compared to 6 million dollars for 2008. The decline in income was primarily a result of 6 million dollars in write-downs of natural gas inventory to the lower of average cost or market. In addition, we recorded mark-to-market charges of 19 million dollars compared to charges of 22 million dollars last year associated with derivatives we use to lock in economic gains. Excluding these charges, our energy services business was essentially unchanged from last year and consistent with our expectations for the quarter.

Now, I'll discuss our interstate pipelines unit.

Interstate pipelines recorded operating income of 69 million dollars for the first quarter of this year compared to 71 million dollars for 2008. Phase III of our Carthage to Perryville pipeline was put into service last April, resulting in higher operating income this quarter. In addition, we had greater off-system sales and incremental firm revenues related to new power generation facilities on our system. These benefits were more than offset by increased expenses, in part due to higher pension expense, and reduced ancillary service revenues.

In early March, we announced that we had executed a definitive agreement with Chesapeake Energy Marketing to transport their growing Haynesville shale natural gas production through our Carthage to Perryville pipeline. There are two aspects to this agreement. The first part, which began earlier this month, provides for a 27 month backhaul agreement of up to 500 million cubic feet per day. The second part is a long-term forward haul agreement, which provides for 230 million cubic feet per day of firm transportation capacity, or over 80 percent of the total capacity of the Carthage to Perryville Phase IV expansion, which is projected to be in service in April of 2010.

This agreement is an example of our strategy of emphasizing firm fee-based transportation revenues on our system. This year, we expect 90 percent of our interstate pipeline's margin to come from fee-based firm transportation services. The other 10 percent will come from ancillary services such as park-and-loan service, treating and processing and balancing services. As you know, these ancillary services are driven by market dynamics, natural gas prices and natural gas liquids prices and provide upside beyond the more predictable and consistent fee-based revenue.

The Southeast Supply Header, or SESH, our joint venture with Spectra, was placed in commercial operation last September and began flowing gas, primarily to the Florida markets. While SESH has contracted for all but 80 million cubic feet of the 1 billion cubic feet per day of capacity, some of the capacity commitments phase in over the first 3 years. We had expected that most of the remaining available capacity would be sold on an interruptible basis, but market conditions limited such sales.

Now let me discuss our field services segment.

We reported operating income of 26 million dollars for the first quarter of 2009 compared to 45 million dollars last year. Last year's operating income benefited by 17 million dollars from the sale of non-strategic assets and the settlement of a contractual dispute. Excluding these prior year gains, operating income for field services was essentially on par with last year. Increased fee-based revenues from new wells added to our gathering system since last year offset the revenue declines we experienced from reduced natural gas and natural gas liquids prices. We are projecting that fee-based revenues will account for approximately 75 percent of this year's margin. The remaining portion is sensitive to commodity volumes and prices. We have locked in prices for a substantial amount of the projected volumes that are sensitive to natural gas prices.

In addition to operating income, we also recorded equity income of 2 million dollars from our jointly-owned natural gas processing facilities compared to 4 million dollars the previous year. The decline was primarily due to lower liquids prices, which are at about one half of last year's price levels.

While drilling activity in the conventional basins is down over 50 percent year over year, activity in the unconventional shale areas, particularly the Haynesville, Woodford and Fayetteville shales, has been minimally affected, with producer activity remaining steady. Most of our growth projects for this year are concentrated in these shale areas.

In closing, I'd like to remind you of the 19 cent per share quarterly dividend declared by our Board of Directors on April 23rd. We believe our dividend actions continue to demonstrate a strong commitment to our shareholders and the confidence the Board of Directors has in our ability to deliver sustainable earnings and cash flow.

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

Gary Whitlock - Executive Vice President and CFO

Thank you, David, and good morning to everyone. Today, I would like to discuss a couple of items with you beginning with the process of recovering our costs related to Hurricane Ike. Earlier this month, a bill was passed by the Texas Legislature, and signed by Governor Perry, that provides the legal basis for us to issue non-recourse storm cost recovery securitization bonds similar to the three series of transition bonds we issued to recover stranded costs. Storm cost recovery securitization bonds have the dual benefit of allowing us to recover our hurricane costs in a timely fashion, and lowering the ultimate cost to consumers.

The legislation, which also covers any future storms, authorizes the Texas Public Utility Commission to review storm restoration costs and issue an appropriate financing order. On April 17th, we filed an application with the PUC detailing our storm restoration costs. We requested recovery of 678 million dollars, which is composed of 608 million dollars in system restoration costs and 70 million dollars in regulatory expenses, certain debt issuance costs and carrying costs. In the next few weeks, we expect to file an application for a financing order with the PUC to request permission to issue bonds to recover the distribution system portion, estimated to be approximately 657 million dollars. We hope to complete the regulatory process and issue bonds late this summer. We would recover the transmission portion, an estimated 21 million dollars, through our next transmission rate case.

This leads me to my second topic, our 2009 earnings guidance. This morning in our earnings release we announced that we reaffirmed our 2009 earnings guidance range of one dollar and five cents to one dollar and fifteen cents per diluted share. In providing our guidance, we considered various economic, operational and regulatory assumptions, including recovery of costs associated with Hurricane Ike. We have assumed normal weather in both the gas and electric utilities, and we have not attempted to predict the effects of mark-to-market or inventory accounting on the earnings of our competitive natural gas sales and services business. These effects are timing-related and ultimately do not impact the economics of the underlying transactions. In addition, we have excluded any impact to income from the change in value of Time Warner stocks and the related ZENS securities, and we have assumed an effective tax rate of 39 percent for the full year. As the year unfolds, we will continue to update you on these items as well as our earnings expectations.

Now I'd like to thank you for your interest in our company, and I'll turn the call back to Marianne.

Marianne Paulsen – Director, Investor Relations

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

Operator: At this time we will begin taking questions. If you wish to ask a question, please press star then the number 1 on your touchtone keypad. To withdraw your question, press the pound key. The company requests that when asking a question callers pick up their telephone handset. Thank you.

And our first question will come from the line of Danielle Seitz with Dudack Research Group.

Danielle Seitz: Thank you. I was wondering if you are looking at cost reductions over - in some of your businesses or the - should we look at the trend of operating costs as normal for the year?

David McClanahan: Good morning, Danielle.

Danielle Seitz: Hi.

David McClanahan: I don't think I would necessarily try to take the first quarter and use that as a trend. As you know, there's always noise in looking at just one quarter.

Danielle Seitz: Sure.

David McClanahan: We are trying to hold the line on expenses. As you also know, I'm sure, about 60 percent of our costs are labor and benefits, and we don't have any changes - significant changes planned there. But we absolutely are trying to control expenses where we can, delay expenditures that aren't absolutely necessary at this time. So we've got our eye on that ball.

Danielle Seitz: Great, thanks.

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

Lasan Johong: Hi. Could you give us an understanding of how much this conservation issue is bearing down on your numbers? Is it most of the difference? Is it a very small portion? And how do you know that this is actually happening?

David McClanahan: Good question, Lasan. We're obviously focused on it. As you - as I said, about 18 million dollars of revenues were lost from reduced usage. Probably about 3 or 4 million of that is related to our commercial and industrial class. We've seen, along the ship channel, you know, some cutback by our big industrial users and we have demand ratchets. And over time that ratchets down a little. The other say 13, 14 million is, in fact, in the residential class and we can explain part of that with weather, but not all of it with weather. One, as this past or this winter we had fewer HDD days -- heating degree days -- but we kind of say they're of a different quality because it was a very dry winter and we had lots of kind of space between cold days, and we tend to not have as much heating load as a result of that. But I would say that at least half of it is conservation related and it could be a little bit more.

The first quarter is not a good time to be trying to draw any conclusions on the electric side because that's not our largest load time, as you know. Beginning late in the second quarter and in the third quarter are the times that we have our biggest electric sales and that's what we're really focused on. Our estimate for last year, 2008, was we saw about a 2% conservation impact in the residential area. And we had continued – that we'd see – or thought we'd see some of that trend continue but this was beyond our expectation. So we're watching it closely. I think it's too early to predict it's a trend, but I think customers are conserving more than they had been.

Lasan Johong: Okay. And just quickly on the continuous equity program, can you tell us why you want to do this as opposed to doing it in one shot?

Gary Whitlock: Hey Lasan, good morning. This is Gary.

Lasan Johong: Good morning.

Gary Whitlock: Just to remind you, on the continuous offering program, which is 150 million dollars, as I said in last quarter's earnings call, we think this is a tool that we've put in our toolbox. We've not issued to date, but I want to remind you that we raised approximately 30 million dollars in the first quarter, in equity around our savings plan, our investor's choice plan, that we let you guys know about last year.

Look Lasan, I think our rationale remains the same in terms of a capital raise. We think in terms of permanent financing it's important to have the appropriate mix of debt and equity in our capital structure to execute our business plan. We have a 1.1 billion dollar capital plan reflecting, we think, some excellent projects with very solid returns and our financing plans for these accretive products include equity. I think the question then is does a continuous offering program versus a marketed program - we just think - we reserve the right to do either, but certainly I think a continuous offering program is a tool in our toolbox.

Lasan Johong: So it's just a tool but you're not necessarily 100 percent committed to it?

Gary Whitlock: We're - well, what we're committed to is a capital structure that allows us to execute a business plan. That's what we're really committed to.

Lasan Johong: Got you. Okay, thank you very much.

Gary Whitlock: Thank you.

Operator: Our next question will come from the line of Carl Kirst with BMO Capital.

Carl Kirst: Hey, good morning everybody.

David McClanahan: Good morning.

Marianne Paulsen: Good morning.

Carl Kirst: If I could start maybe just back on the conservation issue, lower usage per meter on, you know, both the LDC front and the electric front seemed to be about 10 percent; a little bit more than I think we had expected as well. It's obviously too early to build that in as the summer is going to be the peak for electric. But can I ask you with respect to what you're using in your guidance range, what your expectations are for the rest of this year?

David McClanahan: Well, let's take each one of them separately. Probably - you know, there's at least half of the electric residential conservation that we hadn't predicted for the first quarter, but we've taken that into account in, you know, reaffirming our guidance. But we're assuming that there'll be a little conservation and weather will be normal, but we're not counting on 5 or 10 percent conservation. I'll assure you of that.

On the gas side, we expected a continuation of the trend that we had seen in the past which is about 2 percent a year reduction in residential usage. I think the first quarter was a little bit more than that when you normalize it for weather but not a huge amount different. We're really kind of right on, I think, our plan for the LDCs so - and we're - as long as we continue to see this level I think we'll be all right there.

Carl Kirst: Okay, appreciate the color there. And then just kind of a clarification here, and understand there's a lot that goes into the guidance range as far as pluses and minuses, but just to make sure I'm on the same page. When the pension deferral was noted -- that 29 million dollars -- is that relative to the 88 million dollars that was talked about earlier in the, you know, in the year or had the 88 million already sort of excluded the 29 million that was going to be deferred?

David McClanahan: No, the 88 million didn't. You'd...

Carl Kirst: Okay.

David McClanahan: ...have to take the 29 million off the 88.

Carl Kirst: Okay. No, fair enough. Okay, I'll jump back in queue. Thank you.

David McClanahan: Thank you.

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

Scott Senchak: Hi. Actually, my question was about the pension. But just another thing that you kind of went fast through it - but can you just explain the precedent, I guess, in the state for filing for a pension deferral again?

David McClanahan: Yeah, back in 2005 there was a change to the Public Utility Regulatory Act which provided that utilities may set up a reserve for changes in pension expense from their last rate case or if it wasn't specified in the rate case then the first year after a rate case. We had our last rate case in 2006.

It was a settled case so we had no details. And therefore, 2007 was the base year that we work off of. So any changes from the base year, you can set up a reserve for and ask for a request.

In ‘08 it was actually less than the amount in ‘07. Obviously with this change, it’s a big change and we decided let’s go back and just catch up to - for ‘08. And we did that in the first quarter of ‘09. And now we’re deferring all these dollars going forward until the next general rate case.

Scott Senchak: Okay, great. Thank you very much.

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

Leon Dubov: My questions have been answered. Thank you.

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

Scott Engstrom: Question - the tax rate looks a little high to me in the quarter. I wondered if that was due to the ZENS write-down or if you could just discuss that; if that’s - you know, if you have changed your expectation for tax rate on the year? And then also, maybe just a little reminder on some of the ZENS accounting issues; will that - will the index security catch up with the write-down on the common, or could you just talk about that for a second?

Gary Whitlock: Okay, this is Gary. In terms of the tax rate, we had previously indicated 30 to 7 - 37 to 38 percent rate for the full year. Really the changes have been based on more knowledge around the unitary tax allocations. Of course, when you get through the previous tax year you’re able to understand those tax allocations or unitary tax allocations in the states that we do business. And so in this quarter, we actually had a 4 million dollar catch up related to the unitary tax allocation and the Texas margins tax as well. Based on that it’s then - we looked - based on that we looked at the rate going forward and in terms of providing guidance to you we think 39 percent is more in line to use this year. And it’s really driven by then the allocations related to unitary tax.

In terms of ZENS, the real driver there - and again, this is the - I'll remind you of the ZENS security. This is our lowest cost debt in our capital structure. It'll be with us until 2029. And the accounting for it is really related to the Time Warner shares and then the valuation of this derivative. So these - and I wouldn't describe them as timing but they move based on the - at least the mark-to-market if you will of the Time Warner shares - will depend on the value of the Time Warner stocks. And there're two of those stocks now. There may be three if they spin off AOL at some point. So I think you need to exclude those. They're non-operational. They will move and certainly could come back and frankly be favorable for the year. But I think it's best to exclude them. They don't really impact the economics when you look at ZENS from an economic perspective at least.

David McClanahan: And I think if you go back and look at the history, some years there's a small loss. Some years there's a small gain. I think Time Warner stock has been under a lot of pressure. It got pretty low and it got a little bit disconnected to the direct - the opposite direction where the derivative was going. Hopefully this will get back in line in the future. But I think it's really hard to tell around just what's going to happen to these Time Warner stocks.

Scott Engstrom: You're saying based on history it's - there's a decent chance that they will move back but there's nothing that is - guarantees that they would move back more in line?

David McClanahan: That's correct.

Gary Whitlock: That's correct.

Scott Engstrom: And you're saying the tax rate on this quarter, there is a 4 million dollar catch up from '08? Is that what you were saying?

Gary Whitlock: Well there's a 4 million dollar - as you know, as you go through the determination of unitary tax, you'll have - you really need to know the revenues in each of the jurisdictions. And yes, there's a 4 million dollar - I guess you could call it a catch up, but an adjustment to ensure that we have those allocations correct.

Scott Engstrom: Okay.

Gary Whitlock: And therefore, going forward, that's why I've guided you to - for this year using a 39 percent tax rate. Look, certainly we're going to try and improve upon that as we do the best tax management we possibly can, of course. But that's where we are at the moment.

Scott Engstrom: And then just last follow-up on that: so all other things being equal then, you would expect the tax rate to be lower in ‘10 versus ‘09 then based on this unitary tax catch up in ‘09?

Gary Whitlock: I think - yeah, my - I would hope - yes. I think the short answer is yes because you would expect to come back in line with a normalized rate which is your - to remind you is your corporate income tax rate plus the tax rate in the various states in which we do business. And of course, Scott, as you know, that’s subject to change I guess depending on the amount of business we do in each state.

Scott Engstrom: Right. Thanks very much guys. Appreciate it.

Gary Whitlock: You bet.

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

Faisel Khan: Good morning guys.

David McClanahan: Good morning.

Marianne Paulsen: Good morning.

Faisel Khan: On the Carthage to Perryville expansion, you said Phase IV, 80 percent was signed up with Chesapeake…

David McClanahan: Right.

Faisel Khan: Given that that’s an expansion, I guess do you just roll those volumes into your current rates? And then I guess in theory, what would that mean for the return on capital on that project?

David McClanahan: Well what we do is those are negotiated contracts so it’s really whatever the market will bear...

Faisel Khan: Okay.

David McClanahan: ...more than anything. We - I think our max rate on our system is 25 cents but these are negotiated rates and the cost of that Phase IV expansion is about 80 million dollars. We spent a little bit in ‘08 so we - I think we’re going to spend a little less than 60 million this year. But it’s a good, solid project to get almost 275 million of additional capacity.

Faisel Khan: Is it fair to say that the returns on the expansion would be better than the initial build out of the pipeline?

David McClanahan: Yeah, I think that's right. I'd have to double check but instinctively I feel like that's right.

Faisel Khan: Okay. And just from your comments on the electric side of the equation at the T&D business, is it fair to say that, you know, given that most of your demand is in the summer, that during the summer the demand is fairly inelastic to cooling degree days? Versus in the winter where it's more of a heating degree day driven phenomena, which is a little bit, I guess - could be - is a little bit more flexible the demand?

David McClanahan: Well, you know, once it reaches a given temperature and a given humidity I think you're right. It doesn't matter what the cooling degree days are. Once it's 95 and 95 percent humidity, I think the air conditioners stay on; kind of like in the wintertime in Minnesota. Once it gets cold, you know, heaters don't go off that much. But there is some demand elasticity. Last summer we saw - when electric rates spiked because the natural gas prices were up so high -- they were 15 cents to 17 cents a kilowatt hour -- we thought we detected some conservation on the part of our customers which was truly, you know, response from these high electric rates. Electric rates have since gone down significantly. Today they're probably more 12 cent range so you can see they've declined a lot. And I think that will also have some impact this coming summer.

Faisel Khan: Okay, understood. Thanks for the time.

David McClanahan: You bet.

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

Steve Gambuzza: Good morning.

David McClanahan: Good morning.

Steve Gambuzza: The operating profit that you generated in field services this quarter, would you expect that to be a reasonable quarterly run rate for the year or do you expect performance to deviate substantially one way or the other?

David McClanahan: You know, field services is pretty consistent from quarter to quarter unless you have significant changes in liquids prices or commodity prices. So it's not a - I don't think it's a bad run rate. I don't think you necessarily - we use that as a guide, but it's not a bad rate. It's pretty consistent quarter to quarter.

Steve Gambuzza: So at least the fee based portion of your business should be running at kind of around that quarterly run rate? There's no kind of sharp acceleration or fall off in the back half of the year?

David McClanahan: No, other than we continue to add, you know, volumes to our system and as we add volumes you have some increase in your fee based revenues. We have certainly seen increases in fee based revenues since last year and it's kind of gradual over the year as these wells come on. So I expect we'll continue to see some increase in fee based revenues this year because we've got a lot of new projects we're working on.

Steve Gambuzza: What was the capital spending in field services in the quarter?

Gary Whitlock: Just a second, we'll get it.

Steve Gambuzza: And perhaps while you're looking for that, just any comments you - I think you said last call or in the end of '08 that you expected 2009 would shape up to be a very strong year for field services but there was just a tremendous amount of uncertainty around 2010. I'm just curious if you've gotten any more color as to your view of the market and how it might develop in 2010?

David McClanahan: Okay, the capex was about 38 million dollars in the first quarter. 2009, we've got four or five very large projects. You know, we have the largest capital program that we've had since I've been around here; almost 270 million dollars in field services really related to these big projects in the shale areas. So those are very attractive projects for us and as long - and we stay in very, very close contact as you'd expect with producers because we're basically following the producers. When they have wells that are ready to go to market, we're - we've got to be there with them. But if they slow down we slow down. So far we think we're going to spend on the order of that 270 million. It could be a little less if some of the well - drilling slows down. As we look out to 2010, it's a little bit harder but we see a lot of activity in these shale areas. And that's where we think we'll continue to get new projects. I think we've got something like 140 million dollars of projected capital expenditures in '010 so you can see we're a lot less than we were in '09. And it's because we're completing some of these larger projects.

Steve Gambuzza: Okay, thank you. And the SESH results for the quarter where you had basically operating - or if you strip out the charge, it looks like the profit was around 3 million dollars.

David McClanahan: Right.

Steve Gambuzza: Is that kind of the run rate we should expect for SESH?

David McClanahan: Well I hope not. We don't think so. That rate - as you know, we - there's probably 20 percent of that bcf a day capacity that is not getting a demand capacity payment for this year because it phases in over the first one, two years, three years. We had expected that we were going to be able to sell quite a bit of that on an interruptible basis or short term firm. But, you know, the Florida markets - demand is down over there and there's lots of gas coming into that area. So I think the basis has been really squeezed and we just don't see as much activity there yet. If you have a good, hot summer, you know, things could change a lot. So I don't think I would guide you to, you know, using the first quarter as a trend line. We'll just have to wait and see how this year unfolds.

Steve Gambuzza: So I guess can we say that at a minimum it should be that and if you're able to market some excess capacity you'll do better?

David McClanahan: I would hope at a minimum it's at least that. And yes.

Steve Gambuzza: Okay. Is the - has the project finance or the SESH financing that you'd discussed in the past, could you talk about the status of that?

David McClanahan: Yeah, Gary's going to take that.

Gary Whitlock: Yeah. You know, if you look at that, obviously this project is, you know, fairly new into service and we're working with Spectra, Steve, at the moment. As you know, those markets have been a bit choppy. I'll call it the project finance markets, although stabilizing a bit. So we're still in the process of evaluating that, both the need to do the financing and when to do it, and what the rates would look like, and really sitting down with our partner and talking that through. So no news at the moment on that one.

Steve Gambuzza: Got it. And finally, the deferral of pension expense for Houston Electric, was that part of your original guidance or was that something you've elected to do subsequent to issuing guidance?

Gary Whitlock: Well I think, you know, when you say it's part of our original guidance, and again that's - we had a range. We were certainly, at the time, looking into what we could defer. So we had some expectations but, you know, we don't - you know, there are moving parts in that guidance. I would say a portion of it certainly was in the guidance.

Steve Gambuzza: Okay.

Gary Whitlock: But not - perhaps not all of it.

Steve Gambuzza: But the way to think about it is you identified -- when you reported Q4 -- what you expected total pension expense to be, the increase...

Gary Whitlock: Right.

Steve Gambuzza: ...and now there's some portion of that total increase - the total increase hasn't changed. It's just that...

Gary Whitlock: Right.

Steve Gambuzza: ...there's some portion of that you can defer?

Gary Whitlock: No, that's exactly right. And if you recall, what we said at the time - and by the way, we're still working hard on our gas jurisdictions in terms of deferral there as well. What we've said is we wanted to be conservative so we gave you the, you know, the outward number; 88 - I believe it's 88 million dollars. It's now 59 based on the amount that we're able to defer. And we're going to continue to work on the gas side of this as well. So we wanted to be conservative when we gave you that guidance.

Steve Gambuzza: And the equity increase in the quarter was around 30 million dollars, is that correct?

David McClanahan: Around 30 million dollars, that's correct - mainly driven by our savings plan.

Steve Gambuzza: Should we think about that as - my - I guess my understanding was the total - your total equity plan for the year was 150. Should we think of that as going towards that amount or would this be incremental to the 150 that you intended to achieve through a DRIP issuance?

David McClanahan: I think the - we said really two things in terms of - and not to repeat myself on our overall objectives for our capital structure to support our business plan. But they were additive to each other. In other words, we have two - obviously we could do a marketed transaction. We could do the continuous offering in our toolbox. But it’s additive in terms of our benefit programs. But you can't take - don't take the 30 million and extrapolate that each quarter because it depends on when those - how those plans are funded at certain times. This was mainly the savings plan in this quarter. So...

Steve Gambuzza: I guess I was taking it as you put out a capex forecast for ‘09 and based on that capex forecast you have a certain external financing requirement.

David McClanahan: Right.

Steve Gambuzza: And that external financing requirement included around 150 million of equity?

David McClanahan: It’s includes 150 million of equity and it includes also the equity we raise normally through our benefit plans.

Steve Gambuzza: Okay, thank you very much for your time.

Gary Whitlock: You bet, Steve.

Operator: Our next question will come from the line of Debra Bromberg with Jefferies.

Debra Bromberg: Hi, good morning.

David McClanahan: Good morning.

Debra Bromberg: The O&M at the electric company looks like it increased about 20 million in the quarter, but I think you said that pension was about 5 of that, so I was just wondering what the key drivers were for the other 15? And then also, this is a follow-up on the pension. I think last quarter I had asked about how much of the 88 million of higher pension expense was expected at the electric company and you had estimated about 41. And it sounds like that amount is lower now or if you take the 29 million dollar deferral and the 5 million dollar that you booked in the quarter it looks like it's closer to 34. So I just want to make sure I'm not missing something on that.

David McClanahan: Now, the numbers you quoted are correct. The latest numbers are, I think, a refinement of the earlier numbers because now we're expecting to do 29 and we expensed 5. But as you know, we had kind of a catch up from '08 when we made this election so that that's the difference between the 41 and the 35. You know, I think - and there's a whole bunch of nickels and dimes, but I think transmission costs are - is the biggest. It's almost 9 million of that and that's a big part of the increase besides the pension. There's a bunch of just small things and nothing else kind of jumps out at - off the page at you.

Debra Bromberg: Is the higher transmission cost within expectations because I know you recover some of that through rates (unintelligible)...

((Crosstalk))

David McClanahan: Yeah, it's pretty close. We have to estimate what the key cost matrix is for the year which it gives us how much others will bill to us. And so it's close. It's a little bit higher than we thought, but it's pretty close.

Debra Bromberg: Okay, thank you.

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

Mark Rogers: Thank you. My question is regarding your smart meter rollout. I was just wondering how you have modified your schedule; either decelerated or accelerated the schedule since you've decided to go with smart meters? And then I have a follow-up.

David McClanahan: Well the schedule we're on today is the schedule we got agreement with all the parties to our case last fall and it's the one the PUC approved. So it's not any different. We're going to roll this thing out over five years. This year it'll be 145,000 and then kind of ratably after that. So, I think it's - we're really on schedule with what we said we were going to do.

Mark Rogers: Okay. And then as uncertainty seems to loom over this space regarding technology standards and communication protocols, I was wondering if the argument with the standards committee evolves into deciding one technology or platform is simply better or is worthy of stimulus dollars over another? What is the flexibility that you have in going back to your vendors asking them if they have a compliant technology platform? And if they don't canceling that contract?

David McClanahan: Well there's probably a lot in there that I can't answer. But we've pushed for open architecture of all these systems so we can have interchangeable vendors. And there are going to be – and we're using the communication protocols that lots of other folks are looking at and using, so there is a lot of discussion around trying to standardize more around this. We know that and we're following it closely. And we're part of those discussions. But I don't think there's anything there that is going to impact our rollout that we've seen, anyway.

Mark Rogers: Okay. And then if I may, just one quick follow-up: if you could define some of your major use cases that you're hoping the initial, I guess 10,000 or if you will, 140,000 by year end, smart meters have proven out; what would those be?

David McClanahan: I'm not sure - it makes (unintelligible)...

((Crosstalk))

Mark Rogers: In other words, what are they - what are your smart meters trying to achieve?

David McClanahan: Well we're going to provide - they're going to be fully two-way communicable. They're going to be - we're going to automatically read all these 145,000. We're going to take 15 minute interval readings and those readings are going to be available through a portal, through retail energy providers so they can provide time of day rates. And they can start - we can start seeing exactly how customers will respond. We're going to provide small, little devices in homes that can be communicated with by the meter that can keep track of usage; and, you know, part of the home area network. So there's lots of things on that front. We're providing - we're facilitating all of this. There's going to be other parties that have to participate as well. As you know, we don't sell electricity. We deliver electricity. Somebody else is going to have to provide the time of use rates. But we're going to make all the data available so they can do it and customers can take advantage of it.

Mark Rogers: Great, thank you.

Operator: Our next question will come from the line of Ameet Thakkar with Deutsche Bank.

Ameet Thakkar: My questions have been asked and answered. Thank you.

Operator: Thank you. Our next question will come from Carl Kirst with BMO Capital.

Carl Kirst: I appreciate the time guys. Just two very quick ones on SESH. Gary, you just - you know, wasn't sure if you were going this way or not, but just on the project financing side without the short term capacity being sold just yet, is the project financing really more a matter of what the bond market and rates are doing or is it really more kind of getting that capacity sold?

Gary Whitlock: Well, you know, I think it's really both Carl. I think clearly the market -- although a bit better -- I think it's really the optimum financing I think – factoring – we have to make that determination. So I think it's a combination of the two. Clearly we need to have - if we're going to sell bonds, we need to have probably a bit more clarity as to what the profitability will be, both in the near term and more importantly the longer term depending on the tenor of the bond.

Carl Kirst: Right, right.

Gary Whitlock: So I think that's certainly a variable. I think certainly the market is improving in our ability to go to market. So I think they're connected to each other and that's the work we're doing now with our partner at Spectra.

Carl Kirst: Fair enough. And then just a quick clarification: the equity earnings that are reported and discussed, are those pretax or is that after tax? Just trying to figure out where that's exactly (unintelligible)...

((Crosstalk))

David McClanahan: That's pretax.

Gary Whitlock: Yeah.

Carl Kirst: Great. Thanks guys.

Operator: Please remember if you wish to ask a question, press star then the number 1. Thank you for your cooperation. Our final question will come from the line of Paul Patterson with Glenrock Associates.

Paul Patterson: Can you hear me?

David McClanahan: Yes, now we can Paul.

Paul Patterson: Okay. I'm - just want to sort of revisit the pension. You deferred 29 million, is that correct?

David McClanahan: No, not yet. We expect as we go throughout this year that's what would've been expensed and now we will be able to defer it, and ask for recovery in a future rate case.

Paul Patterson: Okay. And on the - you said that you might do this on the natural gas side as well?

David McClanahan: Well we're working hard to - with our regulators and with other legislatures to see if we can get something going on this front. We have a little bit of that already when we have automatic cost adjustment clauses where if we have an increase in pension in a given year we get to increase or reflect that in our rates the following year. But in our biggest jurisdictions which are in Texas and Minnesota, we don't have those kinds of features. So we're looking to try to work something on that front and see if we can get similar treatment. It would appear to me if the electric utilities in Texas can do it why can't the gas utilities? And that's what we're talking to regulators about. And I think in Minnesota we're right in the middle of a rate case, and we're going to be able to make sure they're fully aware of the increased costs there and hopefully get those reflected in our base rates; so once the new rates are set.

Paul Patterson: Okay. Thank you very much.

David McClanahan: Okay. Thank you very much, Paul.

Marianne Paulsen: Okay. Well thank you very much everyone. I would like to thank you for participating on our call today. We appreciate your support very much. Have a great day.

Operator: Ladies and gentlemen, this concludes CenterPoint Energy's First Quarter 2009 Earnings conference call. Thank you for your participation.