STANDARD
&POOR'S

Standard & Poor's Research

Summary

CenterPoint Energy Resources Corp.

Primary Credit Analyst:
Dimitri Nikas, New York (1) 212-438-7807; dimitri_nikas@standardandpoors.com

Secondary Contact:
Gerrit W Jepsen, CFA, New York (1) 212-438-2529; gerrit_jepsen@standardandpoors.com

Table Of Contents

Rationale

Outlook

Related Criteria And Research

© Standard & Poor's. All rights reserved. No reprint or dissemination without Standard & Poor's permission.
See Terms of Use/Disclaimer on the last page.

1029573 | 300642892

Summary:

CenterPoint Energy Resources Corp.

Credit Rating: BBB+/Stable/A-2

Rationale

Standard & Poor's Ratings Services' ratings on CenterPoint Energy Resources Corp. (CERC) reflect the credit profile of its parent, CenterPoint Energy Inc. (CenterPoint).

CenterPoint's business risk profile is "excellent" and accounts for the company's regulated electric and natural gas distribution and transmission operations, its field services operations and the competitive natural gas business. The regulated operations contribute about 85% of the consolidated operating income. The balance of operating income is from the higher-risk field services and competitive natural gas marketing operations.

CERC has an "excellent" business risk profile that reflects the benefits of its large regulated natural gas transmission and distribution operations, which are offset by the higher risk unregulated field services operations (natural gas gathering and processing) and competitive natural gas marketing and asset optimization businesses. CERC contributes 50%-55% of CenterPoint's consolidated operating income.

The natural gas distribution operations contribute about 15%-20% of CenterPoint's consolidated operating income and have a presence in six states (Arkansas, Louisiana, Mississippi, Minnesota, Oklahoma and Texas), providing the company with operating and regulatory diversity. CERC's natural gas distribution customer base is large, at about 3.3 million customers, and grew 0.6% in 2011 and 0.5% in 2010. About 40%-45% of total sales are to residential customers, and the remainder is to commercial and industrial customers. CenterPoint has successfully pursued various regulatory mechanisms that contribute to cash flow stability and allow the regulated gas distribution operations to earn closer to or at their authorized returns. The gas distribution operations in Arkansas, Louisiana, and Oklahoma have weather normalization-type mechanisms while in Minnesota the company has implemented revenue decoupling. These mechanisms help mitigate the effects of weather variability, but still place the burden of effective cost control on CenterPoint.

CERC's pipeline business provides about 20%-25% of consolidated operating income and operates via long-term contracts that incorporate tariff schedules approved by the Federal Energy Regulatory Commission (FERC). Historically, CERC pursued pipeline projects in a conservative and measured manner, always ensuring sufficient interest before committing significant capital for new projects.

CERC's gas gathering and processing operations in the Mid-Continent region and competitive natural gas marketing businesses contribute the balance of 10%-15% of consolidated operating income. Standard & Poor's views both of these businesses as having materially higher business risk than the regulated utility operations and as being more vulnerable to competition.

© Standard & Poor's. All rights reserved. No reprint or dissemination without Standard & Poor's permission. See Terms of Use/Disclaimer on the last page

CenterPoint has expanded its gas gathering operations through two major projects in the Haynesville and Bossier shales in the past year with affiliates of Royal Dutch Shell PLC (AA/Stable/A-1+) and Encana Corp. (BBB+/Negative/--). Both projects are fee-based, incorporate volume and acreage commitments to CenterPoint, and the offtakers can request expansions of the gathering systems, which would entail incremental volume commitments to CenterPoint, reducing cash flow uncertainty. The projects are currently operating at the designated capacity, with total throughput of 1.5 billion cubic feet per day. Most recently, CERC also acquired the remaining 50% interest in a gas processing facility it did not own in order to be better positioned to provide a full complement of services to natural gas producers.

The competitive natural gas marketing business provides variable and fixed-price physical natural gas supplies and financial products for commercial and industrial customers, including gas distribution utilities, to manage supply and price risk. This business, which can have significant liquidity needs, is characterized by relatively small margins on a per-unit basis, relying on large volumes to generate a meaningful contribution and requiring excellent risk management skills and a disciplined and consistent hedging approach to avoid exposure to commodity prices. The decrease in seasonal and geographic basis differentials has, to a large extent, reduced the contribution from the asset optimization part of this business, without necessarily reducing the corresponding level of risk we ascribe.

CenterPoint's consolidated financial risk profile is "aggressive", based on adjusted financial measures from our baseline forecast that are in line with the rating category, financial policies that are generally conservative and credit supportive, and liquidity that is in the "strong" category. We expect that CenterPoint will perform in line with its peers over the next 12 to 24 months with credit protection measures that remain stable as capital spending reaches a steady state.

Our baseline forecast of funds from operations (FFO) to total debt of more than 18%, debt to EBITDA of less than 4x, and total debt to total capital that remains at about 60% incorporate the impact of CenterPoint's capital spending program to maintain and expand the regulated utility operations combined with consistent performance at the company's field services business. Our baseline forecast also accounts for a lack of higher risk activities that can introduce cash flow variability and steady economic activity in the company's largest service territories in Arkansas, Louisiana, Minnesota, Mississippi and Texas.

Liquidity

We view CERC's liquidity on a consolidated basis with that of parent CenterPoint. CenterPoint's liquidity is "strong" under Standard & Poor's liquidity methodology. The short-term rating on CERC is 'A-2', reflecting the company's corporate credit rating, adequate liquidity, and our expectation of continued stable cash flows.

We base our liquidity assessment on the following factors and assumptions:

- We expect the company's liquidity sources (including FFO and credit facility availability) over the next 12 months to exceed its uses by more than 1.5x and over the next 24 months by more than 1.0x.
- Scheduled long-term debt maturities (excluding those for securitized debt) are material, but should be manageable, with $815 million maturing in 2013, $960 million in 2014, and $420 million in 2015.
- Even if EBITDA declines by 30%, we believe net sources will be well in excess of liquidity requirements.
- The company has good relationships with its banks, in our assessment, and has a good standing in the credit

© Standard & Poor's. All rights reserved. No reprint or dissemination without Standard & Poor's permission. See Terms of Use/Disclaimer on the last page. 1029573 | 300842892

markets.

CenterPoint has $2.45 billion in available revolving credit facilities, with $1.2 billion available to the parent and the balance available among the operating subsidiaries as follows:

- CenterPoint Energy Houston Electric LLC--$300 million, and
- CenterPoint Energy Resources Corp.--$950 million.

Total undrawn capacity as of June 30, 2012, was $2.44 billion. CenterPoint's revolving credit facilities mature on Sept. 9, 2016.

In our analysis, based on information available as of June 30, 2012, we assumed liquidity of about $3.8 billion over the next 12 months, consisting mainly of FFO and availability under the revolving credit facilities. We estimate the company could use about $2.2 billion during the same period for capital spending, debt maturities, and shareholder dividends.

Our assessment of CenterPoint's liquidity as "strong" is supported by its ability to absorb high-impact, low-probability events with a limited need for refinancing; its flexibility to lower capital spending; its sound bank relationships; its solid standing in credit markets; and its generally prudent risk management.

Outlook

The stable outlook on CenterPoint and its subsidiaries reflects our expectation that the company will maintain its "excellent" business risk profile while sustaining the improvements to its aggressive financial risk profile. Our base-case assumptions suggest that CenterPoint should be able to consistently achieve FFO to debt of more than 18% over the next few years and debt to capital that remains at about 60%, while additional growth in the field services business will be under terms that mitigate exposure to commodity prices and support revenue and cash flow stability. We will lower the ratings on CenterPoint if business risk increases or if FFO to debt decreases to less than 16% while debt leverage exceeds 65% on a consistent basis. Given the meaningful exposure to the higher-risk field services business, we do not currently anticipate a higher rating on CenterPoint.

Related Criteria And Research

- Criteria Methodology: Business Risk/Financial Risk Matrix Expanded, May 27, 2009
- 2008 Corporate Ratings Criteria: Analytical Methodology, April 15, 2008
- Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Sept. 28, 2011

© Standard & Poor's. All rights reserved. No reprint or dissemination without Standard & Poor's permission. See Terms of Use/Disclaimer on the last page 1029573 | 300642892

Copyright © 2012 by Standard & Poor's Financial Services LLC (S&P), a subsidiary of The McGraw-Hill Companies, Inc.All rights reserved.

No content (including ratings, credit-related analyses and data, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of S&P. The Content shall not be used for any unlawful or unauthorized purposes. S&P, its affiliates, and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions, regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact or recommendations to purchase, hold, or sell any securities or to make any investment decisions. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P's opinions and analyses do not address the suitability of any security. S&P does not act as a fiduciary or an investment advisor. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain credit-related analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, www.standardandpoors.com (free of charge), and www.ratingsdirect.com and www.globalcreditportal.com (subscription), and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at www.standardandpoors.com/usratingsfees.

The McGraw-Hill Companies

BLAKE BASTIEN

Current Position: Regional Director, CenterPoint Energy Services, Inc. In addition to P&L responsibilities, he oversees all aspects of the sales efforts in MO, AR, OK, KY, downstate IL and some TX and LA markets. Mr. Bastien manages the sales responsibilities for seven sale representatives in these territories and also provides guidance for all back office aspects of the operation including, contracts, billing, operations, supply and customer service. In his current position, Mr. Bastien retains direct natural gas sales responsibilities to more than 75 end use customers primarily in Illinois and Missouri.

Previous Positions: In 1986, he joined Mississippi River Transmission "MRT" (what is now the CenterPoint organization) in the position of Engineer. Beginning in 1987-1995, Mr. Bastien transferred into Marketing for MRT a position in which Mr. Bastien began selling deregulated natural gas and natural gas related services to end-users in Illinois and Missouri. In 1995, Bastien took a position with Laclede Gas as Director Non-Utility Marketing returning to CenterPoint Energy in 1997. From 1993 to 2008, Bastien was responsible for transportation balancing, scheduling and forecasting for multiple utilities including Ameren and Laclede Gas and as a result has more than two years of experience working with rules and practices established by the North American Energy Standards Board.

Before joining the CES organization, Bastien was in the position of Engineer for Exxon from 1981-1986.

Overall, Mr. Bastien has 30+ years of experience in the natural gas industry, including more than 27 years in selling natural gas to end use customers.

Education and Accreditation: Mr. Bastien has a Masters in Business Administration from the University of Missouri-St. Louis (1991) and a BS in Mechanical Engineering from the University of Illinois (1981).

THOMAS ZAURA

Current Position: Regional Director, CenterPoint Energy Services, Inc. In addition to P&L responsibilities, he oversees all aspects of the natural gas sales efforts in IL and IN markets. Mr. Zaura also provides guidance for all back office aspects of the operation including, contracts, billing, operations, supply and customer service.

Previous Positions: He joined the CES organization in 2000 as Director of Operations. Mr. Zaura was responsible for all transportation balancing, scheduling and forecasting. In addition, he was involved in tariff review and analysis for all utilities in IL, including Nicor Gas, Peoples Gas, North Shore Gas, and ComEd.

Before joining the CES organization, Mr. Zaura was Manager of Operations at Reliant Energy and predecessor companies. From 1994-2008, his responsibilities included contracts, billing, customer service, scheduling, tariff review and

analysis giving him more than two years of experience working with rules and practices established by the North American Energy Standards Board.

Overall Mr. Zaura has 18+ years of experience in both the natural gas and power industry.

Education and Accreditation:

Mr. Zaura has a bachelor's degree in economics from Northern Illinois University with a minor in business administration.