Q3 2023 Earnings Call

Company Participants

- Christopher A Foster, Executive Vice Presidenr and Chief Executive Officer
- David J. Lesar, Chief Executive Officer
- Jackie Richert, Vice President Corporate Planning, Investor Relati
- Jason P. Wells, Chief Operating Officer

Other Participants

- David Arcaro, Analyst, Morgan Stanley
- Jeremy Tonet, JP Morgan Securities
- Julien Dumoulin-Smith, Bank of America
- Shar Pourreza, Guggenheim
- Steve Fleishman, Wolfe Research

Presentation

Operator

Good morning, and welcome to CenterPoint Energy's Third Quarter 2023 Earnings Conference Call with senior management. During the company's prepared remarks, all participants will be in a listen-only mode. There will be a question-and-answer session after management's remarks. (Operator Instructions). I will now turn the call over to Jackie Richert, Vice-President of Corporate Planning, Investor Relations and Treasurer. Mr. Richert, please go ahead.

Jackie Richert {BIO 22249352 <GO>}

Good morning, and welcome to CenterPoint's third quarter 2023 earnings conference call. Management will discuss certain topics that will contain projections and other forward-looking information and statements that are based on management's beliefs, assumptions and information currently available to management. These forward-looking statements are subject to risks or uncertainties.

Actual results could differ materially based on various factors, as noted in our Form 10-Q, other SEC filings and our earnings materials. We undertake no obligation to revise or update publicly any forward-looking statements. We will be discussing certain non-GAAP measures on today's call. When providing guidance, we use the non-GAAP EPS measure of diluted adjusted earnings per share on a consolidated basis, referred to as non-GAAP EPS.

For information on our guidance methodology and reconciliation of the non-GAAP measures used in providing guidance, please refer to our earnings news release and presentation on our website. We use our website to announce material information.

This call is being recorded. Information on how to access the replay can be found on our website. Now, I'd like to turn it over to Dave.

David J. Lesar {BIO 1519300 <GO>}

Thank you, Jackie, and good morning everyone. Before we review our third quarter results, I'd like to touch on the leadership transition announcement we made earlier today. As you've seen, effective January 5th, 2024, Jason Wells will succeed me as CEO and a member of the Board. It has been a great personal and professional experience to work alongside him and our very talented executive team.

I am incredibly proud of all that we've accomplished together in the past three and a half years, as we worked hard to position the company to achieve the premium market valuation we have today. We could not have done it without the support and buy-in of our management team and all of our great employees. I have full confidence that Jason is the right person to take the helm. And given how far we've come, now is the right time to advance this transition.

As our very strong third quarter results demonstrate, we have great momentum and a solid foundation in place. Making this change at the beginning of 2024 allows Jason and the team to hit the ground running, and as you will hear shortly, this move has no impact on our financial plans, capital growth plans, no impacts to great opportunities ahead for CenterPoint.

I have no doubt about CenterPoint's ability to continue to outperform.

I'm looking-forward to working closely with Jason and the rest of the management team to support a seamless transition.

With that, I'll turn the call over to Jason for a few comments.

Jason P. Wells {BIO 19168211 <GO>}

Thank you, Dave. I'm honored and excited for the opportunity to lead and serve CenterPoint and all of its stakeholders, into this next chapter. From my first day at the company, I've worked with Dave and our Board of Directors to reshape and launch our utility focused strategy. I've also been fortunate to have worked alongside Dave in our pursuit of a track-record of consistent execution to unlock value. I appreciate the Board's confidence in me, and I am thrilled with the opportunity to work alongside this talented team we have here at CenterPoint, to continue enhancing and executing on one of the most tangible long-term growth plans in the industry.

I am confident that with our team who puts our customers at the heart of all we do, the opportunities ahead are boundless. I look forward to spending the next few months continuing to engage with our stakeholders and sharing my vision for the company's great future, as we continue to be laser-focused on providing outstanding service to our customers and communities and executing consistently to deliver enhanced stakeholder value.

Now, before I turn it back over to Dave to kick-off the discussion of our strong third quarter results, I want to personally thank him for his tireless leadership, mentorship and friendship. He is a force for change, and I look forward to building off the momentum he has created.

David J. Lesar {BIO 1519300 <GO>}

Thanks, Jason. Now let's turn to what was a great quarter. I'm excited to announce that despite the continued headwinds the industry faces, our Q3, 2023, represents our 14th consecutive quarter of meeting or exceeding expectations here at CenterPoint. And as you probably saw from the results published this morning, this quarter can squarely be put in the not-only-meets but exceeds column. And as I did last quarter, I will share the quarter's headlines.

Headline one. Strong financial results, even with ongoing macro headwinds. Despite the persistent inflation across the economy and increasing interest rate headwinds, we were able to deliver $0.40 of non-GAAP EPS in the third quarter of 2023. This represents a 25% increase over the comparable quarter of 2022.

Headline two. Strong Q3 results give us visibility and confidence to increase full-year 2023 non-GAAP EPS guidance range from $1.48 to $1.50 to $1.49 to $1.51 per share. At the new and higher midpoint, this projected increase would represent a 9% growth over 2022. This would also be our third consecutive year of 9% growth and our third consecutive year with a compounding beaten[ph] raise, reflecting our ongoing strong execution. In addition, we yet again increased our dividend this quarter from $0.19 to $0.20, which represents a 10% increase over the last 12 months; one of the highest increases in this sector. These are just outstanding results.

Headline three. Initiating 2024 non-GAAP EPS guidance of $1.61 to $1.63 per share. Our new 2024 non-GAAP EPS guidance range represents an 8% growth over the midpoint of our new and now higher 2023 guidance range of $1.49 to $1.51. This continues to reflect the compounding effects of our three years of expected beaten[ph] raise results, this due to excellent execution over the past several years. As we've said previously, we continue to target year-over-year growth to deliver value to our customers and investors each and every year. We are also demonstrating that we continue to have upside to our previously stated annual growth targets.

Headline four. Another upward revision to our capital plan. We continue to be prudent and formerly incorporating incremental capital into our plan. We will not deviate from our practice of only adding an incremental investments when we believe we can operationally execute them, efficiently fund them and effectively recover them. I am delighted to say today, we now have line-of-sight to increase our capital plan by an additional $500 million. This brings our total 10-year capital plan due 2030 to nearly $44 billion, supporting a 10% rate base CAGR throughout that same period. Better, yet, this amount also includes an increase to our 2023 plan from $4 billion to $4.2 billion. This represents a nearly 17% increase since our beginning of the year target of $3.6 billion. The remaining incremental $300 million will be deployed in 2024 and 2025. These additional capital investments will continue to support safety, reliability and resiliency for the benefit of customers, while balancing the impact on their bills. Chris will discuss the funding of this incremental capital a little later in his remarks.

Headline five. O&M discipline continues to help results and benefit customers. We continue on a path of reducing O&M cost by 1% to 2% per year on average over our current 10-year plan. We have successfully been able to reduce overall O&M on an annual basis, even in years when we have pulled forward O&M. This benefits all of our stakeholders.

This year's strong results will allow us to pull approximately $0.03 of O&M into '23 from 2024. Now, over time we've discussed a lot of pluses, minuses and pull-forwards to our O&M in our earnings calls over the past three years. And sometimes it's easy to get lost in the weeds on our great progress and we do see in O&M. In fact, that happens to me at times.

But here is the bottom-line that you should focus on. Even with higher inflation, we are now on-track to have reduced total controllable O&M from $1.46 billion to $1.28 billion since the beginning of 2021, a reduction of over 12%.

Headline six. Our four upcoming rate case filings remain on-track with a slight modification to the timing of our Houston Electric rate case. With the support of key stakeholders, we are requesting a shift to the timing of our CE rate case. With PUCT approval, we will seek to file, a couple of months later, to allow the use of a calendar year test year which should simplify the filing for all parties. Jason will get into that in a few minutes.

Headline seven. Houston growth continues at a blistering pace. The Houston area is seen a nearly 15% increase in housing starts through the first three quarters of 2023. This activity continues to support our annual 1% to 2% organic customer growth that benefits customer charges. In fact, 10 years ago our average monthly customer charges were approximately $49. Today, even after historic inflation, our monthly charge is still that same $49. This is a testament to benefits of the decades-long 2% organic customer growth here in the Houston area.

Headline eight. Still targeting Houston Electric customer charges at or below the 2% historical rate of inflation. While continuing to heavily invest in the fundamentals of safety, resiliency and reliability, our goal is to keep Houston Electric customer charge increases at or below the 2% historical level of inflation over the longer term.

In summary, balancing the economic headwinds, such as higher interest rates and inflationary pressures with the tailwinds of unseasonably warm weather, especially in our Houston service territory, we continue to deliver for both our customers and investors.

The third quarter of 2023 highlights this management team's commitment and ability to execute even through adverse macro conditions. We continue to believe that we have one of the most tangible long-term growth plans in the industry, and we believe we have the right team in place to extend our track-record of execution.

Before I hand it over to Jason and Chris, I want to express my sincere appreciation to all employees here at CenterPoint that endured extreme weather conditions this summer to keep the power on for our customers when it mattered most.

Now, let me turn the call over to Jason.

Jason P. Wells {BIO 19168211 <GO>}

Thank you, Dave. Before I get into my updates for the quarter, I also want to extend my gratitude to all of our employees who worked through the challenging weather and economic conditions this summer to provide exceptional service to our customers.

Now, looking at the regulatory calendar on Slide 5, I want to provide an update regarding the timing of our four upcoming rate case filings, beginning with the first one of two that will be filed next week, that is our Texas gas rate case.

For the benefit of our customers and to reduce administrative burden on all of our stakeholders, for the first time we will be combining our four Texas gas jurisdictions into a single rate case filing. We expect this combined filing will result in reduced monthly bills for certain customers, specifically to those in our smaller rural Texas gas areas of our service territory, as well as our large commercial and industrial users. Those residential customers in more urban areas are anticipated to see a moderate overall monthly bill increase. Additionally, the single filing will simplify future consolidated annual grid filings from four to one per year.

Moving onto our other Texas business, Houston Electric. We are now targeting the second quarter of 2024 to file a rate cases. We previously guided to the first quarter of 2024. However, to simplify the case for all stakeholders, we now anticipate using a calendar test year ending December 31st, 2023, rather than the previously contemplated test year end of September 30, 2023.

The shift to a calendar test year reduces the administrative burden for all parties. Given the anticipated new test period end date, we wanted to ensure that we had enough time to compile our filing. While we're still developing the parameters, we are still anticipating the rate case to have a relatively flat revenue requirement and look-forward to highlighting the large O&M reductions we've been able to achieve, which will be a key contributor to the expected revenue requirement.

In our Minnesota gas in Indiana Electric businesses, we don't anticipate any changes to the timing of our filings as we continue to target early November-December of this year respectively for this filings. Although we don't expect the timing of the Minnesota rate case to change, the structure of our filing will. We are planning to file a two-year forward-looking rate case, instead of a one-year rate case, which we've historically filed.

This change will allow us to file for a revenue increase for the second year to maintain those rates to the next rate case, putting us on an expected path to smooth revenue increases for the benefit of our customers. Additionally, given new filing will cover a longer period, it will naturally result in fewer rate case filings, lessening the administrative burden for all stakeholders.

Moving to the regulatory updates shown on slide six. Outside of our rate cases, during the quarter, we began to recover on our interim mechanisms at Houston Electric. The first interim mechanism related to our distribution investments, known as the DCRF, which went into rates on September 1st with an annual revenue requirement increase of $70 million. The $70 million increase relates to the -- our distribution investments made during calendar year 2022.

As many of you are aware, recently enacted legislation now enables Texas Utilities to make to such filings per year, instead of the one we were previously allowed. This should allow for the reduction of regulatory lag associated with our future distribution capital spend at Houston Electric, as we continue to make customer-driven investments.

The second interim mechanism that also went into rates relates to our recently settled emergency generation or T- filing, which like the DCRF, was included in customer rates beginning on September 1st. This is a tremendously constructive outcome for our customers. These emergency generation assets can be deployed during some of the most critical times, like extended outages caused by severe weather events that occur in the Houston area.

As power resiliency and reliability remain a key focus of ours in the communities we serve, we will continue to advocate for these customer-focused outcomes. I want to take a moment and highlight that, although we continue to make these customer-driven investments in resiliency and reliability, which in aggregate equate to over $300 million in incremental revenue, we are still mindful of the impacts to customer charges.

As Dave said, 10 years ago, our average monthly delivery customer charges were approximately $49 a month. Today, even after historic inflation, our average monthly delivery charge is still that same $49. This is a testament to the benefits of the tremendous organic customer growth here in the Houston area, as well as our disciplined focus on managing O&M.

Lastly, I'd like to provide an update regarding the generation transition in Indiana. We've filed for cost increases associated primarily with the increased cost in solar panels in MISO interconnection costs. This quarter, we have received re-approval for Posey solar, which is one of our 200 Megawatt utility-owned solar projects. We are also revising the placed-in-service dates for two of our renewable generation projects that are now expected to be operational in 2026, which were previously anticipated to go into service in 2025.

These delays, common with these types of projects, are due to increased pricing and a long queue for MISO interconnects, among other factors. As we said before in instances of delayed projects, we will work to sequence our other capital deployment opportunities to eliminate any earnings impact to our plan. We want to recognize the Indiana commission who continues to work to balance all stakeholder input of our ongoing energy transition, as we work towards moving away from more costly coal generation to cleaner, lower cost generation investments in wind, solar and natural gas.

These are my update for the quarter. I am proud of our operational execution, especially in light of the extreme weather some of our jurisdictions endured during the quarter.

Our Houston Electric service territory experienced 12 new record demand peaks. Our crews restored transmission lines to mitigate generation congestion, provided relief through voltage reduction, and organizationally, took a leading role in socializing the need for customer energy conservation. Through these efforts, we were able to not only keep the power on for our customers, but also manage our O&M while doing so, that is setting future customer rates.

Although our sector continues to face headwinds, I am still firmly in the belief that our tailwinds such as efficient capital deployment, strong organic growth and O&M reduction opportunities exceed our headwinds.

With that, I'll now turn it over to Chris to provide his financial update for the quarter.

Christopher A Foster {BIO 19186909 <GO>}

Before I get started on the financial results, Dave, thank you for your support of being[ph] as I sought to hit the ground running. And Jason, congratulations to you. Today, I'll cover three areas of focus. First, our Q3 results, including our positive revision to 2023 non-GAAP EPS guidance and the initiation of 2024 non-GAAP EPS guidance. Second, our positively revised capital plan and corresponding financing plan. And third, I look at where we stand today with respect to our balance sheet.

Now, let's start with the financial results on Slide 7. As Dave mentioned in his headlines, with three quarters of 2023 behind us, we now have the visibility and confidence to provide an upward revision to our full-year 2023 non-GAAP EPS guidance range from $1.48 to $1.50 per share, to $1.49 to $1.51 per share. This increased guidance range reflects projected 9% growth over full-year 2022 actual non-GAAP EPS of $1.38 when using the midpoint. This would represent our third consecutive year of 9% growth. On a GAAP EPS basis, we reported $0.40 for the third quarter of 2023. Our non-GAAP EPS results for the third quarter, remove the results of our now divested non-regulated business Energy Systems Group. On a non-GAAP basis, we also reported $0.40 for the third quarter of 2023, compared to $0.32 in the third quarter of 2022.

Growth in rate recovery contributed $0.09, which was driven by the ongoing recovery of various interim mechanisms for which customer rates were updated earlier in the year, such as the transmission tracker or TCOS at Houston Electric and the Texas grids. Also contributing, and as Jason noted earlier during the quarter, we began recovery of two separate mechanisms at Houston Electric; DCRF and TEEEF. In addition, we continue to see strong organic growth in the Houston area, extending the long-term trend of 1% to 2% average annual customer growth, which continues to benefit both customers and investors.

Weather and usage were $0.05 favorable when compared to the same quarter of 2022, primarily driven by the historic summer heat in our Houston's electric service territory. This Q3 warmer weather impact, partially offset the unfavorable cooler weather impact of $0.06 we experienced in Q1 and Q2 of this year. O&M was flat for the third quarter and $0.02 favorable year-to-date when comparing to the first three quarters of 2022.

And we remain laser-focused on reducing O&M by 1% to 2% per year on average, while executing our core work plan to meet our customers' needs. In fact, due to the favorable impact from the weather, we were able to increase Q3 spending on certain O&M items for the benefit of our customers. These O&M activities included accelerated vegetation management, which we see as prudent given the heightened recent drought conditions and other targeted projects that should help us improve safety and reliability for our customers.

Our consistent progress on O&M is clear. Over the last couple of years, we have been able to use hotter summers to increase our spend on O&M for the benefit of our customers. However, when looking at our current O&M trajectory, even with this increased spend, we are anticipating reducing controllable O&M by over 12% since 2021. These are excellent results for customers and investors alike. We continue to look for and execute on additional opportunities each year.

Closing out the earnings drivers for the quarter, favorability from rate recovery and weather were partially offset by an $0.08 increase in interest expense.

We continued rising interest rate expense on short-term borrowings, with the primary driver for this unfavorability when compared to the third quarter of last year. However, we continue to be opportunistic in reducing short-term floating rate debt exposure. I'll discuss this in greater detail in just a moment.

Let me now focus a bit on our 2023 capital plan, which you can see here on Slide 8. The third quarter of 2023 represents yet another quarter of sound capital deployment execution as we invested $1.1 billion for the benefit of our customers and communities. This brings our year-to-date total investments to $3.4 billion year-to-date across our various service territories, or over 80% of 2023 capital plan.

Additionally, as Dave mentioned in his headlines, we are now able to incorporate an additional $200 million of customer-focused investments in 2023, which increases our full-year 2023 capital plan from $4 billion to $4.2 billion. Let me provide a little context around this update. This year saw a couple of operational factors beyond the second DCRF law that benefited us.

First, we did not experience a temporary loss of our great frontline crews to mutual aid requests as they were not major weather events that activated that need. With those crews at the ready to execute more work, we were able to support our continued customer growth of over 2% in our Texas electric business, as well as advance some of our pipeline modernization work at our Texas gas business as opposed to waiting until next year. I'm proud of the team's ability to be nimble in this way as we continue to invest in safety, reliability and resiliency for our customers.

Now turning to our 2024 non-GAAP earnings guidance. As we enter the final quarter of 2023 with confidence in our ability to deliver strong full-year results, we are already looking into next year. And going forward, we would intend for our traditional rhythm to be to provide subsequent year non-GAAP EPS guidance for you in the third quarter of the prior year.

And as a result, today we are initiating our 2024 non-GAAP EPS guidance range of $1.61 to $1.63 per share. This would represent an 8% earnings growth over our now higher expected 2023 earnings midpoint. Beyond 2024, we continue to target the mid-to-high end of 6% to 8% non-GAAP EPS growth through 2030. We also target growing dividends in-line with earnings, and as some of you may have noticed, we took the step to increase our dividend this quarter from $0.19 to $0.20. Which represents a 10% increase over the last 12 months; one of the highest increases in this sector.

Supporting this 2024 growth is our now revised capital plan. For 2024, we are targeting to deploy $3.7 billion of customer-driven capital to support the growth, resiliency and safety of our system for our customers. On top of the incremental $200 million added to the 2023 capital plan, we will add approximately $300 million of incremental capital to the existing $43.4 billion, 10-year capital plan through 2030. This brings our new total amount to $43.9 billion. This $300 million is anticipated to be deployed in 2024 and 2025.

Allow me a minute to step-back and give all of you a feel for our thinking here on this upward revision. It's much like we've said before, we need to be able to efficiently execute, fund and recover our costs as we think about including more capital for customers. This additional capital represents our move to take advantage of a few factors. First, we have the opportunity provided by the recent resiliency legislation that passed in the Texas Legislature, or we can start to pull some of that work into play soon. And the team has come a long way on better capital execution in recent years.

I want to take a moment and put in perspective just how far we've progressed in our capital plan since our last Analyst Day in 2021. The new $43.9 billion capital plan through 2030 is nearly 10% higher than the $40 billion plus plan we outlined, we hosted that Analyst Day, and with our revised 2023 capital target, we will have deployed over $12.5 billion in capital since the beginning of 2021, over one billion dollars more than our then market capitalization.

Additionally, the five-year capital target of $18 billion plus communicated back in 2021, which now stands at over $21 billion, represents over a 16% increase in capital. At that same prior Analyst Day, we also announced that we did not need any equity to fund our $40 billion-plus capital plan, nor that we need equity to fund the previous increases to $43.4 billion. And that was still the case when we referenced our most recent revision to $43.4 billion, in part due to the financing lift from the non-core ESG transaction we announced in the last quarter.

However, as we have previously said, as our capital plan grows and as we began to spend incremental capital beyond the $43.4 billion plan, equity or equity-like funding would be required. And the reason for this is simple. While we are committed to making customer-focused investments for safety, reliability and resiliency, we are equally committed to preserving a strong balance sheet. As we go-forward and evaluate acceleration of incremental growth capital additions to our plan, you should assume that we will fund in-line with our consolidated capital structure.

So, it follows today that in order to efficiently fund the $500 million of incremental capital opportunities I discussed a moment ago, we anticipate initiating a modest ATM program in 2024 of approximately $250 million. Ultimately, we see this capital we highlighted today along with the ATM, introducing additional flexibility for our future plans. And as we've said before, we will continue to evaluate efficient funding for future incremental capital that we formally fold into the plan.

To be clear, any ATM program proceeds are dedicated to enhance growth and incremental capital investments. The equity issued under this program will, in no way, reduce our earnings growth targets through 2030. As discussed, we continue to reaffirm our target 8% next year and the mid-to-high end of 6% to 8% thereafter through 2030.

With our revised capital plan, we are still intently focused on delivering work affordably. We continue to target our customer delivery charges at Houston Electric to be equal to or less than historic inflation rate of 2%. We have confidence in our ability to achieve this through Houston's tremendous organic growth; securitization charges rolling-off the bill later next year and our plan to reduce O&M 1% to 2% per year on average.

A great example of our ability to keep customer charges manageable, even as we make our system more resilient, can be found in Q3. Even with the recovery of more than $700 million in investments in our temporary emergency generation now being included in customer rates, customer charges have increased at less than an annual average of 1%. We have a strong track-record on bringing focus to affordability and smoothing of rates for our customers. Like Dave mentioned earlier, our average charge was $49, 10 years ago, and it's averaging $49 today.

Finally, I will cover some of our financing and credit-related topics on Slide 9. As of the end-of-the third quarter, our calculated FFO-to-debt was 14.3%. This represents an expected increase from Q2, as the recovery of our investments accelerates going into the back-half of the year. We anticipate this acceleration to continue through Q4 of this year, as we will have a full-quarter of recovery on our DCRF and TEEEF Investments that we've indicated beginning on September 1st.

We continue to target FFO-to-debt of 14% to 15%, which runs through 2030, and importantly, provides at least 100 basis points of cushion to our downgrade threshold of 13%. As a reminder, we are carrying approximately $400 million of debt at the parent, which was issued to fund our higher equity layer at Houston Electric and Texas Gas, which we believe is the proper capitalization of these businesses.

Another area in which we've seen improvement is the continued reduction of our exposure to floating-rate debt. Through the third quarter, we reduced floating-rate debt to approximately $1.8 billion, which represents a 60% reduction from the beginning of 2023. We continue to be opportunistic in reducing this balance further, and the convertible bond issuance during this quarter is a great example of capitalizing on opportunities.

Our $1 billion convertible issuance allowed us to redeem our $800 million Series A preferred shares that were set to go floating during the quarter on September 1st of the year at nearly 9%. So some good opportunistic savings were achieved there. The remaining approximately $200 million of convertible bond proceeds allowed us to pay down commercial paper, contributing to the net reduction of floating-rate debt exposure.

Lastly, after quarter close, we issued $450 million of private placement notes at SIGECO. As we've noted in prior quarters, this was an opportunity to fund the entity on a standalone basis, rather than relying on inter-company borrowings from the parent. On a go-forward basis, this should translate to a lower relative cost of borrowing versus the parent. And as a result, this reduced parent level debt to total borrowing by another 2%.

This is a milestone as our final step of the Vectren financing integration. We remain intensely focused on maintaining a strong balance sheet, especially in what appears to be a higher for longer interest-rate environment. We have worked hard to build in additional conservatism in our long-term plan. And today shows another step of progressing that plan for our customers and investors. This shared focus on good planning is what we believe will allow us to continue to execute, even in the face of continued headwinds.

With that, I'll now turn the call back over to Dave.

David J. Lesar {BIO 1519300 <GO>}

As you've heard from us today, we now have 14 straight quarters of meeting or exceeding expectations. We are a pure-play, regulated, premium utility and on a course to continue execution of our current plan with incremental growth opportunities to support our customers well beyond that.

Thank you for listening to me tell our story for the past three and a half years. This has been a great ride, and I look forward to finding my next opportunity. We also look forward to celebrating Jason's promotion with all of you at EEI.

Jackie Richert {BIO 22249352 <GO>}

Thank you, Dave. Operator, we'll now turn it back to you for Q&A.

Questions And Answers

Operator

At this time we will begin taking questions. (Operator Instructions) And also limit to one question and one follow-up question. Thank you.

Please standby for the first question.

The first question will come from Shar Pourreza with Guggenheim. Your line is open.

Q - Shar Pourreza

Hey guys, good morning.

A - David J. Lesar {BIO 1519300 <GO>}

Good morning.

Q - Shar Pourreza

Good morning. So just on -- I wanted to just touch on the confidence that's going into '24 and obviously growing at the top-end from the raised guidance. I guess, how are you kind of maybe addressing the headwinds like interest-rate pressures on about $1 billion of the maturities, and you do have, in addition you can talk about this. You have rate cases, right, in Texas, Indiana and

Minnesota that you have to get through which could also create some lag. It's a lot of moving pieces, so, I guess where the levers, and just talk about your confidence level in these cases is welcome that it will dictate '24 and beyond.

A - Christopher A Foster {BIO 19186909 <GO>}

Sure, Shar. Thanks for the question. I think there's probably three things I would focus on. I'll make sure to hit the rate case piece with that, while Jason maybe give you some color there. And there's probably three things that give us the confidence. First is the thoughtful capital planning, where we're now seeing some of the benefit with improved regulatory mechanisms.

Second is O&M discipline that we're starting, really continuing to improve on. Third would be just really looking across the plan for incremental opportunities as we go. So an impact each of those. On the capital side, we're now experiencing some of the benefits that are layering in over the increases that we've put in over the last 18 months. And on top of that, we've got the Texas legislation that passed earlier this year is going to help reduce the regulatory lag. And we'll start to see some of the benefit of those investments in '24 and '25. And so we think that ability to file two DCRFs per year, in particular and that incremental recovery of incentive comp can help us reduce regulatory lag by about half.

On the O&M side, really as David said, in particular, we continue to be focused on reducing O&M 1% to 2% on average. And you heard that now that we're looking back and really 2021 forward, we're now looking at a 12% reduction, which is pretty substantial. Then lastly, I was getting out looking really across the plan. And so there, although not really O&M specific, we're looking at exploring some savings opportunities with respect to income tax.

And since we divested all those non-regulated entities within the company that have any real material size, we've been looking to ensure that there is an efficient state income tax structure that exists beyond that. So we're looking here in the near-term for some potential tax savings as well.

Maybe I'll just kick it to Jason for more color on the regulatory cases.

A - Jason P. Wells {BIO 19168211 <GO>}

Yeah, thanks Chris. And sure, I would say that the extension of the filing date for Houston Electric will not create any additional regulatory lag, want to be clear about that. As a quick reminder, you know, we have access to the DCRF entity cost, the capital recovery mechanisms up to the date that we make that rate case filing. So we don't see this extension in the filing date creating any additional regulatory lag.

Q - Shar Pourreza

Got it. Okay, perfect. And then just lastly, obviously, appreciate the CapEx increase and the, you know, modest step-up of equity. What's left in the upside CapEx you've highlighted in the past versus what you put into plan? And is there -- I guess is there any reason even track that anymore given the incremental opportunity. It's obviously not something you guys have highlighted on the deck, so.

A - Jason P. Wells {BIO 19168211 <GO>}

Yeah, thanks Shar, and I think you hit it. At the end of your question there. Candidly, I don't think there is a reason to continue to track, you know, what we had originally in our last quarter articulated is at $2.6 billion. Set capital opportunities are -- were outside of the plan. You know, candidly, as we've gone through our planning process for '24 and looking at our long-term plans, the pipeline of additional CapEx opportunities above are now over[ph] a $3.9[ph] billion CapEx plan remains significant, well in excess of that $2.6 billion. And so, I think it just becomes a confusing factor to reconcile that. I think we've earned the confidence in track record that. You know, the pipeline of opportunities is deep, and as we see the opportunity to efficiently execute them, efficiently fund them and efficiently recover them, we will continue to put them in for the benefit of our customers.

Q - Shar Pourreza

Okay, perfect. Jason, congrats to you on, on Phase-II, and obviously not a surprise to anyone. And Dave, congrats to you on your next phase, and if you're not Board of the utility sector, I'm sure there's other utilities that may need your help this year's. Thanks.

A - David J. Lesar {BIO 1519300 <GO>}

Yeah, I'm[ph] that Board of the utility. (multiple speakers) Thanks, Shar. Thanks.

Operator

Please standby for the next question. The next question comes from Steve Fleishman with Wolfe Research. Your line is open.

Q - Steve Fleishman {BIO 1512318 <GO>}

Yeah, hi, good morning. Thanks. First, my condolences on the Astros, but more importantly, congrats to Dave on a great job and very happy for you, Jason.

A - David J. Lesar {BIO 1519300 <GO>}

Thank you Steve.

A - Jason P. Wells {BIO 19168211 <GO>}

Thanks Steve.

Q - Steve Fleishman {BIO 1512318 <GO>}

So I --

A - David J. Lesar {BIO 1519300 <GO>}

No, I'm, I'm thanking you for the Astros, and thank you for the (multiple speakers).

Q - Steve Fleishman {BIO 1512318 <GO>}

Dave, you can win every year in the utility business, but you can't in baseball, so.

A - David J. Lesar {BIO 1519300 <GO>}

Yeah, so, so true.

Q - Steve Fleishman {BIO 1512318 <GO>}

Not to give[ph]. So the -- I guess just could you give a little color on the $250 million of equity, of just kind of should we expect that to be kind of largely done, kind of during the year, next year. And then is there anything to just read into it about, you know, in the past you talked about, you know, kind of asset sale potential and things like that, is that just less likely now given that the market environment. Or, is it maybe just the needs are not enough to consider asset sale, as you kind of feathering this in the incremental CapEx. Thanks.

A - Christopher A Foster {BIO 19186909 <GO>}

Sure, Steve, happy to hit it. I, I think if you just look at what we updated today, we took the plan from $43.4 billion to $43.9 billion. And really, you know, fairly, you know, relatively small amount of the CapEx increase, but one that we thought was reasonably funded with the, the modest movement in the ATM of introducing a 250. Stepping back going-forward, if you -- If you look at kind of how we articulated previously, we'd probably be putting ourselves in a position to talk about the longer-term CapEx plan and the associated refresh, really once we get through the key rate cases that are in front of us at this stage.

Pointing to kind of the last factor that, that you mentioned, we're going to consistently looking at it, look at the most efficient way to fund our equity going forward. But it's going to be clear that we are talking about at this stage, you know, any future considerations on an ATM would be incremental to the $43.9 billion, right. So there will be growth centric beyond the $43.9 billion that we're talking about today. And again, we're looking to do that larger capital refresh once we can work our way through these cases.

Q - Steve Fleishman {BIO 1512318 <GO>}

Okay, great, thanks. I'll, I'll leave it to others for questions. Thank you.

A - Christopher A Foster {BIO 19186909 <GO>}

Thanks, Steve.

A - David J. Lesar {BIO 1519300 <GO>}

Thanks, Steve.

Operator

Please standby for the next question. The next question comes from Julien Dumoulin-Smith with Bank of America. Your line is open.

Q - Julien Dumoulin-Smith {BIO 15955666 <GO>}

Hey, good morning and congratulations, guys, well done. Jason, good morning.

A - David J. Lesar {BIO 1519300 <GO>}

Good morning.

Q - Julien Dumoulin-Smith {BIO 15955666 <GO>}

Yeah, absolutely. Alrighty. Just wanted to pivot back to that last question a little bit. I mean, you know, incremental resiliency spending through some of these filings in Texas seems like a pretty clear opportunity. I know it's preliminary. Can you elaborate a little bit more about that upside relative to the 2%[ph] to 6%[ph], you guys have articulated earlier? I, I get that there's kind of a, a quote big opportunity. But just a sense of, of what you guys are seeing out there and the and the sum out there are are really putting on some big numbers.

And then relate it if you can, how does that timeline square up with the Texas electric case here, if at all, to the extent to which that, that drove some of that timeline consideration. And then maybe lastly I'll throw in this, it's just related; how do you think about the merits of further LDC asset sales versus ATM, considering this upside in the plan, you know, tied to resiliency or, or what have you.

Again, I, I get that, you know, that the, the modest size of ATM is sort of tied to the modest CapEx increase. But as you think about these, these bigger chunkier increases, is that still on the table or is it little bit in the backburner considering the backdrop today.

A - Christopher A Foster {BIO 19186909 <GO>}

Yes, thanks Julien. There's a, a lot to unpack there. You know, on the CapEx side of things. Let, let me just say, you know, last quarter we had talked about pipeline of opportunities of $2.6 billion outside of the plan, you know, as we've gone through our planning process. It is well, well in excess of that. I think those opportunities are in all kind of aspects of our business. I mean, you hit on it. I think the resiliency opportunity here at Houston Electric remains significant. I think it's a real question around the pace of work and we're in the middle of preparing that filing that I'll come back to in a minute, but resiliency is clearly a key driver.

But I equally see an incredible amount of opportunities on our gas side as well, particularly given all the growth that we've seen here in Texas for our Texas gas business. So, I would say they're equally weighted, they're well in excess of the $2.6 billion we used to track. We're just moving away from tracking that because it becomes confusing, what's in the plan was out of and how does it adjust quarter-by-quarter, but suffice it to say, it remains a deep pipeline of, of opportunities.

With respect to the filing timing, you know, we are waiting for the final set of rules to be voted out by the PUCT, likely in December here. We will then, and we are now currently preparing our filing which will likely be sometime, kind of late in the first quarter for that, that resiliency filings. I think this is a incredible piece of legislation, and we're excited about proposing plans to really enhance, continued to enhance the resiliency of our Houston Electric business.

And, so more to come there. I think as it relates to the timing of the filing will likely come in maybe a month or two or so before we file the Houston Electric rate case. So it will be a busy regulatory calendar for, for the Houston Electric business next year. But roughly kind of the same time, as I said, end of first-quarter for their resiliency filing a little bit after that for the, the Houston Electric filing. And then sort of more broadly on assets, as look, we, we love the businesses we run. It's a privilege to serve all of our communities. We constantly receive inbound interest on, you know, all of our assets. And as we think about additional movements increases in our CapEx plan, I think we were in the confidence, we will find the most efficient way to finance that incremental growth. So I would say, we, we will make the right decision to maximize value for, for all of our stakeholders, as we look to funding this incremental capital pipeline that I articulated.

Q - Julien Dumoulin-Smith {BIO 15955666 <GO>}

Got it, excellent. Nicely done. And then just quick clarification. You made an allusion to some CapEx timing shifts in, in Indiana based on the renewable project. Just, what's the backfill plan, if you can elaborate a little bit more?

A - Christopher A Foster {BIO 19186909 <GO>}

Well, some of it's already underway. I mean I think some of the capital that we've announced today, you know, we're executing that capital, putting that capital into service that will allow us then to begin to seek recovery of it next year and fully year in on it in '25. And so, you know, this, this pattern of looking out in the plan and seek re-sequencing capital has been something that I think we've built a track record for. You know, originally, when the Department of Commerce opened up its original investigation, that moved the timing on a handful of our original solar projects.

We seamlessly accelerated some capital, particularly here in Houston Electric to offset that. And effectively, that's what we're doing today with this CapEx increase. So yeah, I think the important part about these renewable generation projects up in Indiana, I think it's important to reemphasize, it represents less than 10% of our total CapEx for the company. And so it gives us a great deal of flexibility as we see the potential slowdown in, you know, operational dates for these plants, we can accelerate either in the other electric or gas portions of our business.

Q - Julien Dumoulin-Smith {BIO 15955666 <GO>}

Congrats again guys. See you soon, right?

A - Christopher A Foster {BIO 19186909 <GO>}

Thank you, Julien.

Operator

Please standby for the next question. The next question comes from Jeremy Tonet with JP Morgan Securities. Your line is open.

Q - Jeremy Tonet {BIO 15946844 <GO>}

Hi, good morning.

A - Christopher A Foster {BIO 19186909 <GO>}

Hey, Jeremy, good morning.

Q - Jeremy Tonet {BIO 15946844 <GO>}

Congratulations again to Dave and Jason here. Great to see. And maybe just kind of picking up with this point. Obviously, Dave is a big figure in the City of Houston, very ingrained in the culture there. I was just wondering, Jason, if you could maybe speak a bit, I guess, you know, having moved to Texas, how you feel your relationships with, you know, local community stakeholders, you know, have evolved over-time, you know, being somewhat newer to the City?

A - Jason P. Wells {BIO 19168211 <GO>}

Yeah, thanks for the question, Jeremy. I appreciate it. Obviously, incredibly big shoes to fill, from the standpoint of Dave's status in the, in the community here, but you know I've been working since I hit the ground here with a variety of organizations outside of Houston Electric and, and, and obviously our greater CenterPoint family.

So I'm deeply involved in the community, serving a number of different interests. I would say that Houston is a very welcoming and transitory community with a strong civic focus, and I've been able to tap into that to build a broad network. My focus are, isn't just on Houston alone. It's incredibly important, and I think the activities, you know, outside of my, my day job here at CenterPoint reflect my commitment to the community, but, you know, even this week we were up in Minnesota, meeting with the Governor and other elected officials around priorities for our Minnesota gas business. I continue to make my way around our full-service territory. And so, I think and, and hopefully you have seen -- I understand the importance of being involved in our communities. Houston being obviously our home base, but we have the privilege to serve six states and want to be active in all of them.

A - David J. Lesar {BIO 1519300 <GO>}

Yeah, let me just add little something to that, it's hard. As you know Jason is a humble guy, and he finds it hard to pat himself on the back, but I think he's done a great job in three-plus years he's been here in the Houston community and, and the broader places that CenterPoint serves. And I think he's doing a great job there. He is embedding themselves in the community. I'm not going anywhere. And I think it's going to be all easily handled, and I don't think there should be any concern at all about it.

Q - Jeremy Tonet {BIO 15946844 <GO>}

Got it, that's, that's great to hear. Thank you for that. And then maybe just pivoting over towards Minnesota, if I could. I think you touched on the potential to change the structure of the filing to two-year forward looking rate case, instead of one years, one year, and just I was wondering, would that raise your earn return expectations in the jurisdiction, if this does come to fruition? And is this a, a benefit to CenterPoint's outlook if the Commission approves for the, the two-year test look there.

A - Jason P. Wells {BIO 19168211 <GO>}

I think just the overall sort of smoothing rate increases for customers. And sort of consistent with the common theme around a lot of our regulatory update today sort of simplifying our rate case schedule. I wouldn't really look at it as much as a, you know, earned return. Minnesota is the one state that we operate in that has a forward-looking test year.

You know, historically, what I used to say was that, you know, in even years we would see a revenue increase and, and in odd years, you know, we wouldn't see any increase until we have to overcome that regulatory lag on, on odd years. This filing for a two-year for test year begins to address that profile. And so, again, starts to reduce a little bit of regulatory lag, snooze rate increases for our customers and overall reduces the administrative burden. So we're excited about making that filing next week.

Q - Jeremy Tonet {BIO 15946844 <GO>}

Got it, that's very helpful. I'll leave it there. Thanks.

A - Jackie Richert {BIO 22249352 <GO>}

Operator, we have time for one more question.

Operator

The last question will come from David Arcaro with Morgan Stanley. David, your line is open.

Q - David Arcaro {BIO 20757284 <GO>}

Hey, good morning. Thanks so much for taking my question, and congrats to both Dave and Jason as well.

A - David J. Lesar {BIO 1519300 <GO>}

Thank you, David.

Q - David Arcaro {BIO 20757284 <GO>}

You know, I was, I was wondering just on the Houston Electric rate case filing, appreciate the color there. And just wondering if you could dig a little more into, have there been any changes in your expect, expectations in terms of the size of the revenue requirement ask. Does it gives you an opportunity to capture any kind of chunkier capital projects that might have been, you know, completed in the fourth quarter this year or any O&M savings, things like that as you head into that second-quarter timing.

A - Jason P. Wells {BIO 19168211 <GO>}

Yeah, David. I appreciate the question, and the short answer is no, I don't think the extension was for that reason. Really with the fact we have now two, the opportunity for two DCRFs and two TCOS a year, the rate case at Houston Electric largely becomes a rate case that centers around cost-of-capital around depreciation rates at any differed regulatory assets and liabilities. You know, as I mentioned, we have the opportunity to seek recovery of capital that we're spending now and through the fourth quarter up until the time we file that rate case through the DCRF and TCOS mechanisms. And so, I wouldn't really look at this extension as opportunity for us to address any capital, is going to be a case that involves revolves around cost-of-capital O&M and regulatory assets.

And back to sort of the first part of your question, no, there is no fundamental change, I think we're looking at the potential for a small revenue decline, you know, potentially flat revenue increase. When we -- I've been clear that we're going to advocate for a higher cost of capital, but as we forecast what that calendar year test year is going to look like, we have reduced O&M more than the increases that we would propose from a cost of capital. So I think that should put us in a standpoint of filing for a revenue requirement. Again, relatively flat, potentially modest decrease as we've communicated in the past.

Q - David Arcaro {BIO 20757284 <GO>}

Okay, great, thanks, that's helpful. And maybe just on the floating rate debt that the $1.8 billion you still get out there, do you plan to continue to reduce that and term it out going forward, or is the level it's at now the comfortable balance overall, as you think about capitalization?

A - Jason P. Wells {BIO 19168211 <GO>}

Sure, David. I think first of all. I got to give some credit to the team for working down even what we walked into this year was 27% floating rate debt as a percent of the total, we're now at about 10%. So really good progress there. As we look at near-term financing, even looking into earlier next year, just as an example for what we think, you know, how we think this is manageable, we're looking at roughly $700 million at CNP. And just to give you a feel for that, that component of our outstanding floating rate already sits at 5.8%. And so as you can imagine, given where things are right now, we think it's pretty manageable, in fact, you know, we might be opportunistic in going after that relatively soon.

So just give you an example of where you looking here and then laid out kind of the next couple of years for you, in terms of what's in front of us and think it's manageable at this stage, even with the longer for higher kind of macro theme that's going on right now.

A - David J. Lesar {BIO 1519300 <GO>}

Okay, before we go off the call, I would just want to thank all of our shareholders and analysts that are on the call that have believed in me and our story, and just stick with us because the best is yet to come. Thank you.

Operator

And we now --

A - Jackie Richert {BIO 22249352 <GO>}

Thank you operator.

Operator

This concludes CenterPoint Energy's third quarter earnings conference call. Thank you for your participation.