



Always There.®

# CenterPoint Energy Services



February 2018



CenterPoint Energy, Inc.

# COMPANY OVERVIEW



CenterPoint Energy is one of the largest combined electric and natural gas delivery companies in the U.S.

### Asset portfolio

Electric  
transmission  
and  
distribution

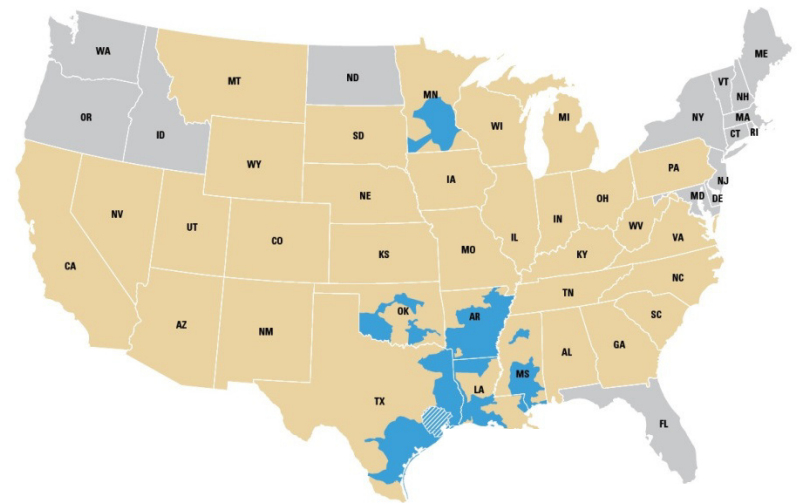
Natural gas  
distribution

Competitive  
natural gas  
sales and  
services

Pipeline and  
field services  
partnership

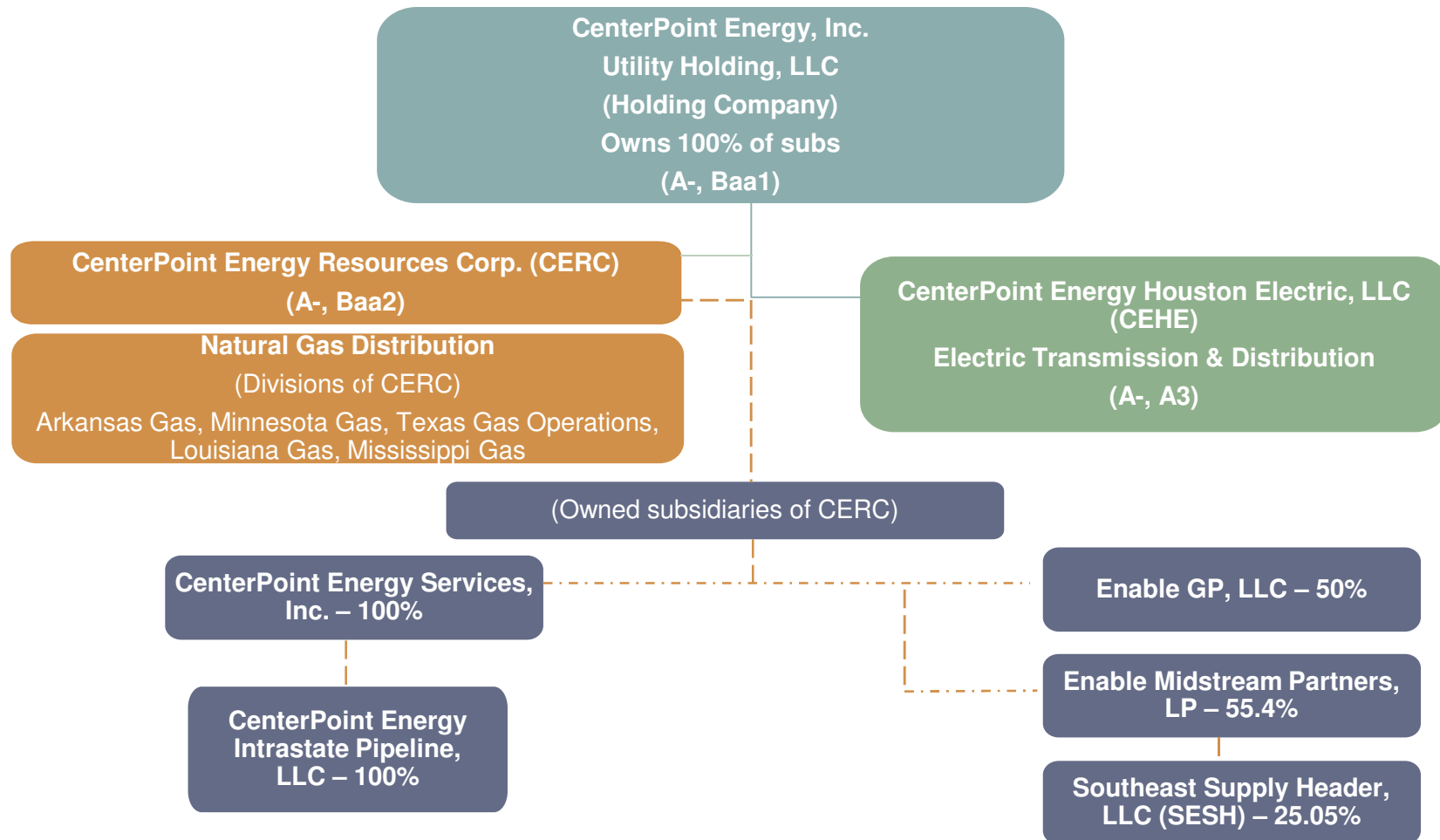
- 5.5 million gas and electric customers
- Regulated operations in 6 states, natural gas sales and service in 32 states
- More than 7,800 employees
- \$21.8 Billion assets, \$7.5 Billion revenue (2016)
- Investment grade ratings – Moody's, Fitch, S&P
- NYSE: CNP – Dow Jones Utilities Index company
- Headquartered in Houston, TX
- Website: [www.CenterPointEnergy.com](http://www.CenterPointEnergy.com)

### CNP Footprint



- CenterPoint Energy Services
- Natural Gas Distribution
- Electric Transmission & Distribution
- No Presence

# CES is a 100% Owned Subsidiary of CenterPoint Energy Resources Corp. (CERC)





CenterPoint Energy Services, Inc.

# ENERGY SERVICES OVERVIEW





# CES is a competitive company operating in the deregulated energy market



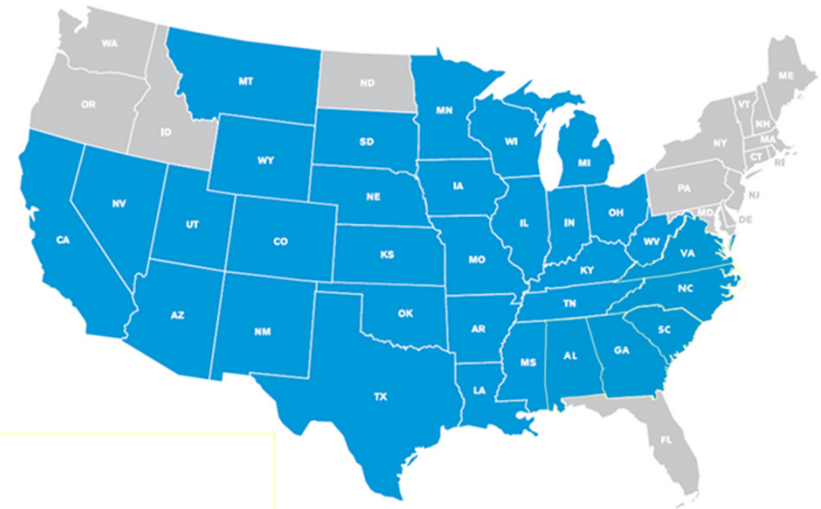
CenterPoint Energy Services provides customers with competitive gas supply with a **customer retention rate over 90 percent.**

We work with a wide range of customers, from **utilities** and **power generators** to **manufacturers** and **retail** to small commercial and residential **Choice** programs.

Our service offering extends **across 32 states** and serves customers **within nearly 100 unique utility territories.**



## CES Footprint



# Our Energy Services

## Natural Gas Supply



## Producer Services



## Pipeline Construction & Infrastructure



## Mobile Energy Solutions



## Green Services



## Premier Partners





# Natural Gas Supply

*Because the energy needs of our customers vary based on industry segment, geographical region, applicable utility tariffs and market conditions, CES works directly with each customer to develop a customized natural gas procurement plan.*

## Competitive Price Options

- **Variable Pricing**
  - Monthly market
  - Daily or monthly index
  - Index with a cap
- **Fixed Pricing**
  - Commodity
  - Basis
  - City Gate
  - Fixed price with downside participation
- **Structured Products**
  - Weather contingencies
  - Put/call options
  - Caps and collars

## Supply Services

- **Daily & monthly balancing services**
  - Load forecasting
  - Nominations
  - Swing
- **Asset management**
  - Storage management
  - Firm and interruptible transportation administration
  - Capacity release management
- **Agency services**

## Customer Segments Served

- Natural gas producers
- Bio-fuel/agricultural
- Health care
- Real estate
- Utilities
- Power generators
- Education/institutional
- Government/municipalities
- Co-op
- Manufacturing
- Retail
- Residential/Choice



# Producer Services

We purchase and transport natural gas from wellhead to end-use markets

## Our Customers

- Single-well producers
- Small to mid-size independent producers
- Bio-methane/landfill operators
- Major exploration and production companies
- Transporters
- Merchant buyers and sellers

## Our Services

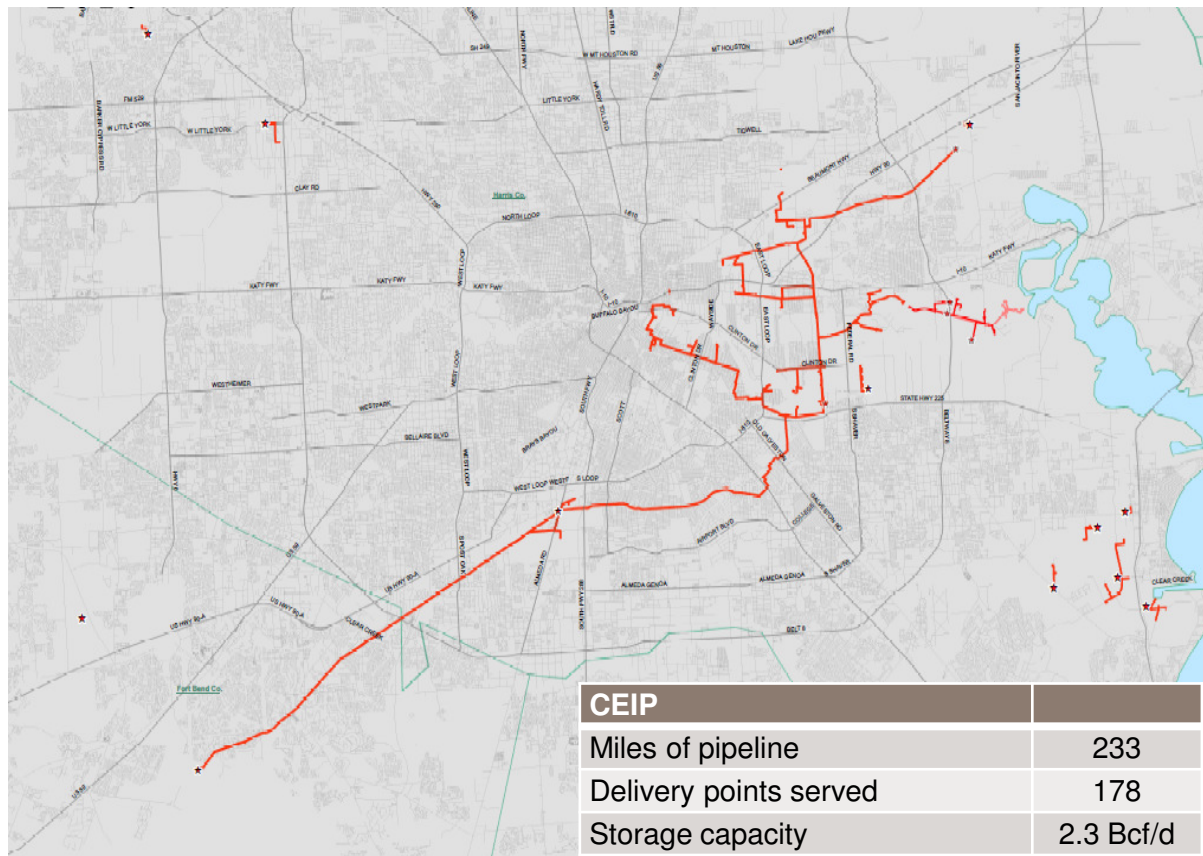
- Supply management strategies
- Gathering and pooling services
- Downstream transportation services
- Firm interstate and intrastate transportation options
- Forward-price risk management
- Load forecasting and nominations
- Seasonal natural gas storage
- Daily and monthly pricing options
- Load following, scheduling, balancing
- Short- and long-term contracts
- Hedging

## Our Statistics

- Operating for over 20 years
- Serving over 150 producers
- Territories include TX, AR, OK, LA, KS, MI, KY and CO
- Ongoing, significant growth in volume
  - 2009 volumes = 43 Bcf
  - 2010 volumes = 50 Bcf
  - 2011 volumes = 57 Bcf
  - 2012 volumes = 50 Bcf
  - 2013 volumes = 62 Bcf
  - 2014 volumes = 63 Bcf
  - 2015 volumes = 69 Bcf

# Pipeline Construction & Infrastructure (CEIP)

## TX CEIP Intrastate Pipelines



CEIP builds pipeline infrastructure and offers design and consulting services

Customers are typically large industrial end users having multiple competitive alternatives for gas supply and include:

- Refineries
- Specialty chemical plants
- Industrial product manufacturers
- Steel producers

Deliveries are a total average of 190,000 Mcf per day

# Mobile Energy Solutions

## Gas Supply



## Customers



A turnkey service provider of temporary natural gas services

Operates trailer-mounted gas supply for both emergency and planned natural gas outages with the ability to go anywhere in the United States

MES provides natural gas using compressed natural gas (CNG) or liquefied natural gas (LNG)

Infrastructure repair or testing, winter peak supply, equipment and facilities commissioning, and more



# Premier Partners

Premier Partners are typically commercial and industrial customers with operations that span several states and benefit from consolidated purchasing, account reporting, and accounting/payment structures.

Centralized  
purchasing  
structure

Simplified  
accounting

Consolidated  
reporting

Reports on  
demand

## Sample Premier Partners

3M Company  
Aramark Services, Inc.  
American Airlines  
Anheuser-Busch  
Cargill, Inc.  
ConAgra, Inc.  
Delta Airlines, Inc.  
Federal Express Corporation  
General Electric Company  
Georgia Pacific Corporation  
Home Depot USA, Inc.  
Honeywell International, Inc.  
International Paper Company  
Nestle USA, Inc.  
PepsiCo, Inc.  
Target Corporation  
Tyson Foods, Inc.  
Union Pacific Railroad Company  
US Steel Corporation  
Walgreens  
Wal-Mart Stores, Inc.





Natural Gas

# FUNDAMENTALS

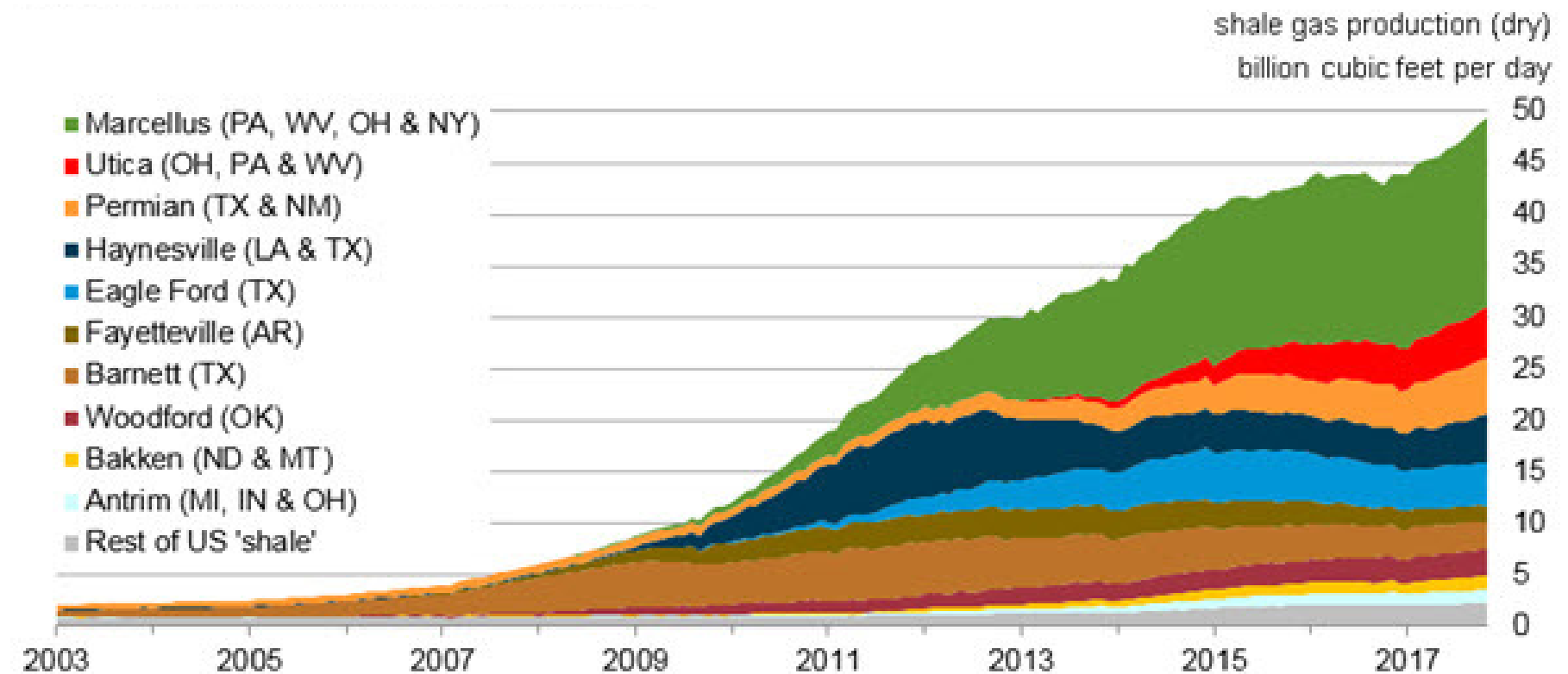
# Disclaimer

- **Material Presented on a Courtesy Basis:** This presentation is being provided for informational purposes only and does not purport to be comprehensive. Neither CenterPoint Energy, Inc., together with its subsidiaries and affiliates (the “Company”), nor its employees or representatives, make any representation or warranty (express or implied) relating to this information. By reviewing this presentation, you agree that the Company will not have any liability related to this information or any omissions or misstatements contained herein. You are encouraged to perform your own independent evaluation and analysis. This presentation contains third party information, including information provided by the various sources identified on the respective slides. CenterPoint Energy, Inc. has not independently verified this information. You are encouraged to perform your own independent evaluation and analysis.
- **Forward Looking-Statements:** This presentation and the oral statements made in connection herewith may contain statements concerning our expectations, beliefs, plans, objectives, goals, strategies, future operations, events, financial position, earnings, growth, revenues costs, prospects, objectives, capital investments or performance and underlying assumptions and other statements that are not historical facts. These statements are “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. You should not place undue reliance on forward-looking statements. Actual results may differ materially from those expressed or implied by these statements. You can generally identify our forward-looking statements by the words “anticipate,” “believe,” “continue,” “could,” “estimate,” “expect,” “forecast,” “goal,” “project,” “intend,” “may,” “objective,” “plan,” “potential,” “predict,” “projection,” “should,” “will,” or other similar words. The absence of these words, however, does not mean that the statements are not forward-looking. Forward-looking statements in this presentation include statements about the natural gas market. We have based our forward-looking statements on our management's beliefs and assumptions based on information currently available to our management at the time the statements are made. We caution you that assumptions, beliefs, expectations, intentions, and projections about future events may and often do vary materially from actual results. Therefore, we cannot assure you that actual results will not differ materially from those expressed or implied by our forward-looking statements. Some of the factors that could cause actual results to differ from those expressed or implied by our forward-looking statements include but are not limited to the timing and impact of future regulatory, legislative and IRS decisions, financial market conditions, future market conditions, economic and employment conditions, customer growth and other factors described in CenterPoint Energy, Inc.’s Form 10-K for the period ended December 31, 2015 under “Risk Factors” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations - Certain Factors Affecting Future Earnings” and in other filings with the SEC by CenterPoint Energy, which can be found at [www.centerpointenergy.com](http://www.centerpointenergy.com) on the Investor Relations page or on the SEC’s website at [www.sec.gov](http://www.sec.gov).

# Price Takers or Market Makers?

- Production
- Demand
- LNG & Mexico Exports
- Summary

# Monthly Shale Gas Production



Sources: EIA derived from state administrative data collected by DrillingInfo Inc. Data are through November 2017 and represent EIA's official tight gas estimates, but are not survey data. State abbreviations indicate primary state(s).



# U.S. Shale Breakeven Cost

## US Dry Shale Gas Production-Major Plays

<u>Plays</u>	<u>Production</u>		<u>Breakeven Cost</u>		
	<u>Bcf/d</u>	<u>%</u>	<u>\$/Mcf</u>	<u>\$/Bbl</u>	
Bakken (ND & MT)*	1.2	3%	\$ 2.85	\$48	
Barnett (TX)	2.8	7%	\$ 3.75		
Fayetteville (AR)	1.6	4%	\$ 3.75		
Eagle Ford (TX)*	4.1	10%	\$ 2.65	\$45	
Haynesville (LA & TX)	4.2	10%	\$ 3.25		
Marcellus (PA, WV, OH & NY)	17.6	43%	\$ 2.25		
Utica (OH, PA & WV)	4.4	11%	\$ 2.50		
Permian (TX & NM)*	5.0	12%	\$ 2.50	\$42	
Total Production & Weighted Avg Cost	40.8	100%	\$ 2.63		

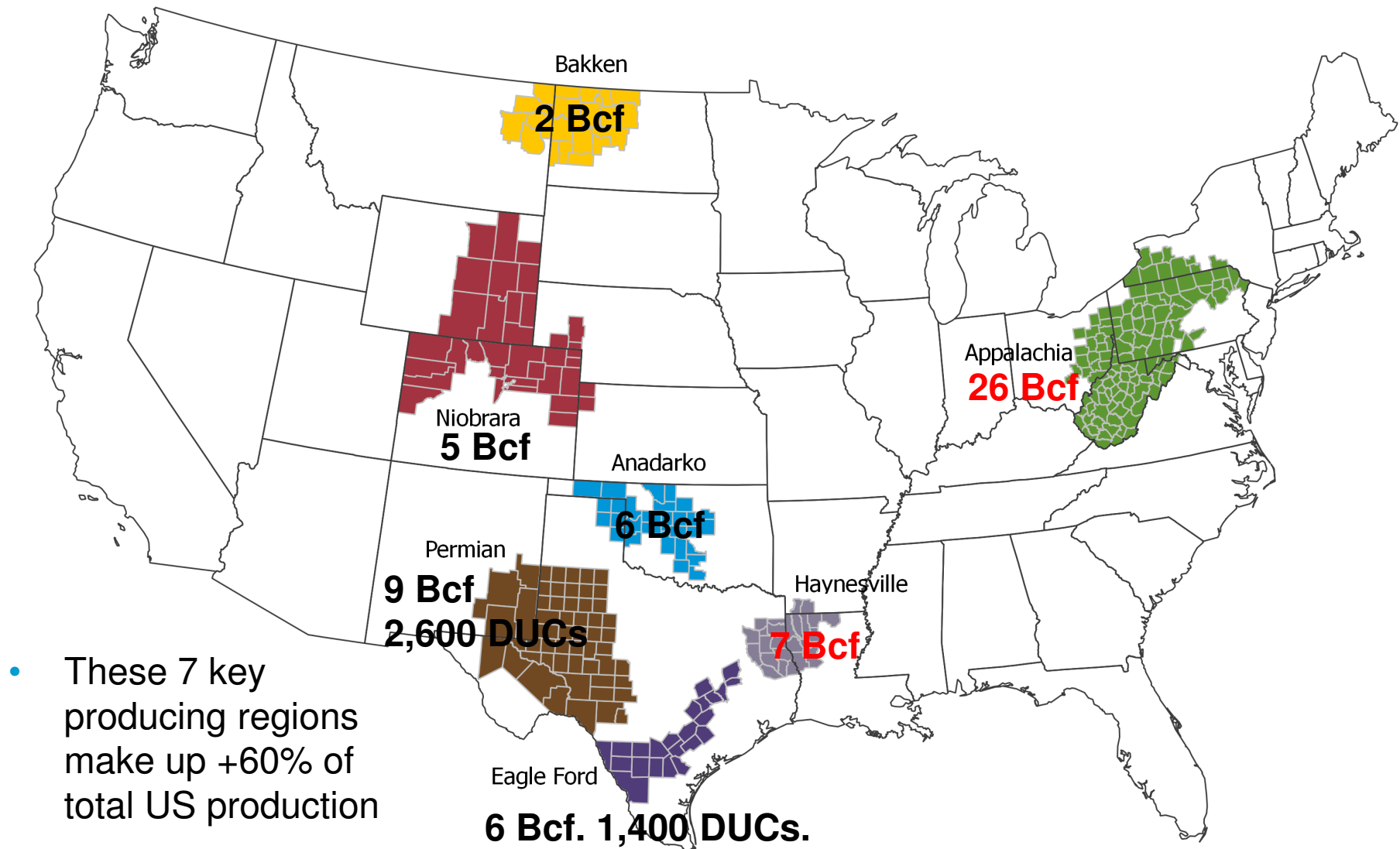
\*Correlated gas price for break-even WTI for primarily wet plays

## Estimated Locational Futures Fixed Price

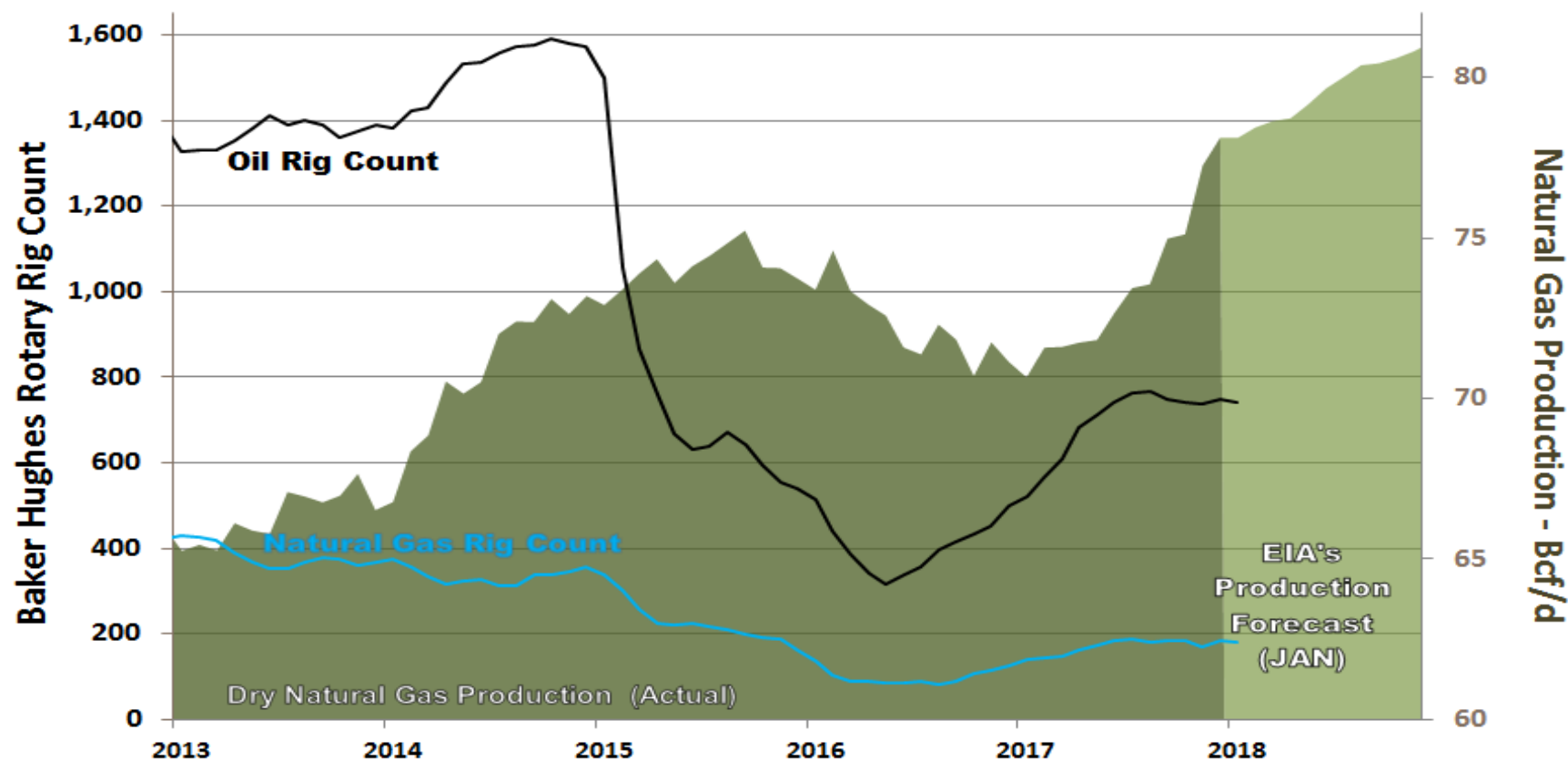
	12 month	24 month	36 month
NYMEX	\$ 3.05	\$ 2.98	\$ 2.91
Bakken	\$ 2.43	\$ 2.38	\$ 2.32
Barnett	\$ 2.78	\$ 2.71	\$ 2.64
Fayetteville	\$ 2.87	\$ 2.80	\$ 2.73
Eagle Ford	\$ 2.99	\$ 2.92	\$ 2.86
Haynesville	\$ 2.87	\$ 2.80	\$ 2.73
Marcellus	\$ 2.60	\$ 2.53	\$ 2.44
Utica	\$ 2.60	\$ 2.53	\$ 2.44
Permian	\$ 2.55	\$ 2.47	\$ 2.42
Weighted Average Price (Based on Production %)	\$ 2.68	\$ 2.61	\$ 2.53

Sources: EIA, Pira, Bentek

# Key Shale Production Areas



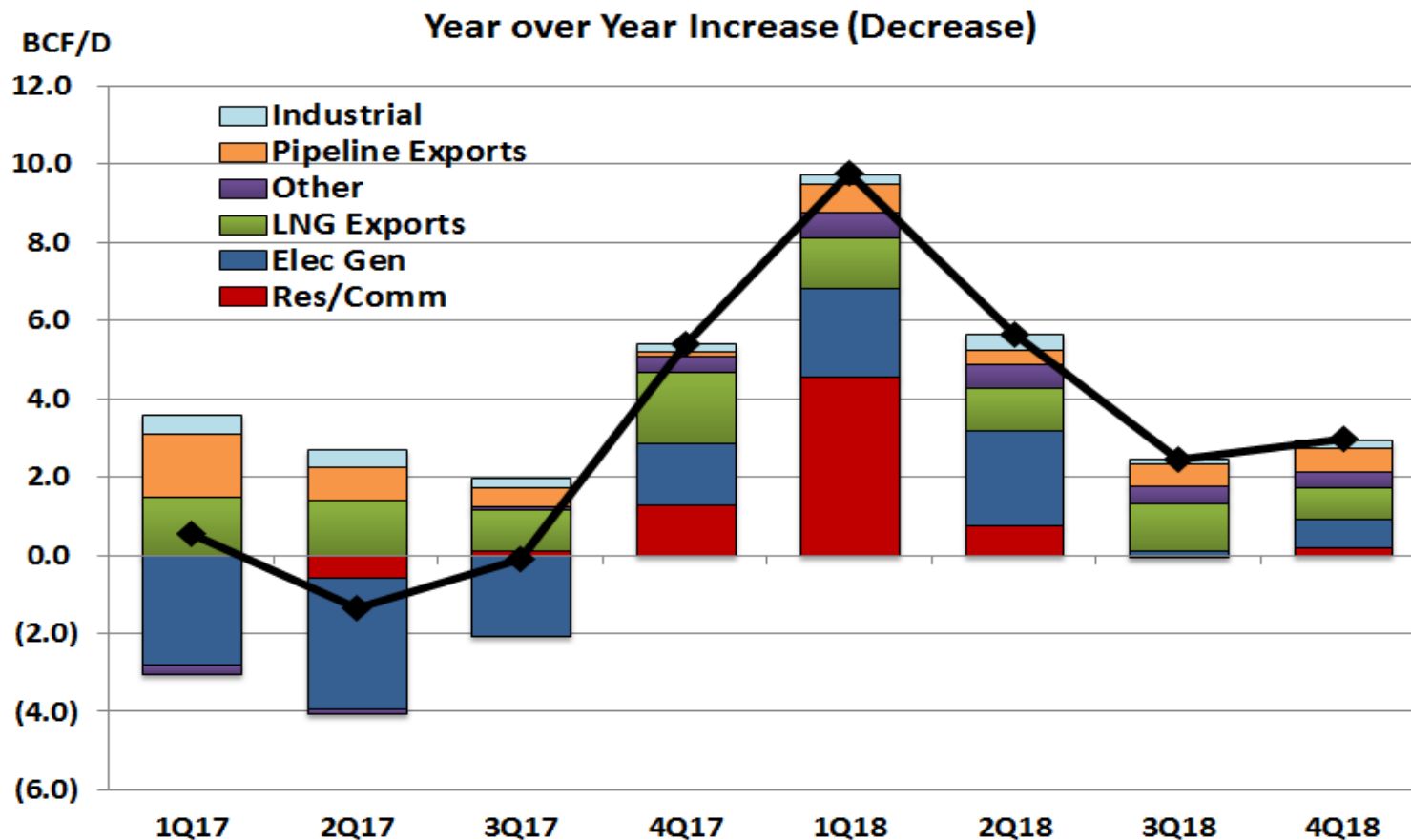
# Production and Rig Counts



- Dry gas production reached over 78 Bcf/d during the month of December 2017
- Although production dipped to 72 Bcf/d to begin January due to freeze-offs, production is expected to rebound quickly and reach 81 Bcf/d by the end of 2018
- After reaching a recent low of 404 rigs in May 2016, total rig count has rebounded to over 900 rigs



# US Gas Demand by Quarter 1Q17-4Q18



- Demand is expected to be 10 Bcf/d higher for Q1 2018 vs. Q1 2017
- February 2017 was the warmest on record, thus resulting in forecasted increases year over year in residential/commercial demand and electric generation
- Industrial demand, LNG exports, and exports to Mexico expected to steadily increase each quarter
  - Helping to offset rising production

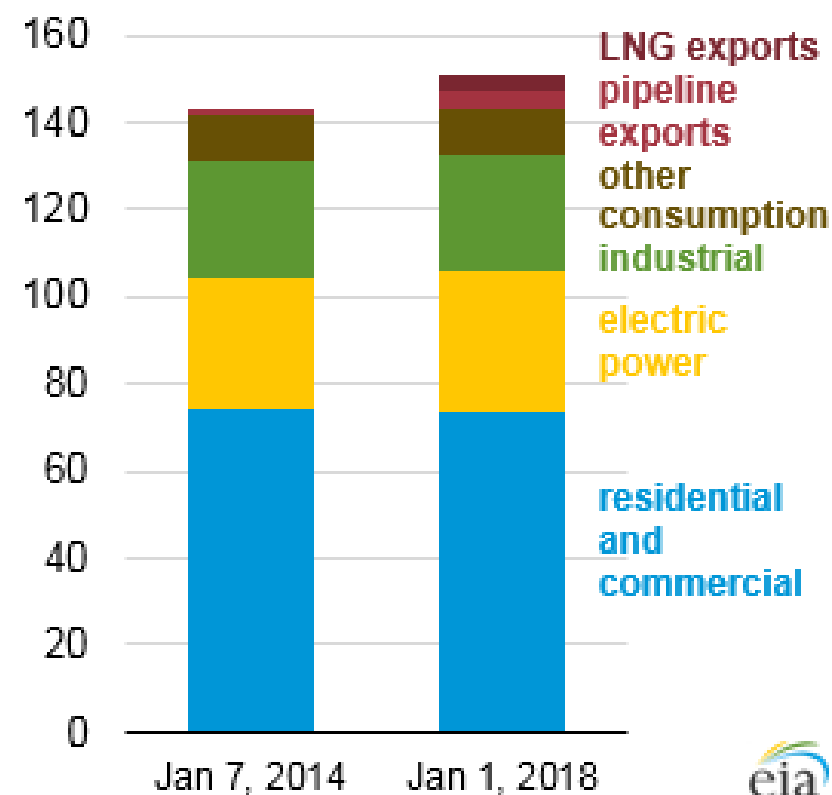
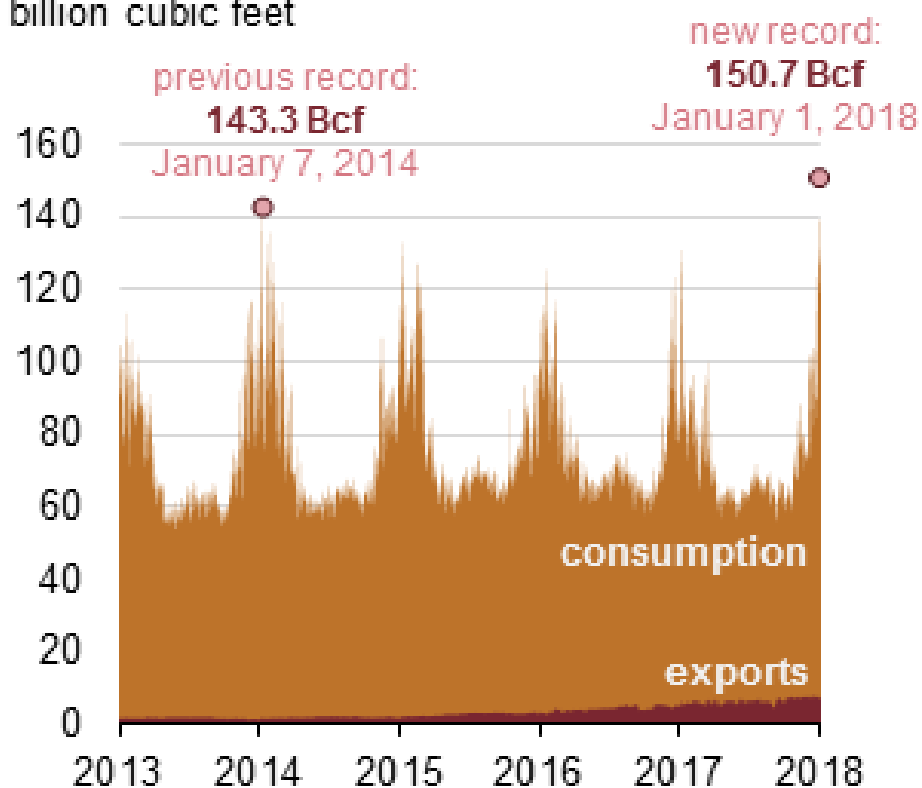
Source: EIA STEO



# Record Demand

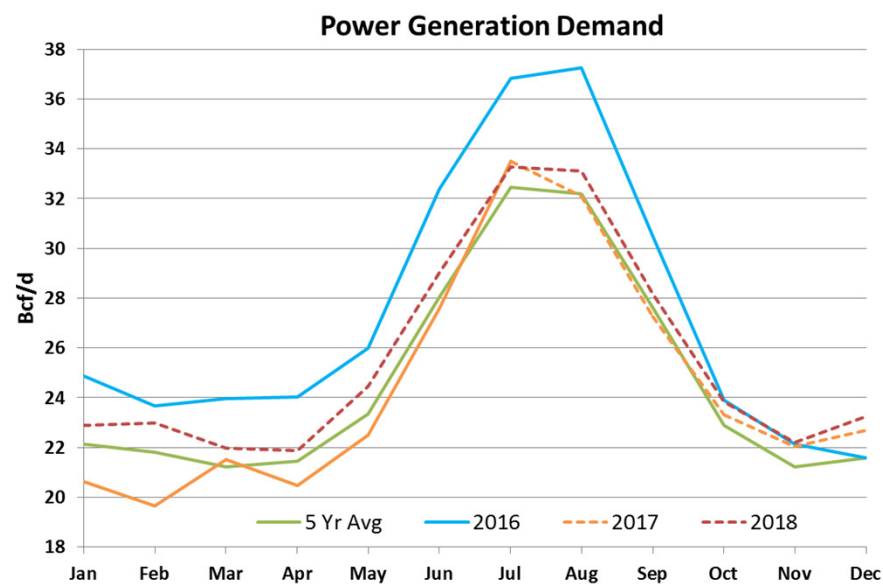
Daily U.S. natural gas consumption and exports (Jan 1, 2013 - Jan 4, 2018)

billion cubic feet

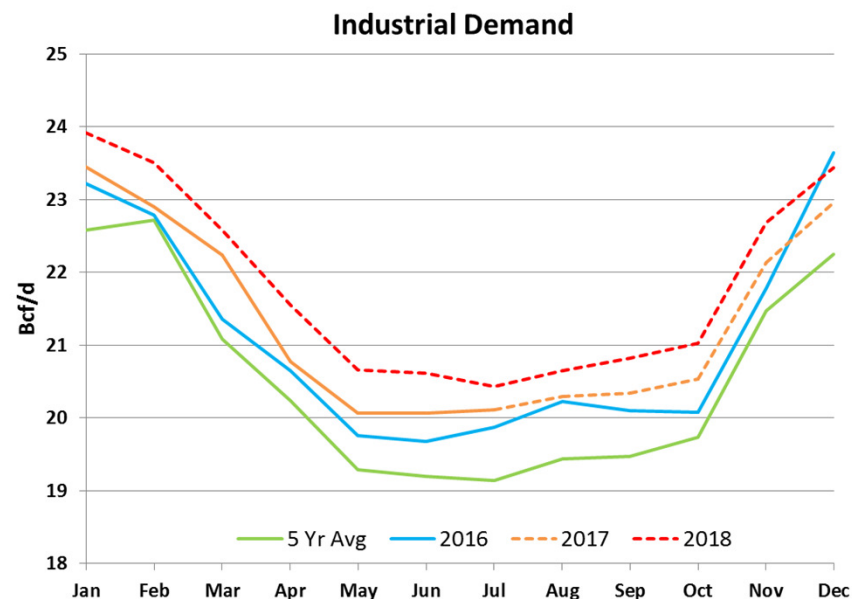


eia

# Demand Forecasts



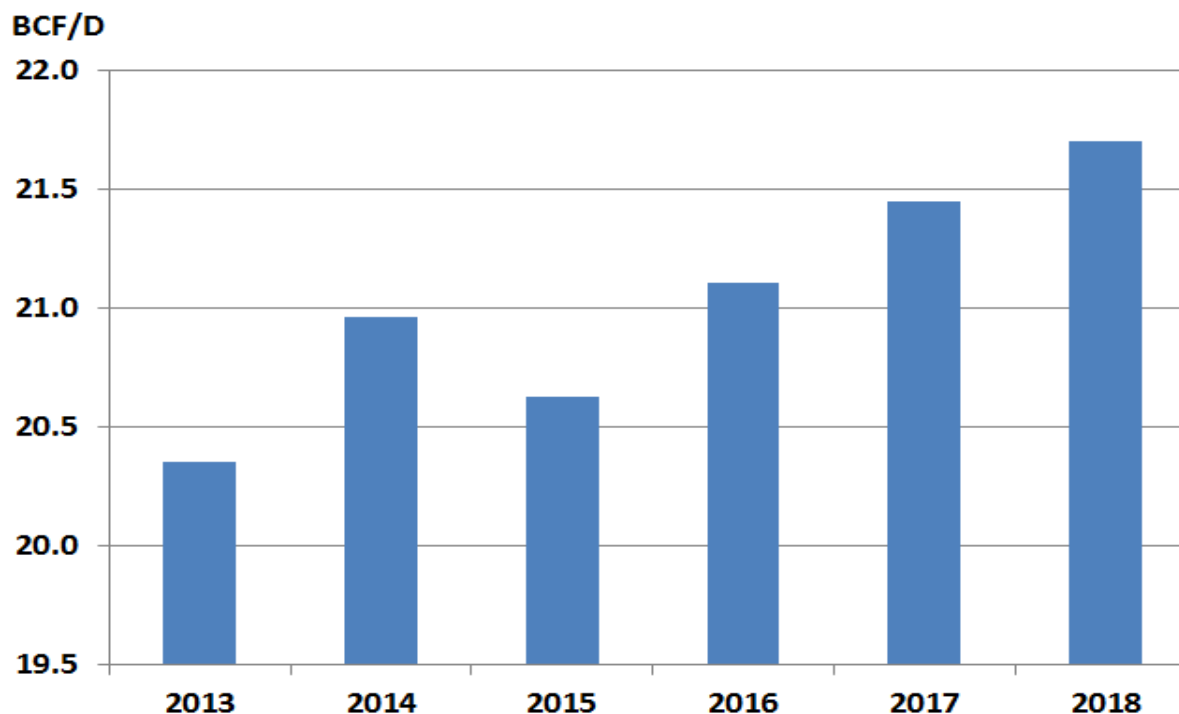
- Power generation demand this year is expected to decline about 2.8 Bcf/d from record levels set in 2016 due to higher gas prices causing some switching back to coal and strong growth from renewables, particularly wind, solar, and hydro
- Growth is expected to resume in 2018, jumping 1.15 Bcf/d to 25.59 Bcf/d, but still well-below the 2016 record of 27.26 Bcf/d



- Industrial demand forecasts have been raised for 2017 and 2018 due to expectations of growth over the next several years as a number of new fertilizer, methanol, and petrochemical projects come online in Southeast Texas and South Louisiana

# Industrial Demand

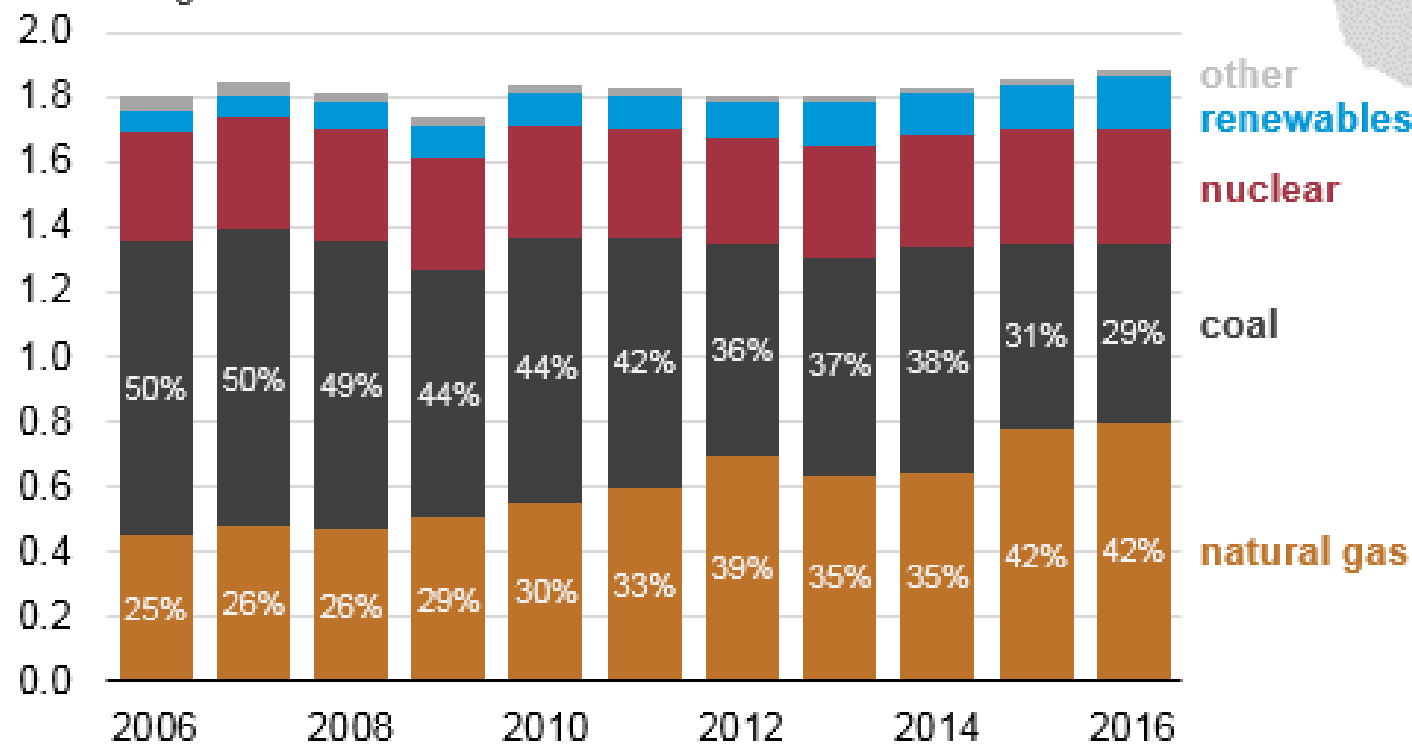
Industrial Demand-Average Consumption per Year



- Industrial demand forecasts have been raised for 2017 and 2018 due to expectations of growth over the next several years as a number of new fertilizer, methanol, and petrochemical projects come online in Southeast Texas and South Louisiana

# SE Power Generation

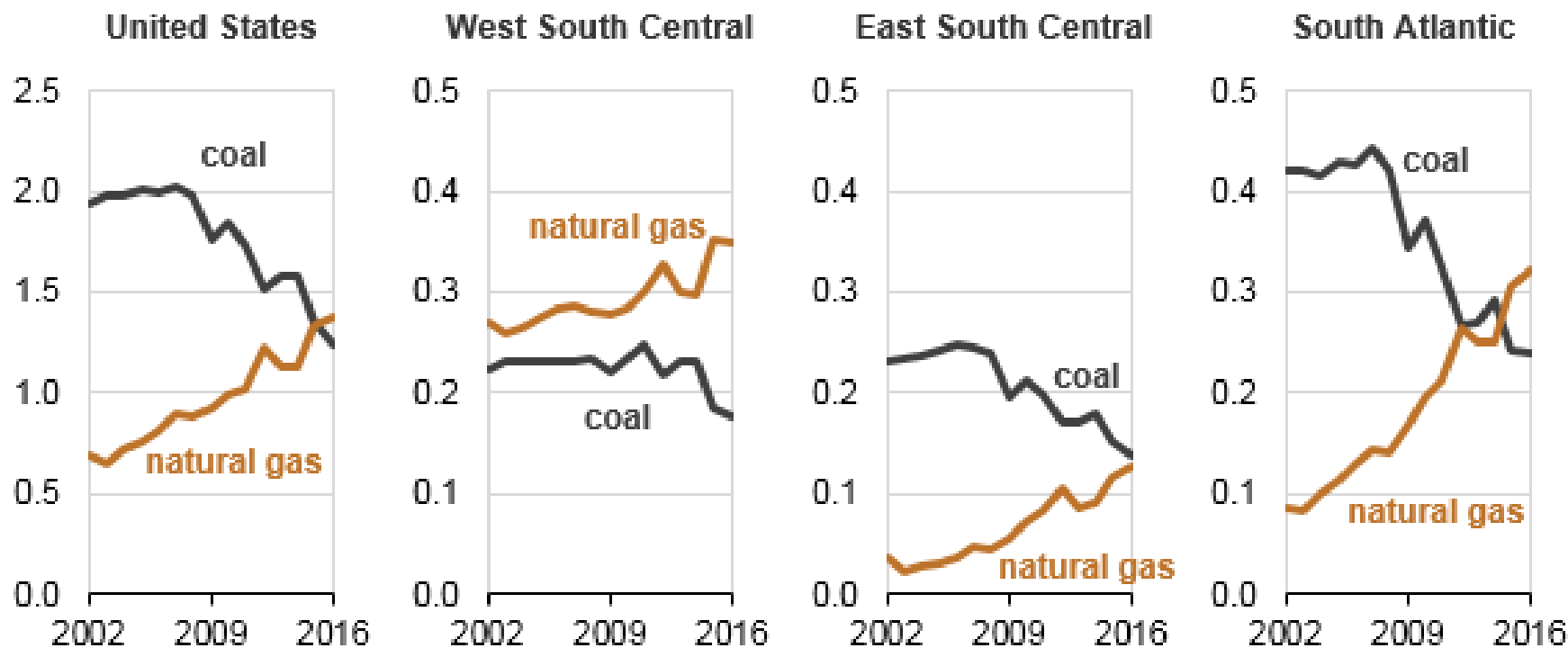
Electricity generation in the South census region (2006-2016)  
billion megawatthours



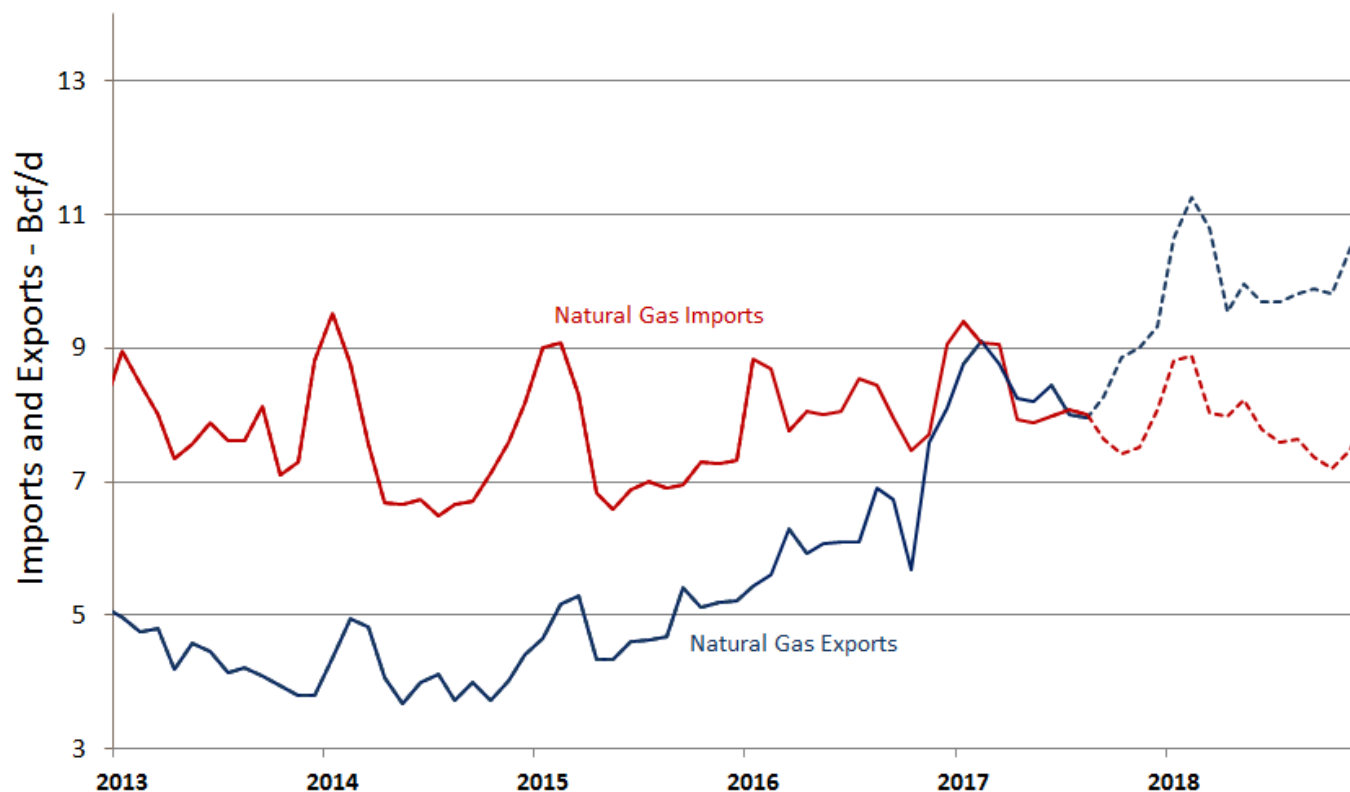


# Coal vs Gas

Coal-fired and natural gas-fired electricity generation in selected regions (2002-2016)  
billion megawatthours



# Exports and Imports Forecast



- Exports have seen strong growth over the last two years led by LNG exports and pipelines exports to Mexico – exports to Mexico are poised to grow further as pipelines that have been seeing delays on the Mexican side of the border are finally completed
- LNG exports have gone from 0 Bcf/d in 2015 to almost 3 Bcf/d by year-end 2017
- Exports to Mexico are expected to grow from 3 Bcf/d in 2015 to as high as 5 Bcf/d end of 2018
- Net imports from Canada expected to remain stable



# U.S. Exports to Mexico

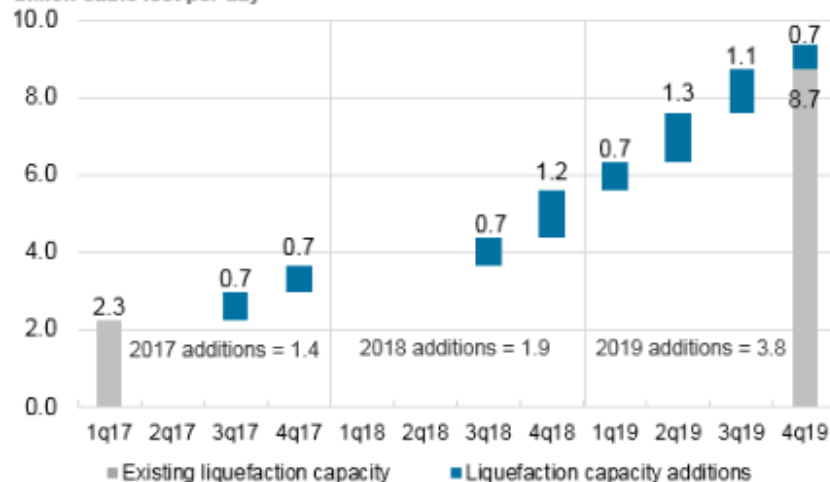


Source: Bloomberg, CES

# U.S. LNG Export Update

**U.S. projected liquefaction capacity additions by quarter, 2017-19**

billion cubic feet per day



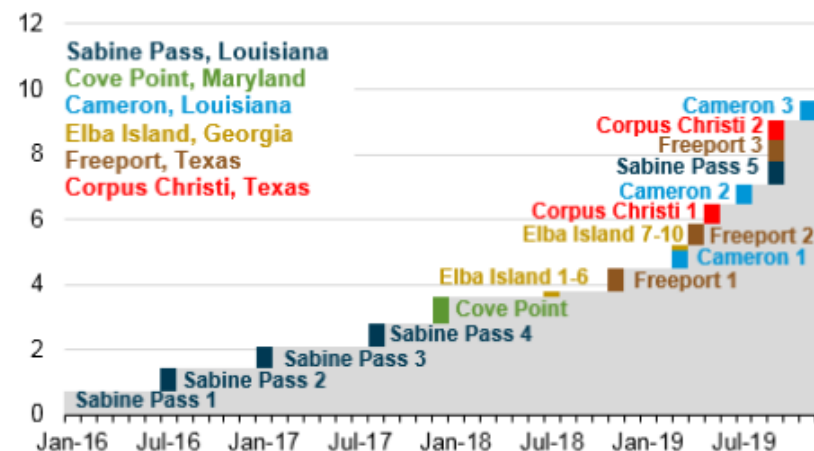
Sources: U.S. Energy Information Administration based on FERC, IHS, and trade press.  
Note: "Existing liquefaction capacity" includes Kenai LNG and Sabine Pass Trains 1-3.

"Liquefaction capacity additions" include liquefaction projects under construction with a nameplate capacity not adjusted for ramp-up.



**U.S. Lower 48 liquefied natural gas export projects**

billion cubic feet per day



Source: U.S. Energy Information Administration based on FERC, IHS, and trade press.

Note: Liquefaction capacity additions denote nameplate capacity not adjusted for ramp-up.

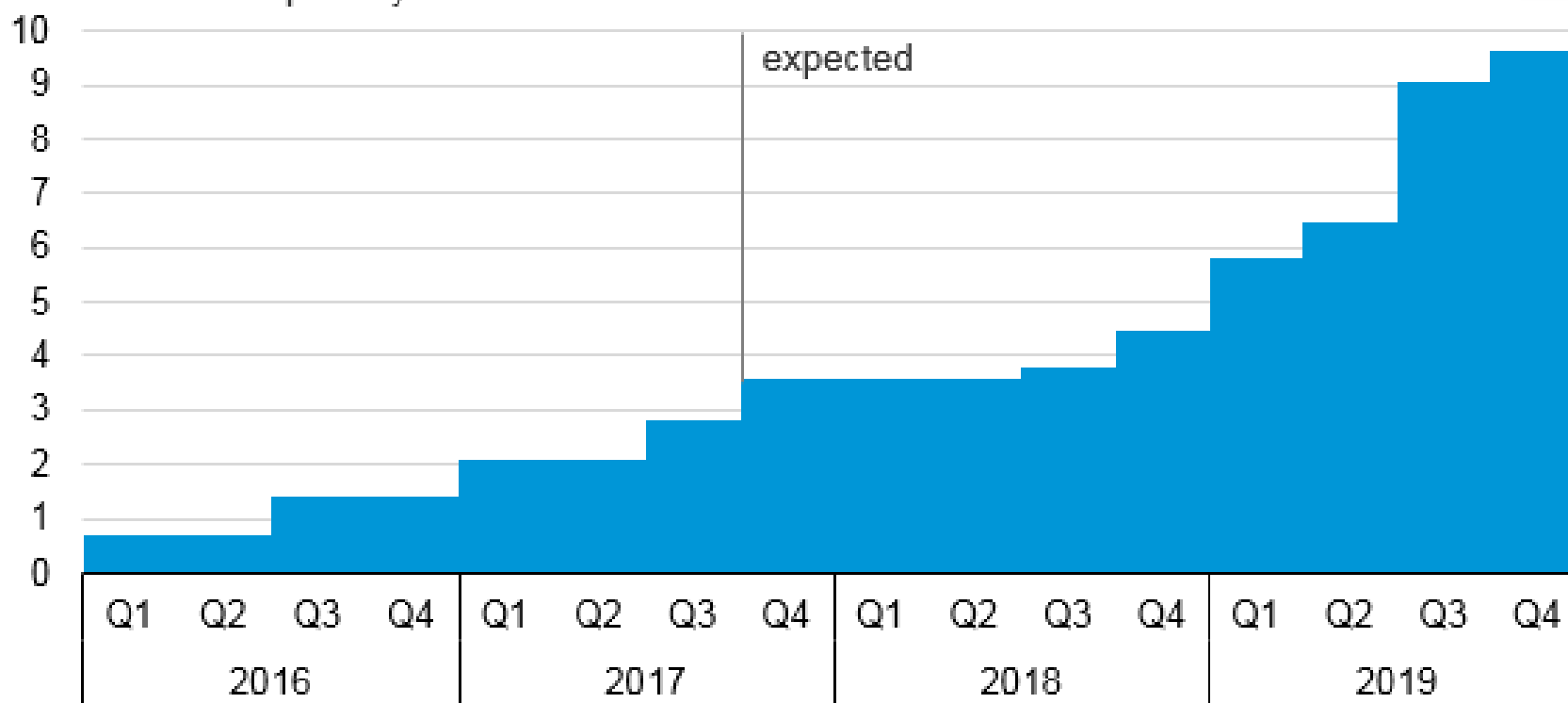


- Cheniere's Sabine Pass LNG export facility came online in early 2016 and feedgas demand is currently averaging near 3.00 Bcf/d with four trains currently fully operational
- Dominion's Cove Point LNG came into service in December 2017
- The EIA projects liquefaction capacity to reach over 9 Bcf/d by the end of 2019

Source: EIA

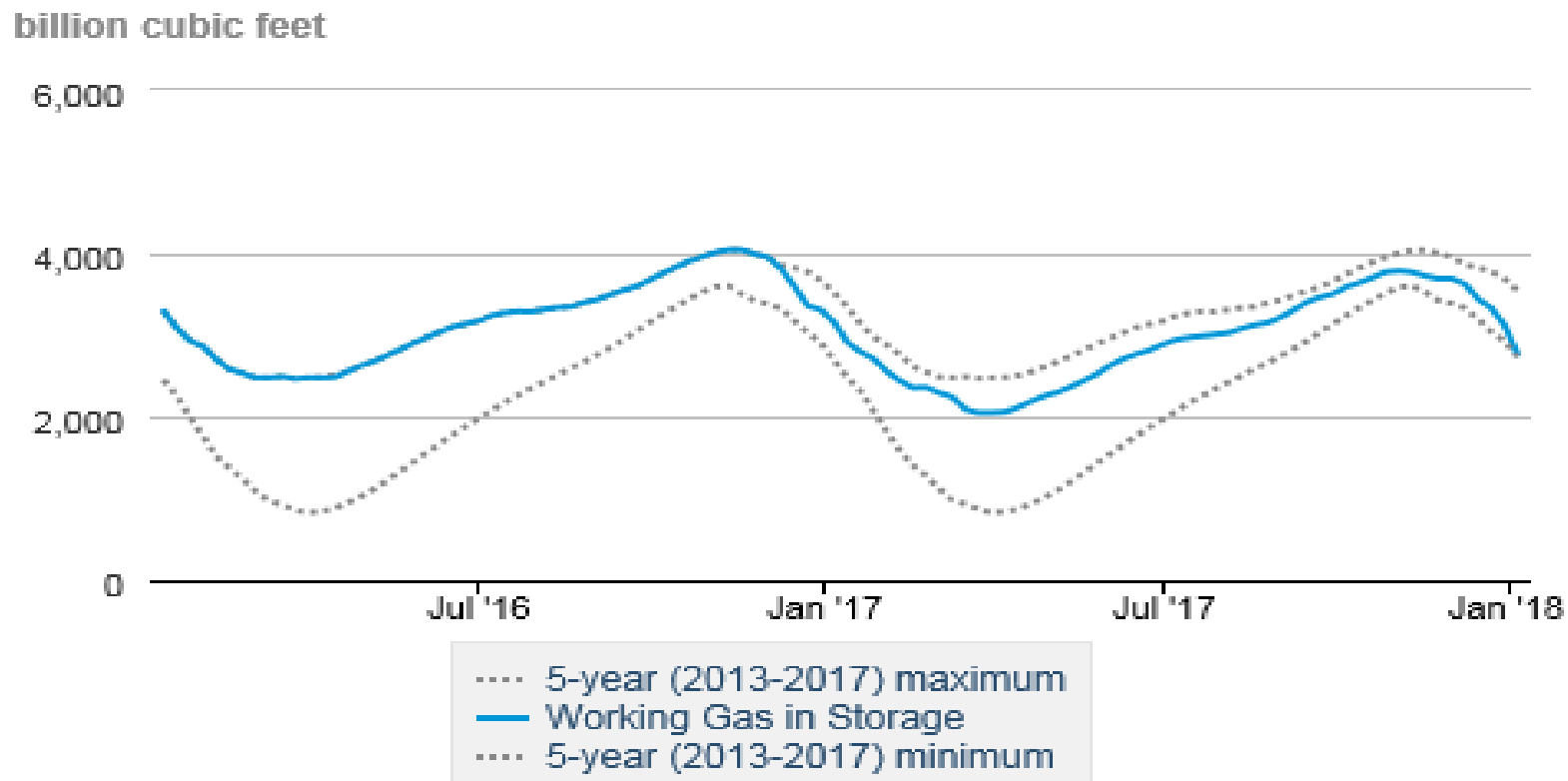
# LNG Export Growth

U.S. liquefied natural gas export capacity (2016-2019)  
billion cubic feet per day





# Natural Gas Storage Levels



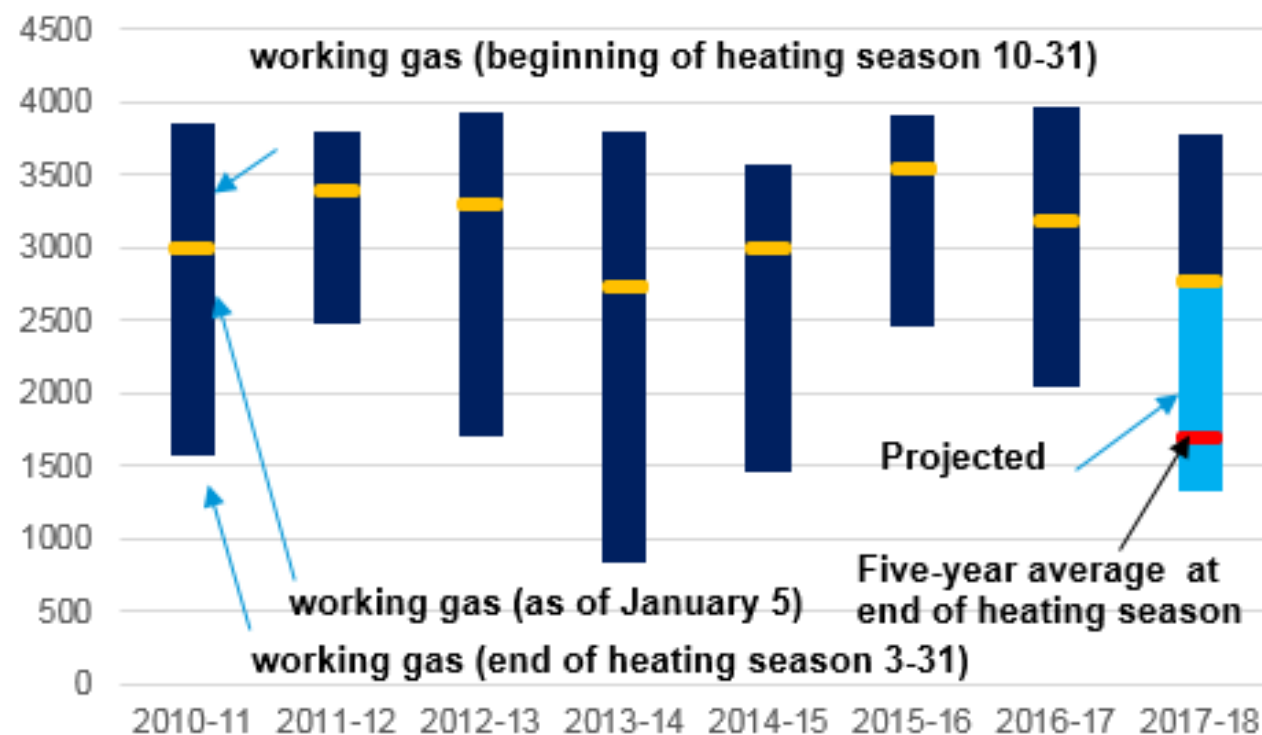
- The weekly EIA storage report for the first week of January set a new record for a weekly withdrawal from storage at 359 Bcf, putting the deficit to last year's level at 415 Bcf and the deficit to the five year average at 382 Bcf
- ICE futures contracts for the end of withdrawal season (end-March '18) are trading near 1.300 Tcf which would be 400 Bcf below the five year average and over 700 Bcf below the prior year



# End of Winter Storage Expectations

## Heating season withdrawals from working gas (2010-18)

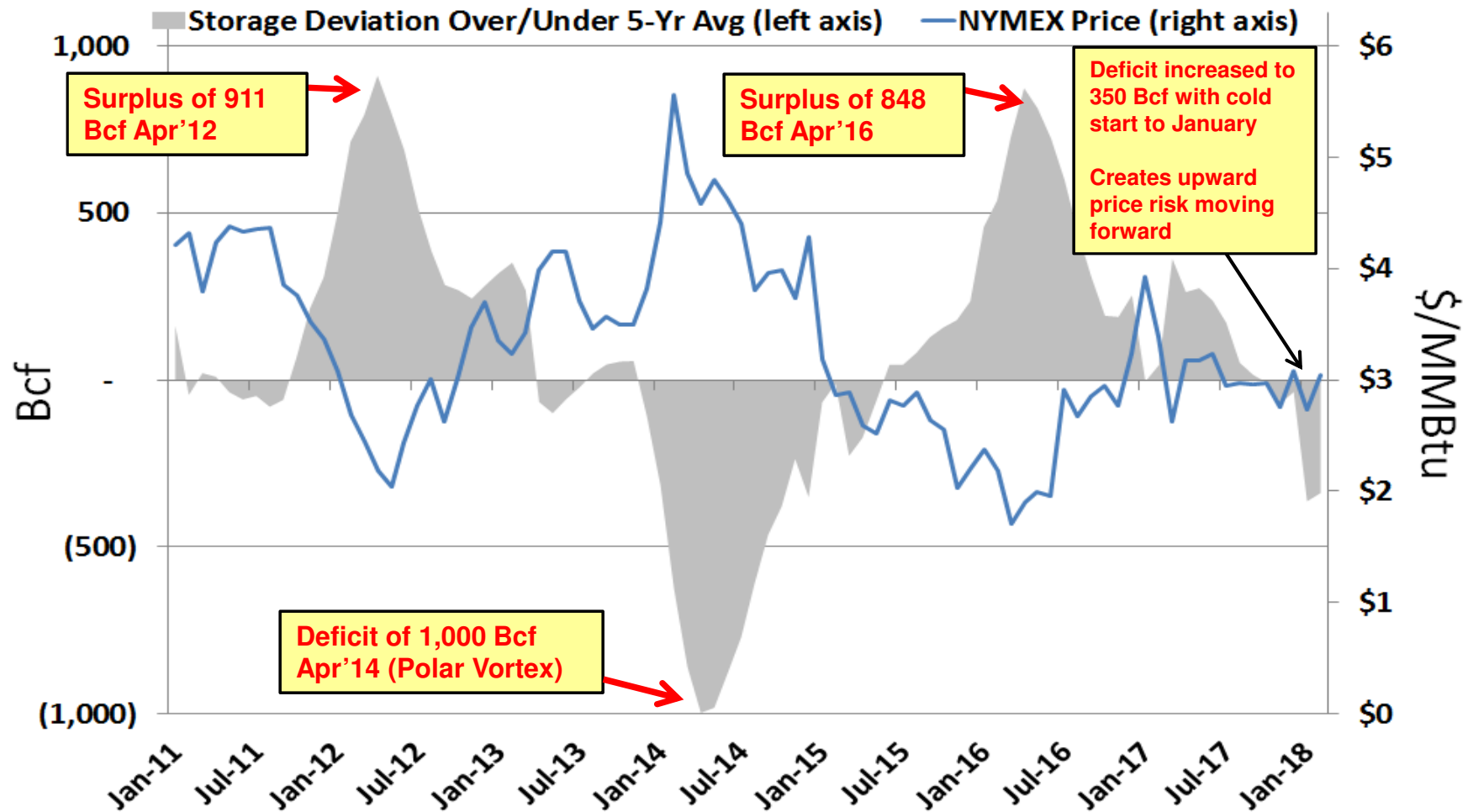
billion cubic feet (Bcf)



Source: U.S. Energy Information Administration, *Natural Gas Monthly*,  
*Weekly Natural Gas Storage Report*

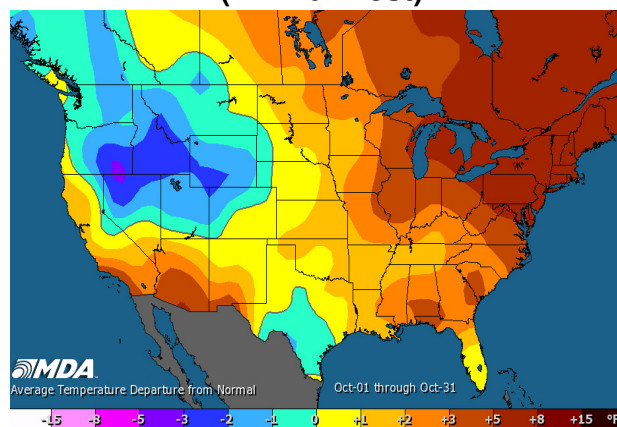


# Storage Deviation to 5 Year Average Paints a Clear Price Picture

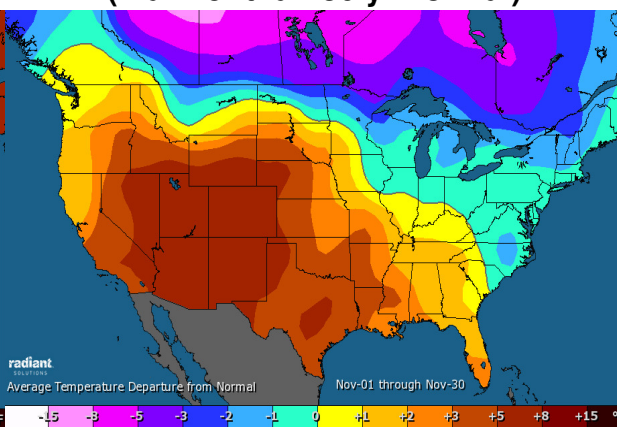


# Weather Review

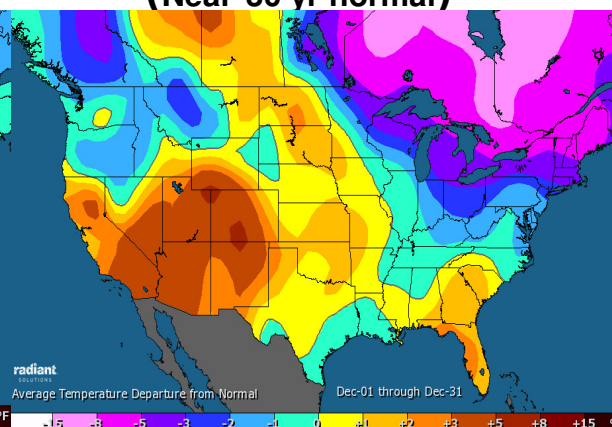
**October 2017**  
(2<sup>nd</sup> warmest)



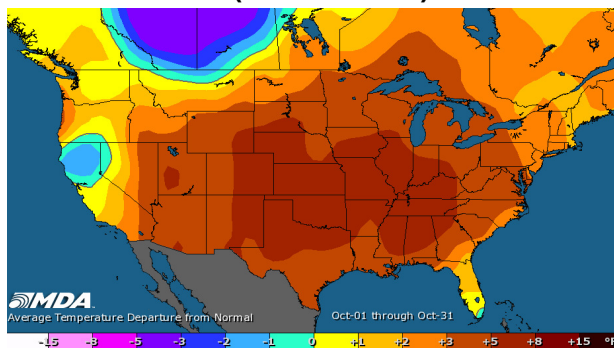
**November 2017**  
(Warmer than 30 yr normal)



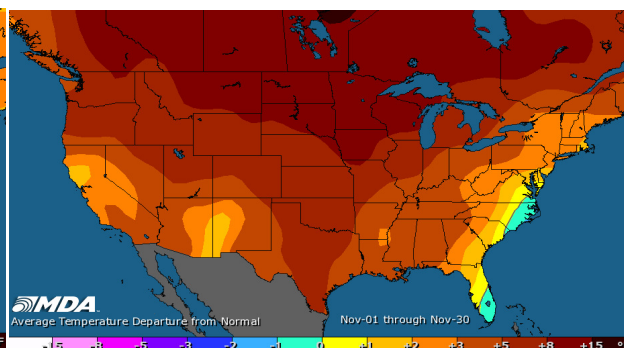
**December 2017**  
(Near 30 yr normal)



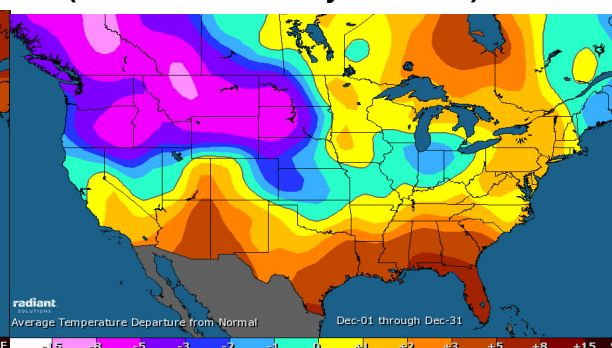
**October 2016**  
(3<sup>rd</sup> warmest)



**November 2016**  
(5<sup>th</sup> warmest)



**December 2016**  
(Warmer than 30 yr normal)



\*rankings based on PWCHDs or GWHDDs dating back to 1950

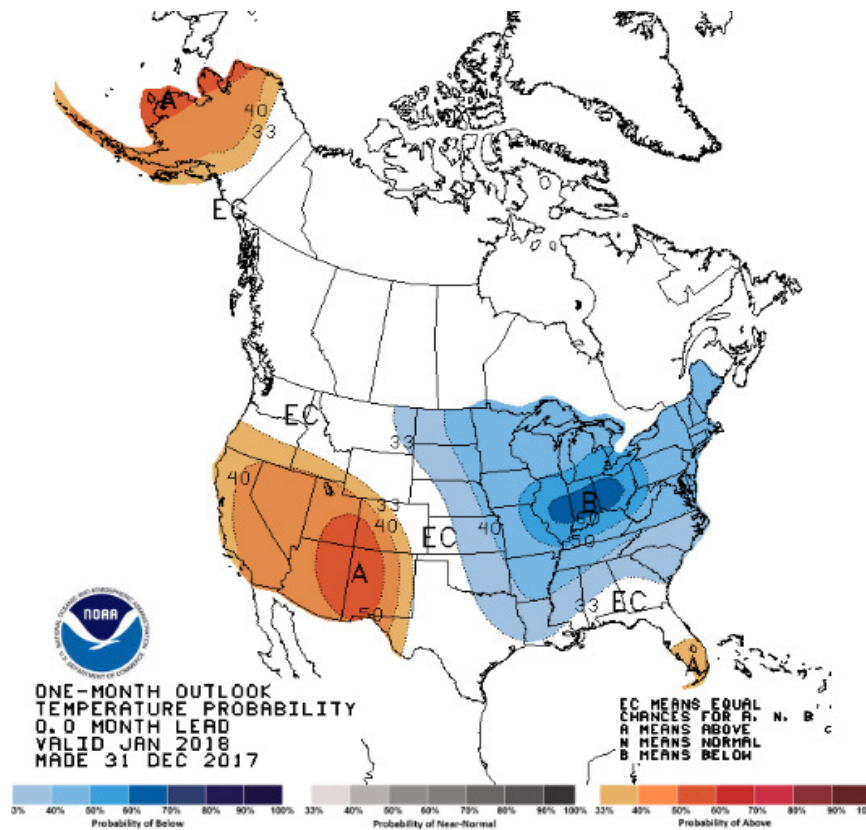
Source: MDA



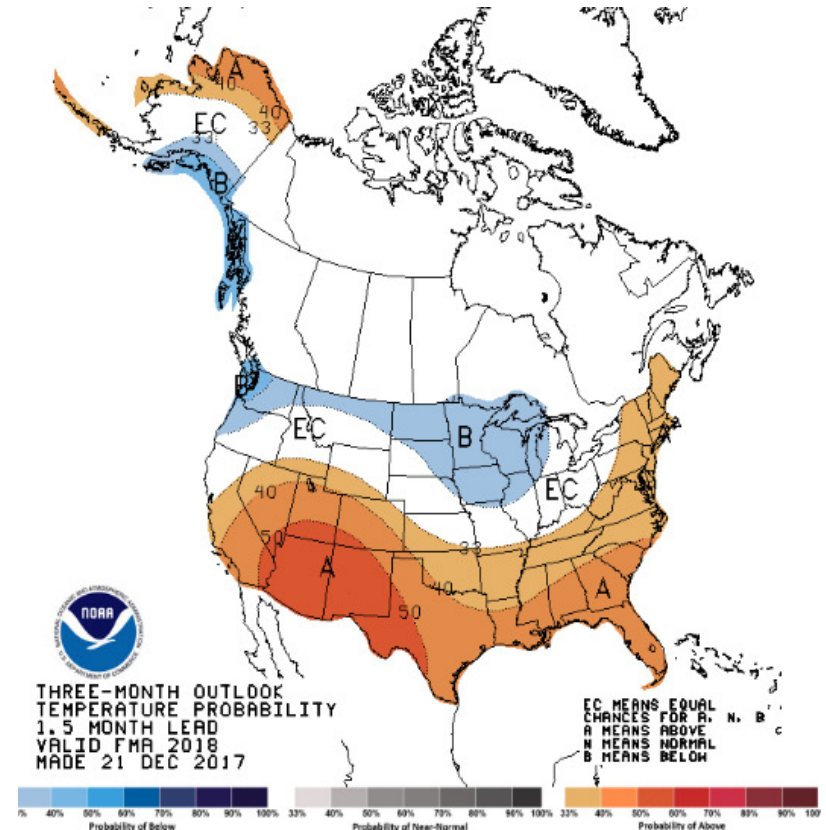
# Weather Forecasts

## National Weather Service

Jan'18



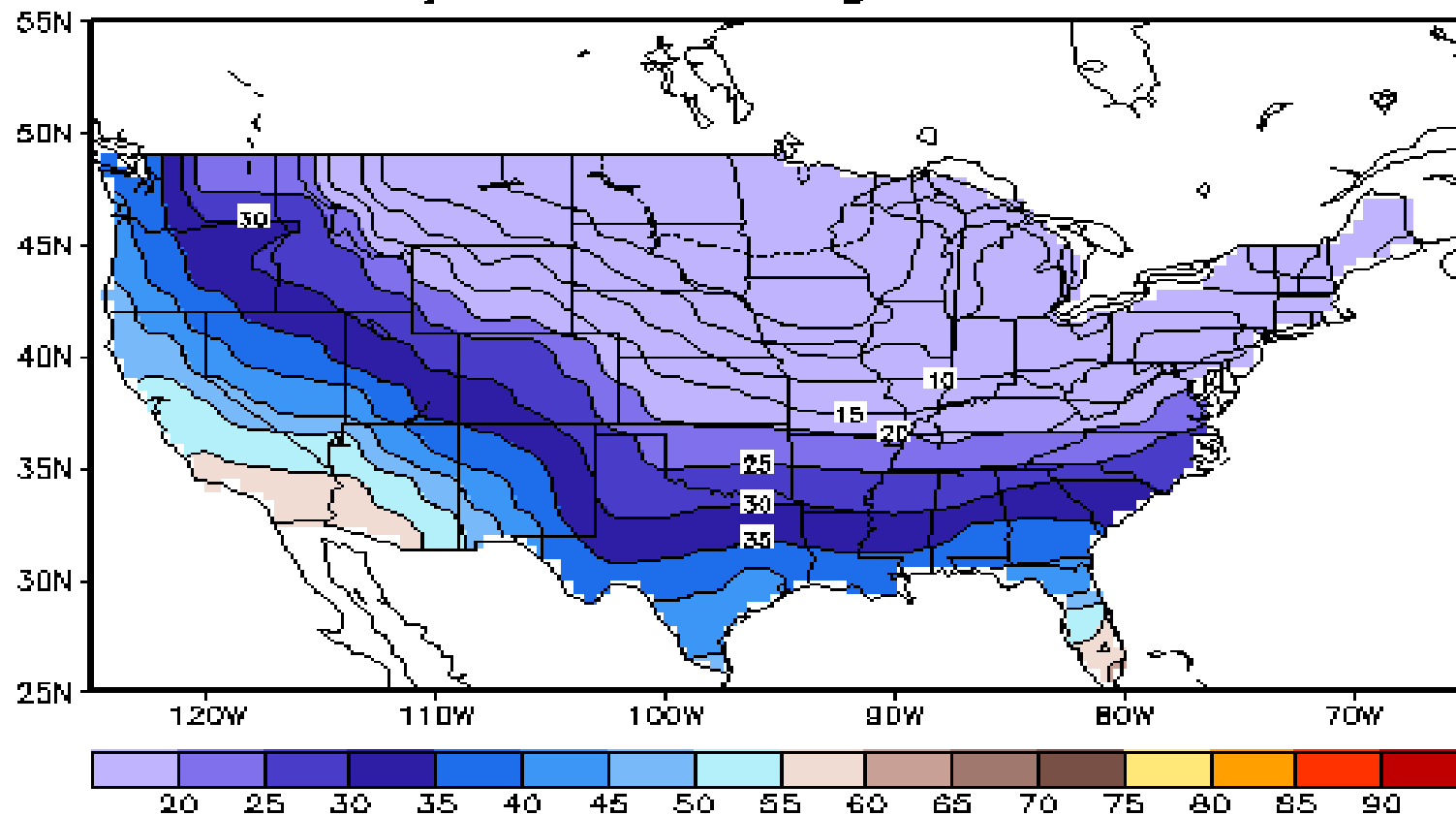
Feb'18– Apr'18



Source: NOAA (National Weather Service)

The gift that keeps on giving...

Mean Temperature (F)  
7-day mean ending Jan 04 2018



# Henry Hub Spot Prices

\$/MMBtu

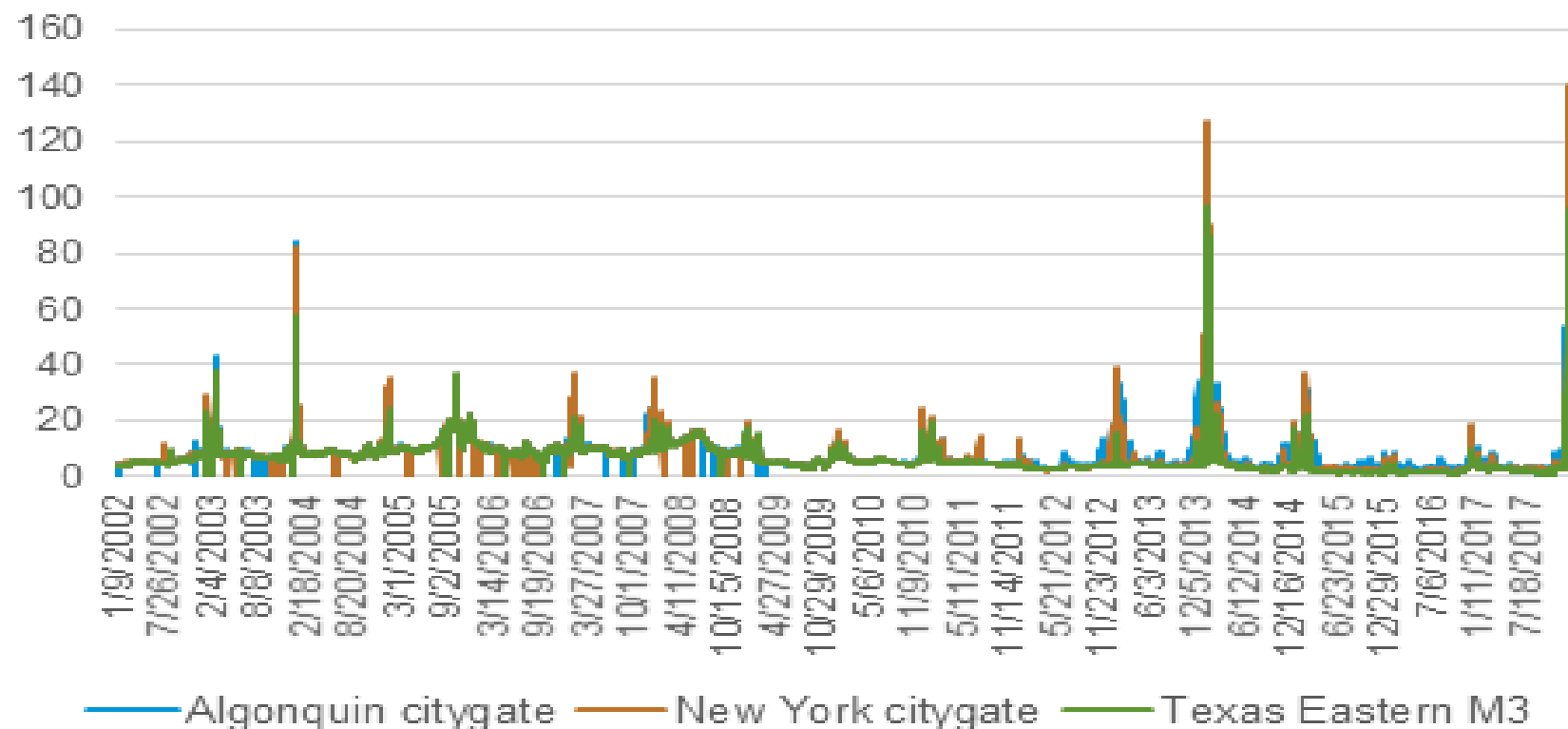


Source: EIA, NGI

# Extreme Conditions = Extreme Prices

## Natural gas spot prices at selected Northeast market locations

2017 \$/million Btu



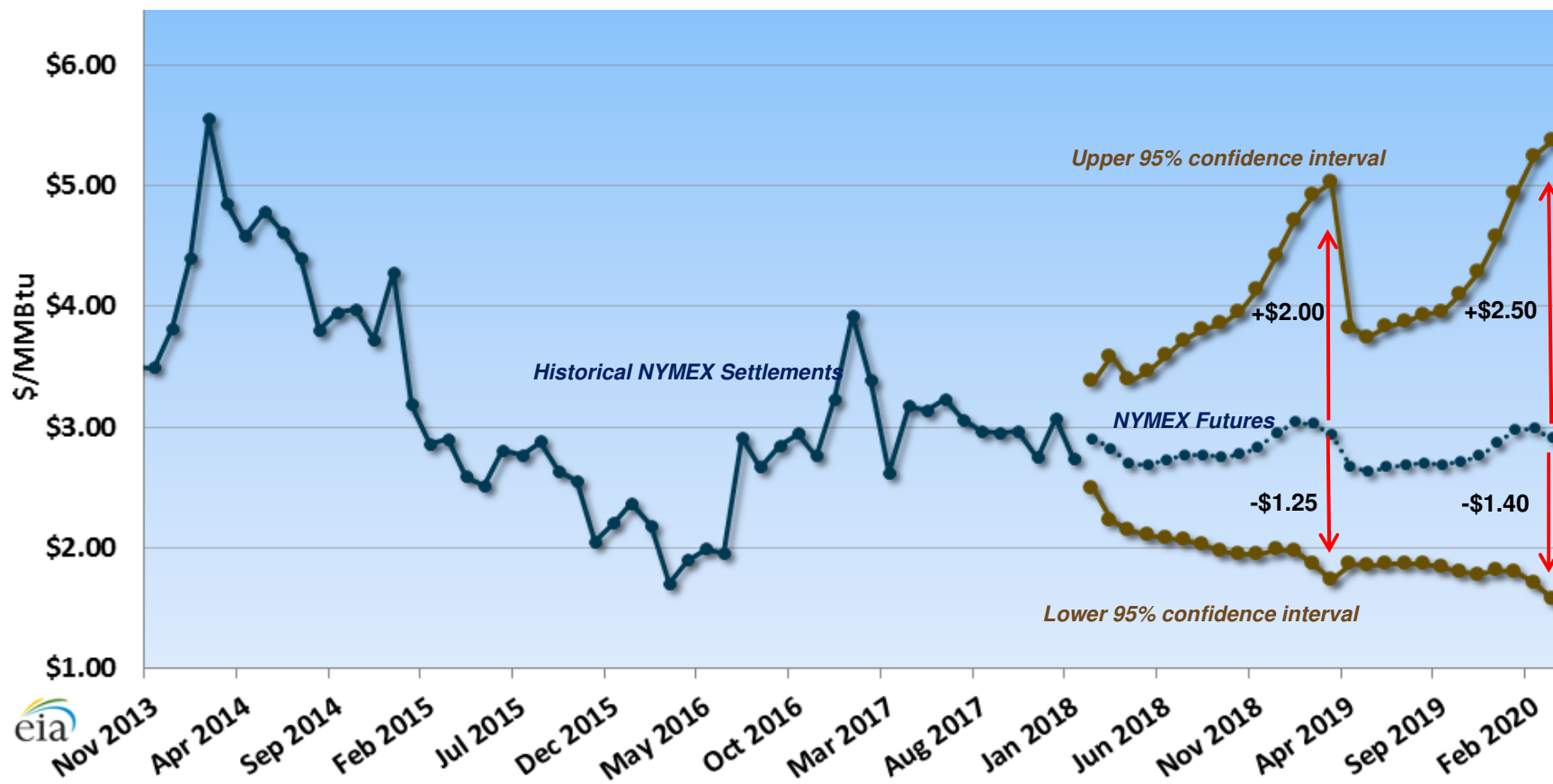
Source: SNL Energy, U.S. Energy Information Administration  
Note: Prices expressed in real November 2017 terms



# Cold Temps + Extreme Demand

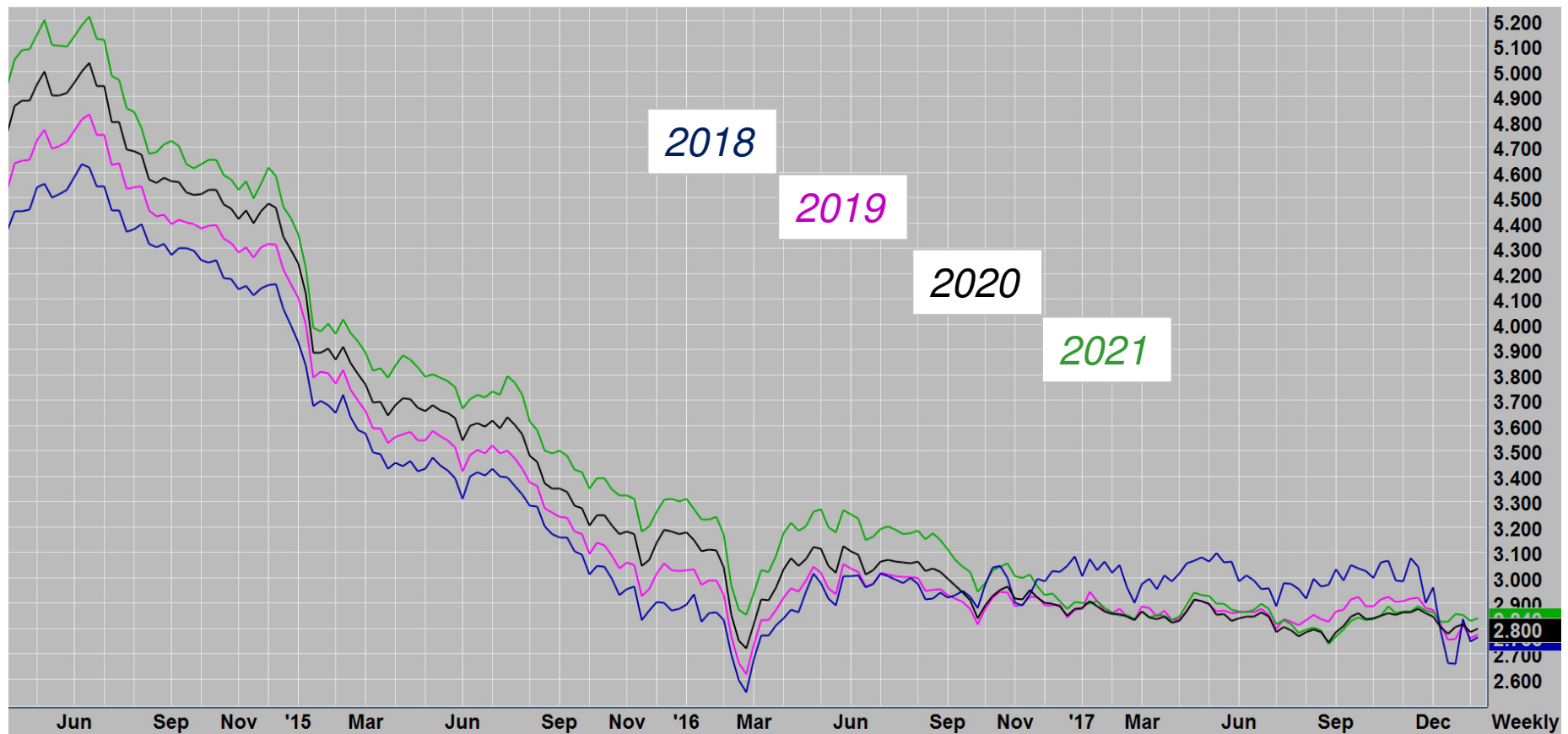
- Not everyone did...
- Dec 26<sup>th</sup> - \$3.26
- Dec 27<sup>th</sup> - \$10.58 Baby, it's cold outside!
- Dec 28<sup>th</sup> - \$14.27
- Dec 29<sup>th</sup>/31<sup>st</sup> - \$15.45 It's really cold outside!
- Jan 1<sup>st</sup>/2<sup>nd</sup> - \$32.60 Happy New Year?
- Jan 3<sup>rd</sup> - \$18.80 Whew! News: WV plant down 700k and well freeze-offs.
- Jan 4<sup>th</sup> - \$51.23 What? News: Cyclone Bomb hitting NE. NE supply -5%.
- Jan 5<sup>th</sup> - \$128.39 #@&%&%#@!&
- Jan 6<sup>th</sup>/8<sup>th</sup> - \$31.37 My head is still spinning...
- Jan 9<sup>th</sup> - \$3.31

# NYMEX Prices – Confidence Intervals



- Implied volatilities in the NYMEX options futures are skewed to the call side which depicts more upside risk for prices over the next two years than downside potential

# NYMEX Prices – Calendar Year (CY) Strips

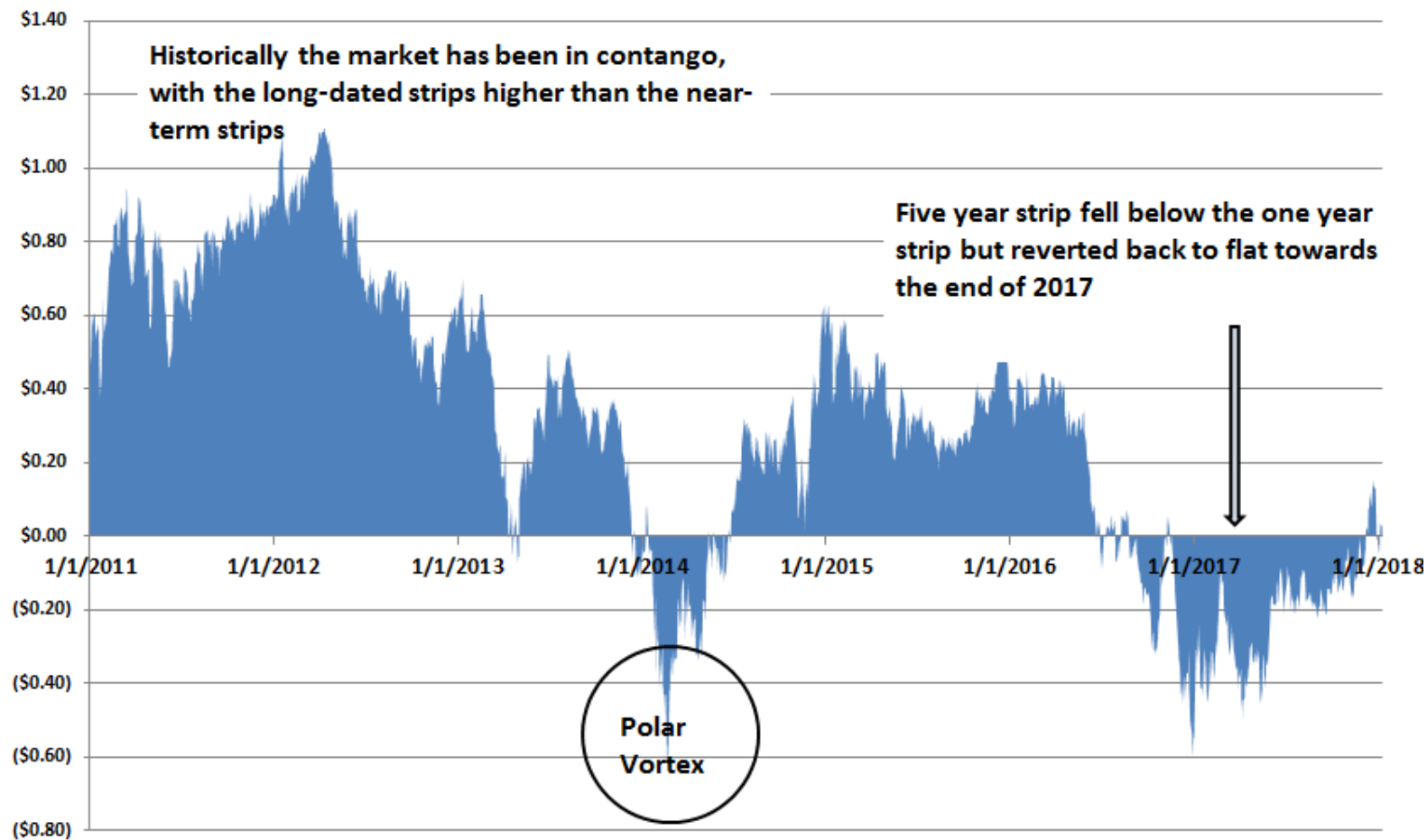


- Calendar 19 reached a low in February 2016 trading; the market has remained supported above this level
- Gas consumers are taking advantage of these historically low futures prices and locking portions of their gas needs for two, three, and even four or five years out



# NYMEX Strip Prices

Five Year Strip vs. One Year Strip NYMEX



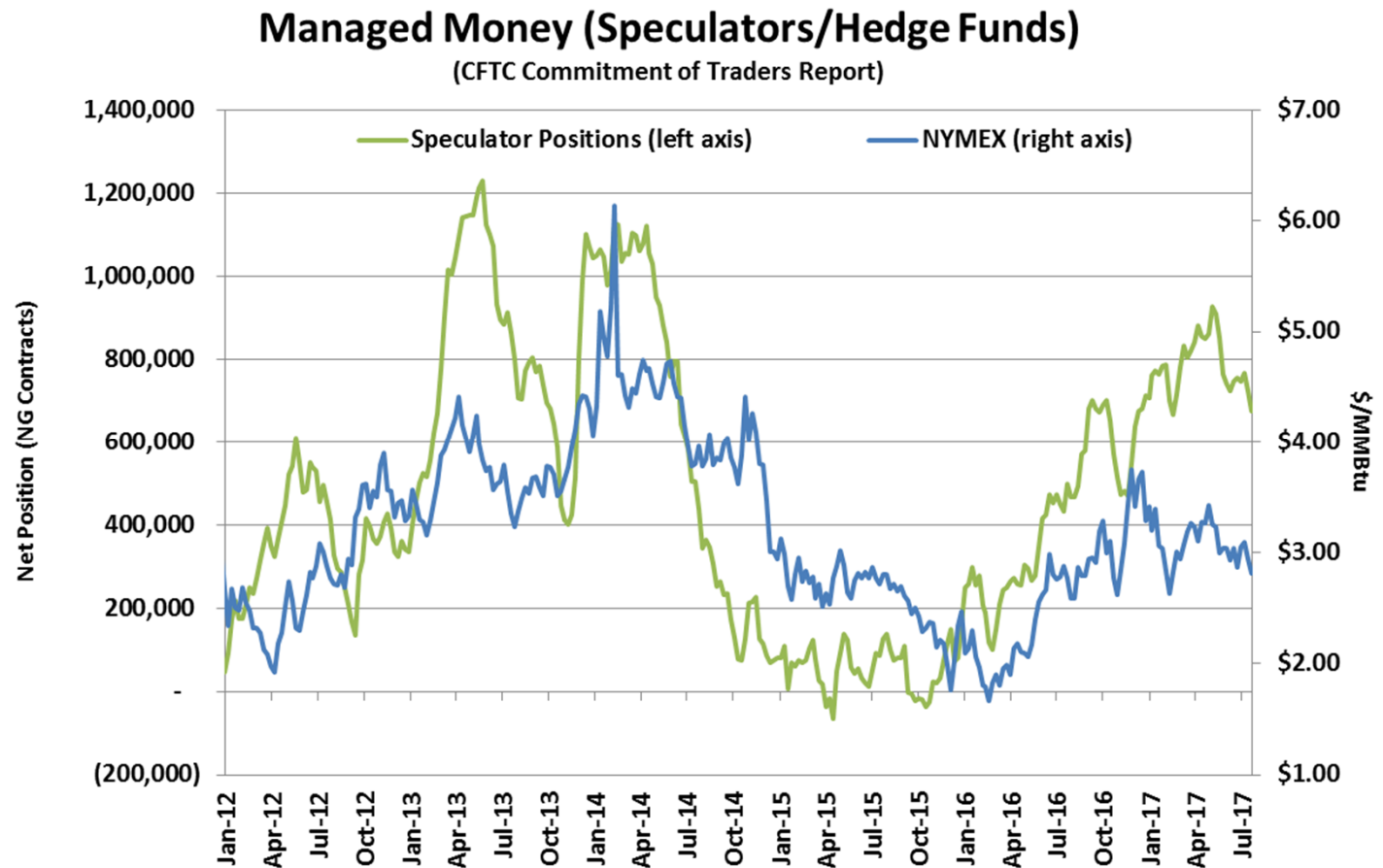


# NYMEX Pricing History



# CFTC Reports

- Changes in speculators net natural gas contract positions can at times be a leading indicator for price direction
- The CFTC's Commitment of Traders Report indicates speculators net long position in natural gas is the highest its been since the Polar Vortex winter – meaning they think prices are going higher



# Bull/Bear Market Summary

- Dry gas production has recently reached record highs at 78 Bcf/d
- EIA projects production to reach 81 Bcf/d by the end of 2018 as the Marcellus, Utica, Permian, and Haynesville LA production numbers continue to grow
- Total rig count has rebounded to over 900 rigs after reaching a low of near 400 in 2016
- Between December 2017 and March 2018, 4 Bcf/d of additional pipeline capacity is expected to come in service from the Northeast to the Midwest and Southeast markets

## Production



- The weekly EIA storage report for the first week of January set a new record for a weekly withdrawal from storage at 359 Bcf, putting the deficit to last year's level at 415 Bcf and the deficit to the five year average at 382 Bcf
- As of the beginning of January 2018, the EIA futures contracts for end of withdrawal season (early April) that trade on the Intercontinental Exchange (ICE) have fallen to 1.30 Tcf which would be over 750 Bcf below prior year and 400 Bcf below the five year average
- Historically when storage levels fall below the five year average it is indicative of tight market conditions and typically translates into higher prices

## Storage



- Exports have seen strong growth over the past year, led by LNG exports and pipelines exports to Mexico
- Exports to Mexico are poised to grow further as pipelines that have been seeing delays on the Mexican side of the border are finally completed
- Four trains at Sabine Pass are taking feed gas (around 3 Bcf/d) and Dominion's Cove Point LNG started service at the end of 2017 which should add another 0.7 Bcf/d of LNG feedgas demand once fully operational
- Canadian net imports are expected to remain stable

## Imports/Exports



- December ended very close to normal with the West being quite a bit above normal and the East below normal
- Forecasts for January beyond the first week are tracking near normal with periods of above and below
- Weather vendors are mixed on the February weather forecast in certain regions including the East as meteorologists factor in the weak La Niña pattern's effect. Most forecasters have the Midwest below normal for February.

## Weather



- Growth from renewables this year, particularly hydro, wind, and solar have eaten into natural gas' share of the power generation stack
- Industrial demand will continue to grow over the next several years as a number of new fertilizer, methanol, and petrochemical projects come online
- Year over year growth looks promising for Q1 2018 due to February 2017 being the near the warmest on record
- The combination of growth in LNG exports, industrial demand, and exports to Mexico, along with colder weather this winter could put further pressure on storage balances

## Demand



- The ISM reported the manufacturing sector expanded for the month of December with a PMI that was 1.5% higher than November at 59.7%
- The BLS jobs report indicated total nonfarm payrolls increased by 148,000 in December and the unemployment rate was unchanged at 4.1%
- S&P 500 and Nasdaq continue to reach record highs
- Oil prices have continued to surge hitting there highest levels since 2014 amid strong demand, falling crude inventories, and production cuts by OPEC

## Economy



• The February NYMEX contract reached a low of \$2.746 on January 5<sup>th</sup>. It then rebounded off the 20 day moving average of \$2.78 to close near \$3.08 on January 11<sup>th</sup>. On one side of the fundamental equation, production is returning to levels before the recent freeze-offs. Production was approaching 78 Bcf/d at its high before the cold snap, but dipped nearly 8% to around 72 Bcf/d on January 1<sup>st</sup>. As of the 11<sup>th</sup>, production had rebounded to 76 Bcf/d. However, on the other side of the equation, the market is looking at a storage inventory deficit of nearly 400 Bcf to the five year average after the largest weekly withdrawal on record was reported. Add the fact that February 2017 was one of the warmest on record, there will be considerable pressure on the year over year storage deficit going forward with normal weather. In summary there is risk above \$3.00 through the end of winter with any sustained below normal weather due to the tight storage balance. However, production will probably keep any price rally thwarted under normal, non-sustained below normal weather conditions.

## Summary





# Why CenterPoint Energy Services?

## **Personal account manager**

- Regional account managers who understand your area
- Ability to provide analyses and pricing and answer questions specific to your needs

## **Expertise, experience and flexibility**

- Experienced with pooling supply points and servicing commercial & industrial customers across the US
- Gas delivery, transportation and pipeline services are backed by CenterPoint Energy

## **Customized analysis and pricing**

- Pricing based on a specified index, customized upon your facility needs
- Marketers are incentivized to find the best price for our customers

## **Up-to-date market intelligence**

- Access to daily, weekly and monthly natural gas market information
- Sent straight to your inbox