

Q2 2019 Earnings Call

Company Participants

- David Mordy, Director, Investor Relations
- Scott M. Prochazka, President & Chief Executive Officer
- Xia Liu, Executive Vice President & Chief Financial Officer

Other Participants

- Ali Agha, Analyst, SunTrust
- Ashar Khan, Analyst, Verition
- Charles Fishman, Analyst, Morningstar
- Christopher Turnure, Analyst, JPMorgan
- Greg Gordon, Analyst, Evercore
- Insoo Kim, Analyst, Goldman Sachs
- Julien Dumoulin-Smith, Analyst, Bank of America Merrill Lynch
- Michael Weinstein, Analyst, Credit Suisse
- Paul Patterson, Analyst, Glenrock Associates

Presentation

Operator

Good morning and welcome to CenterPoint Energy's Second Quarter 2019 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 David Mordy, Director of Investor Relations. Mr. Mordy.

David Mordy {BIO 20391499 <GO>}

Thank you, Catherine. Good morning, everyone. Welcome to our second quarter 2019 earnings conference call. Scott Prochazka, President and CEO; and Xia Liu, Executive Vice President and CFO, will discuss our 2019 results and provide highlights on other key areas. Also with us this morning are several members of management who will be available during the Q&A portion of our call.

In conjunction with our call, we will be using slides, which can be found under the Investors section on our website, centerpointenergy.com. For a reconciliation of the non-GAAP measures used in providing earnings guidance in today's call, please refer to our earnings news release and our slides. They have been posted on our website, as has our Form 10-Q.

Please note that we may announce material information using SEC filings, news releases, public conference calls, webcasts, and post to the Investors section of our website. In the future, we will continue to use these channels to communicate important information and encourage you to review the information on our website.

Today, management will discuss certain topics that will contain projections and forward-looking information 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 upon factors, including weather variations, regulatory actions, economic conditions in growth, commodity prices, changes in our service territories, and other risk factors noted in our SEC filings.

We will also discuss guidance for 2019. The 2019 guidance basis EPS range excludes the following impacts associated with the Vectren merger. Integration and transaction-related fees and expenses, including severance and other costs to achieve the anticipated cost savings as a result of the merger and merger financing impacts in January prior to the completion of the merger due to the issuance of debt and equity securities to fund the merger that result in higher -- resulted in higher net interest expense, preferred stock dividend requirements and higher common stock share count.

The 2019 guidance range considers operations, performance to-date and assumptions for certain significant variables that may impact earnings such as customer growth, approximately 2% for electric operations and 1% for natural gas distribution and usage including normal weather, throughput, commodity prices, recovery of capital invested through rate cases and other filings, effective tax rates, financing activities and related interest rates, and regulatory and judicial proceedings, as well as the volume of work contracted in our infrastructure services business. The range also considers anticipated cost savings as a result of the merger. The range assumes the lower end of Enable Midstream Partners 2019 guidance range for net income attributable to common units provided on Enable's second quarter earnings call on August 6, 2019.

In providing this guidance, CenterPoint Energy uses a non-GAAP measure of adjusted diluted earnings per share that does not consider other potential impacts, such as changes in accounting standards or unusual items including those from Enable, earnings or losses from the change in the value of ZENS and related securities, or the timing effects of mark-to-market accounting in the company's Energy Services business, which along with certain excluded impacts associated with the merger, could have a material impact on GAAP reported results for the applicable guidance. CenterPoint Energy is unable to present a quantitative reconciliation of forward-looking adjusted diluted earnings per share because changes in the value of ZENS and related securities and mark-to-market gains and losses resulting from the company's Energy Services business are not estimable as they are highly variable and difficult to predict due to various factors outside of management's control.

Before Scott begins, I would like to mention that this call is being recorded. Information on how to access the replay can be found on our website.

I'd now like to turn the call over to Scott.

Scott M. Prochazka {BIO 17360314 <GO>}

Thank you, David and good morning ladies and gentlemen, thank you for joining us today and thank you for your interest in CenterPoint Energy. I'm pleased to report that we have delivered a solid second quarter driven by consistent strong performance in our utility operations backed by strong cash contributions from our non-utility businesses.

I'd like to begin with Slide 5. This morning we reported second quarter 2019 income available to common shareholders of \$165 million or \$0.33 per diluted share compared with a loss of \$75 million or \$0.17 per diluted share in the second quarter of 2018. On a guidance basis and excluding merger impacts, second quarter 2019 adjusted earnings were \$0.35 per diluted share compared with \$0.30 per diluted share in the second quarter of 2018.

Xia will cover our financials in greater detail shortly. It's been approximately 180 days since we successfully closed on our merger with Vectren. With the addition of Indiana and Ohio to our regulated operations, we have increased our collective rate base by 45%. Through the merger, we created a growing energy delivery company that is expected to drive value for our shareholders.

Turning to Slide 6. I would like to take the opportunity to outline CenterPoint's post merger long-term value proposition. First, we intend to increase the earnings contribution from regulated utilities through capital investment to serve our utility customers. We continue to expect approximately 8% compound annual rate base growth through 2023, which will drive utility growth and overall earnings. Second, the cash from our non-utility businesses will continue to be an important source of funding for our growing utilities. Third, we are committed to solid investment grade credit quality and a strong balance sheet. And fourth, we expect to deliver strong shareholder returns through EPS growth of 5% to 7%, along with consistent dividend growth.

Turning to Slide 7. As many of you read on Monday in our amended 13-D filing, we no longer intend to sell our common units of Enable Midstream Partners. Much has changed since we first considered the sale of Enable common units. Following the close of our recent merger, we have increased utility capital needs and midstream investments now represents a smaller percentage of our earnings. Enable has taken several steps to de-risk its business including moving to a more fee-based gathering and processing contracts, securing new sizable transportation agreements, and successfully strengthening its coverage ratios. Enable has maintained a strong balance sheet and provided consistent cash flows over the past 5 years.

Enable's continued solid performance and strong coverage ratio allowed it to increase quarterly common unit distributions by approximately 4% to \$0.3305 per common unit, its first increase since 2015. Since its formation, through our ownership of common units, Enable has provided approximately \$1.7 billion in cash distributions to CenterPoint and we expect the total amount to grow to over \$3 billion by 2023. The distributions from Enable provide an efficient source of cash to support our utility infrastructure investments.

Slide 8 shows the steady cash and adjusted EBITDA our non-utility businesses generate to support our utility growth. You can see that in addition to the consistent cash distributions from

Enable, Energy Services and Infrastructure Services are also steady generators of adjusted EBITDA. The adjusted EBITDA they generate more than offsets the capital investments required by these businesses.

In the near term, we have identified four focus areas. This is shown on Slide 9. We must continue to execute merger integration, execute our regulatory strategy, manage O&M spending and strengthen utility infrastructure to provide long-term customer value. We're making great progress with merger integration activities. CenterPoint closed the merger with Vectren less than 10 months after announcement.

This reflects the constructive regulatory environment of our entire footprint. We remain committed to planning and executing a very focused integration effort. In 2019, our attention has been on implementing process improvements and achieving synergy targets. We took immediate actions to begin savings on day one and remain on track towards our 2019 target of over \$50 million of savings.

We continue to estimate \$75 million to \$100 million in merger savings for 2020. Beyond 2019, we expect our primary merger-related activities will be integrating technology systems. The design and implementation of these activities is still being developed and will be finalized later this year. This important work includes creating a single set of systems across the Company for finance, accounting, supply chain operations, and customer experience.

Slide 10 details recent regulatory developments. With respect to the Houston Electric rate case, we anticipate receiving a recommendation from the Administrative Law Judge in September and a decision from the Public Utility Commission of Texas, in the fourth quarter of 2019. We have constructive relationships with our regulators and other stakeholders and believe our operational performance, our commitment to our customers, and the investments we make, all of which support Houston's continued growth will help provide for a fair and appropriate outcome in this case. For natural gas distribution, we have received rate relief through the Gas Reliability Infrastructure Program in Texas and the compliance and system improvement adjustment in Indiana. We expect to receive the final order in our Ohio rate case in the second half of 2019.

We have also filed for additional rate relief in Ohio and other jurisdictions. In Indiana, we are in the process of creating a new integrated resource plan or IRP for Indiana Electric and we show a timeline on Slide 11. We are currently working with stakeholders to determine the appropriate solution for generation in Southern Indiana.

We continue to anticipate filing the new IRP during the second quarter of next year. We will look to begin new construction on appropriate generation solutions, following the completion of the IRP process. On Slide 12, I'd like to highlight our ESG efforts, particularly our commitment to environmental stewardship. We are proud of our progress to date and we'll continue our efforts to further improve the environments of the communities we serve.

The most significant contribution we make in reducing greenhouse gas is through our natural gas distribution business, pipeline replacement program, which is the largest component of our \$5.3 billion 5-year natural gas distribution capital plan. Since 2012, we have replaced over 700

miles of cast iron pipe across our service territory. These specific cast iron replacements, as well as our other pipeline replacement modernization programs have helped to reduce our annual gas emissions by over 30% per unit of natural gas delivered since 2012.

These investments not only better enable us to safely serve our customers, they are also beneficial to the environment. We're proud of the progress we have made in this area. Additionally, as you may be aware, electric generation owned by Indiana Electric comprises approximately 3% of our fixed assets. Between 2005 and 2018, Indiana Electric has made significant progress to reduce greenhouse gas emissions by approximately 20%.

We were also one of the first utilities to implement advanced metering system automation across our Houston Electric footprint, reducing truck rolls and avoiding more than 17,000 tons of greenhouse gas emissions since 2009. Additionally, Energy Services has been purchasing green gas, also known as renewable natural gas for more than 10 years, while the amount purchased each year is relatively small, the demand for green gas continues to grow.

Let me close by saying that I'm pleased with our performance in the second quarter and despite a challenging first quarter, we have taken steps to achieve our financial objectives. I remain confident in CenterPoint's long-term value proposition and the continued near term focus areas to achieve our goals. I look forward to continuing to provide updates on our merger progress and delivering on the financial goals we set forth.

Now let me turn to Xia, for the financial update. Xia?

Xia Liu {BIO 6764768 <GO>}

Thank you, Scott, and good morning everyone. I'd like to begin my comments with some good quick thoughts on my first 90 days. Since joining the company, I have spent valuable time immersing myself into CenterPoint's businesses and strategy. I must say today as a regulated utility serving growing jurisdictions, CenterPoint offers a compelling long-term value proposition. I'm excited about the future of CenterPoint and I look forward to continuing to work alongside Scott to help lead the company forward.

Turning to Slide 14, our utility businesses performed well in the second quarter. Houston Electric added nearly 43,000 customers year-over-year, which equates to approximately 1.7% growth. Our natural gas distribution business added more than 48,000 customers year-over-year in legacy jurisdictions, which equates to approximately 1.4% growth. As a result of closing the merger in February this year, we added more than 145,000 electric customers in Indiana and nearly 1.1 million customers in our natural gas distribution business.

Our natural gas distribution business is now the nation's second-largest gas utility by customer count. As Scott discussed earlier, one of our near term focus areas is continued O&M expense management to achieve operational efficiency. Earlier this year, we highlighted the importance of this effort and took steps to control costs and realized merger savings while safely operating our business. This discipline has resulted in a positive variance in the second quarter.

We expect this O&M discipline will continue within each of our functions and businesses. We will remain steadfast and laser focused in delivering our merger related savings. Another focus area is to strengthen utility infrastructure to provide long-term customer value. In terms of capital expenditures, we anticipate an increase of system modernization investment for Houston Electric and an increase in pipeline replacement work for our natural gas distribution businesses over the next couple of years.

Despite the anticipated delay of some capital at Indiana Electric beyond the 2023 timeframe, we continue to expect the overall amount of capital for the 2019-2023 period, will be maintained at the levels we provided in our last 10-K. Consistent with our past practice, we plan to provide a comprehensive update on our capital investment program on the fourth quarter earnings call.

I will now turn to the consolidated quarter-over-quarter guidance based EPS drivers on Slide 15. Excluding merger impact for the quarter, we delivered \$0.35 per diluted share and guidance basis compared to \$0.30 for the same quarter last year. I would like to highlight three areas that contributed to our utilities strong performance.

First, operating income of the newly acquired Vectren utility added \$0.08 for the quarter. Second, rate relief provide a positive impact of \$0.04, mainly attributable to the transmission cost of service filing for Houston Electric and the Texas Gas Reliability Infrastructure Program filings for natural gas distribution. Lastly, O&M provided a positive variance of \$0.02. Overall, we are very pleased with the utilities performance for the quarter.

Next, turning to Slide 16, I will provide some details of the operating income for CenterPoint Energy Services and Infrastructure Services. For Energy Services, lower gas prices and lack of price volatility we experienced in the first quarter continued into the second quarter, price volatility we experienced this year has been more limited than any of the prior three years. This was the primary driver for the \$8 million unfavorable variance quarter-over-quarter excluding mark-to-market impact.

We have revised our forecast for the remainder of 2019 to reflect estimated gas sales margins consistent with those are earned through the first six months and to reflect reduced expectations of weather-driven storage activity relative to 2018. We're now estimating total operating income for the year of \$35 million to \$45 million excluding mark-to-market impact.

Our Infrastructure Services business performed well in the second quarter, achieving operating income of \$31 million excluding merger-related expenses. For reference, the business' second quarter operating income in 2018 was \$28 million as part of Vectren, excluding merger related impacts the full-year operating income is expected to be \$84 million to \$94 million, excluding the \$10 million operating loss in January as part of Vectren.

We anticipate that full-year results will be driven by both transmission and distribution work as we continue to work with a stable core group of customers in our footprint. We look forward to continued strong performance from Infrastructure Services for the remainder of the year.

Turning to Slide 17, you will see a breakdown of consolidated diluted EPS on a guidance basis and performance expectations for the remainder of 2019. On a guidance basis and excluding merger impacts year-to-date through June 30th, we have delivered \$0.81 per diluted share, \$0.04 lower compared to the same period last year.

Excluding weather and potential other variability as noted on this slide, we expect to deliver \$0.84 per diluted share in the second half of the year, which translates into full year guidance basis EPS of \$1.65, the midpoint of our guidance range. This represents a \$0.09 increase compared to the second half of 2018. For the year, operating income for our utility operations is expected to be \$0.62 higher than 2018, driven by rate relief, customer growth, O&M management as well as newly acquired jurisdictions.

Operating income from Energy Services and Infrastructure Services are expected to be \$0.14 higher than last year, primarily driven by \$0.18 from the newly acquired infrastructure services, offset by a \$0.04 decrease from Energy Services. We expect earnings from midstream investments to be \$0.06 short of the performance from last year, reflecting the lower end of Enable's earnings guidance for the year and the \$0.02 dilution loss we recorded in the first quarter.

The remaining \$0.65 variance is mainly driven by merger financing impacts post February 1st and interest associated with debt acquired in the merger, partially offset by lower income tax expense. For the full year, we anticipate roughly 75% of earnings to be from our utilities.

We are reaffirming the 2019 guidance basis EPS range of \$1.60 to \$1.70 and continue to target a 5% to 7% EPS growth CAGR through 2023 as shown on Slide 18. In terms of 2020, let me remind you that our business fundamentals are strong and our key drivers for earnings growth continue to be strong rate-base growth from increased capital investment in our utility, steady utility customer growth, execution of our regulatory strategy and rate relief as well as a full-year contribution from the Vectren utility. As you know, we anticipate more clarity on the Houston Electric rate case and Enable's 2020 and earnings guidance later this year as well as technology systems integration costs. We're beginning our normal planning process for the forward year EPS forecast, which will incorporate these factors and culminate in our providing the 2020 EPS forecast on the fourth quarter earnings call.

Before I conclude, I'd like to remind everyone of CenterPoint's commitment to solid investment grade credit quality. Our focus on improving credit quality is essential to providing long-term value to our customers and shareholders. Let me also remind everyone of our recently declared dividend of \$28.75 per share of common stock. This is approximately a 4% increase relative to a year ago and consistent with our 4% annual increases in dividends over the last several years.

To summarize, we had a strong quarter and are well on our way to achieve our 2019 guidance basis EPS range of \$1.60 to \$1.70. We intend to hold our investment in Enable, to help fund a robust capital plan for our combined utility. Finally, we continue to target a 5% to 7% EPS growth CAGR, based largely on anticipated utility growth.

CenterPoint is a strong geographically diverse company with a sound value proposition. We're well positioned operationally and strategically to deliver for our customers and provide financial

growth to enhance shareholder value.

I'll now turn it back to David.

David Mordy {BIO 20391499 <GO>}

Thank you, Xia. We will now open the call to questions. In the interest of time, I will ask you to limit yourself to one question and a follow-up. Catherine?

Questions And Answers

Operator

Yes, sir. At this time, we will begin taking questions. (Operator Instructions) Our first question comes from the line of Insoo Kim with Goldman Sachs.

Q - Insoo Kim {BIO 19660313 <GO>}

Good morning. Thank you. Maybe just starting write-off about, with the 2020 guidance appreciating all the different levers and drivers that you'll need to go through to provide us with an update. But as of today, just given the prior guidance that was in place with a midpoint of 182, at least on the regulated side, are you able to confirm that the regulated growth that you had embedded previously is still intact for 2020?

A - Scott M. Prochazka {BIO 17360314 <GO>}

Insoo, good morning. This is Scott. As we said earlier, we're going to go through the whole exercise of updating our guidance through the process of planning, but as Xia pointed out, we are continuing to invest in our utilities and the utilities get their growth through investment and then subsequent recovery. So the growth potential for our utilities is still very, very much intact. But we're going to provide more clarity on exactly what that looks like as we complete this planning process.

Q - Insoo Kim {BIO 19660313 <GO>}

Understood. I guess, understanding that Enable or other non-regulated businesses, there may be more volatility associated with it, but I just didn't know if there were developments on the regulatory -- on the regulated side, since a few months ago that has made any changes to your - to your assumptions?

A - Scott M. Prochazka {BIO 17360314 <GO>}

No. That's not. We haven't -- As we've said, we have gone through the process. But as we sit here today, we still have the same issues and levers and opportunities facing that business as we did before.

Q - Insoo Kim {BIO 19660313 <GO>}

Understood. And thank you for the slide on all the cash contributions coming from the various non-reg businesses, just when you look out into the capital plan over the next few years, is there an updated thought on the first time you may need more meaningful equity?

A - Xia Liu {BIO 6764768 <GO>}

Insoo, like Scott pointed out the capital program for the utility, we think for 2019 to 2023 will be consistent with what we disclosed before at our last 10-K, the timing of the -- the capital like Scott pointed out could move around within this 5-year window. So in terms of the 5-year equity issuance, we are not expecting a change at this time. The timing of it may be a slightly different.

Q - Insoo Kim {BIO 19660313 <GO>}

Understood. Thank you very much.

A - Scott M. Prochazka {BIO 17360314 <GO>}

Thank you, sir.

Operator

Your next question comes from the line of Christopher Turnure with JPMorgan.

Q - Christopher Turnure {BIO 17426636 <GO>}

Good morning, guys. One follow-up on the last question about 2020 guidance and the decision to maybe not reiterate that, you did reiterate the 5% to 7% growth off the 2018 base and the bottom end of that is a \$1.76, so that would be kind of in line with your prior bottom end. I just wanted to make sure that your message is clear on that 5% to 7% growth rate over the long term, at least.

A - Scott M. Prochazka {BIO 17360314 <GO>}

That is -- that is still very clear. Yes. Still very much intact.

Q - Christopher Turnure {BIO 17426636 <GO>}

Okay. And then the decision to take the Enable sale off the table, I think is -- it's pretty clear and you articulated the rationale behind that in the comments, but maybe you could give us more detail on the timing choice as to why the decision was made yesterday and the idea that Enable is one of many businesses you have that are non-utility, how do you think about the rest of the businesses and their contribution to the portfolio, cash, or business risk and otherwise.

A - Scott M. Prochazka {BIO 17360314 <GO>}

So from a timing standpoint, it's simply the result of us having completed an evaluation of our thinking about that ownership and it just culminated following some discussions with our Board and we chose Monday to disclose that following those discussions with our Board. So that's the only -- the only thing that went into the timing and it was really driven by, as I said earlier, the post merger environment given where we sit today with our capital requirements, given what Enable has done to de-risk their business observing the consistency of the cash flows, and of course as we know the markets aren't really constructive for unit sales, so it all fell together for us to make this change and communicate the value of the cash flow that Enable brings to our -- to our capital needs.

I think your second -- remind me of your second question, if you would.

Q - Christopher Turnure {BIO 17426636 <GO>}

Maybe just kind of the broader picture with the contribution of the other non-regulated businesses to the company cash flow and business risk, how you think about them?

A - Scott M. Prochazka {BIO 17360314 <GO>}

So we look at them as a source of cash. As Xia noted earlier, their EBITDA exceeds their capital requirements. So we look at them as a source of cash for funding. There is more risk in those businesses certainly than the utilities. But we look to operate those in a way where we can mitigate those risks. We do see the value there being the cash.

Q - Christopher Turnure {BIO 17426636 <GO>}

Okay. So I guess no change from prior in terms of those businesses being core to the company.

A - Scott M. Prochazka {BIO 17360314 <GO>}

We -- as I said earlier, we appreciate and enjoy realizing the cash that comes off of them, but we constantly have to challenge ourselves to think about ways each of our businesses can create more shareholder value. It's just part of our process and a great example is exactly what we did with our Enable evaluation and the decision we made around keeping those units.

Q - Christopher Turnure {BIO 17426636 <GO>}

Okay. And then just one clarification, kind of within this line of questioning, your prior or I guess current guidance still is that you don't need equity this year or next. Remind me if selling Enable shares was part of that or selling Enable shares was part of your funding plan over the long-term kind of discreetly.

A - Xia Liu {BIO 6764768 <GO>}

Yeah. Selling Enable units was definitely a part of -- in the mix and that's why we were actively out there saying that, that was one of the strategic options for us. So now we've made a decision to keep Enable and the Midstream investment. So as I've said before, I think the equity needs will be driven by -- primarily by the timing of capital. As example, for the five-year

window between 2019 and 2023, if we see Houston Electric or the natural gas utilities needing more capital, more front-ended that potentially could advance the equity issuance, but because the total capital we -- right now what we know today is not projected to be different for the five-year window. I think from an overall standpoint, the timing of the equity could be different, but the overall five-year impact should be the same or similar.

Q - Christopher Turnure {BIO 17426636 <GO>}

Okay. That's clear. And from that in the current plans that you have, there is no equity needs in '19 or '20.

A - Xia Liu {BIO 6764768 <GO>}

Unless we -- as I said before, unless we realize -- we are in the process of updating the details of the capital needs. Unless Houston Electric finds additional capital needs that we would need to found it sooner than before, then we might consider turning on DRIP or other options in the near term, but we don't know that yet. We're going through the planning process right now.

Q - Christopher Turnure {BIO 17426636 <GO>}

Okay. That's clear. Thank you for the clarifications.

Operator

Your next question comes from the line of Ali Agha with SunTrust.

Q - Ali Agha {BIO 1509168 <GO>}

Thank you. Good morning.

A - Scott M. Prochazka {BIO 17360314 <GO>}

Good morning, Ali.

Q - Ali Agha {BIO 1509168 <GO>}

Good Morning. First question, just looking at the current year. Scott or Xia, as you point out you've changed again, your Energy Services expectations now and rather than it being flat, it will be down about \$0.04 year-over-year. Can you highlight or remind us what is the offset to that \$0.04 hit that keeps you in your range for this year?

A - Xia Liu {BIO 6764768 <GO>}

Absolutely. You see on our EPS walk for the year 2019, we expect \$0.62 from our utility, \$0.62 increase compared to the same period -- to 2018. So in other words, our utilities, we expect the utility to offset the CES, we also have some favorable income tax expense items. So we are maintaining the midpoint of \$1.65 despite of the \$0.04 decrease expected from CES.

Q - Ali Agha {BIO 1509168 <GO>}

So just to clarify that Xia, so are you saying that the tax benefit perhaps was not factored into your previous budget or that the utilities are going to do better than what you were anticipating. I'm just trying to reconcile how (multiple speakers)

A - Xia Liu {BIO 6764768 <GO>}

Yeah -- so if you look at the second quarter, so quarter 2019 versus second quarter 2018, we had \$0.05 of positive variance and that's comprised of that our utility performance and a little bit higher income tax, favorable income tax, so that was not planned. But some of the tax items that you were aware of that we recorded last year, we did plan those. So there are some positive income tax variances that we didn't plan.

Q - Ali Agha {BIO 1509168 <GO>}

I see. And my second question again a clarification. Again, Xia, you walked through some of the drivers that will influence the 2020 outlook Houston Electric rate case, some costs, et cetera. So in summary, just to benchmark it for all of us, is there a -- pressure is to probably put a little downward headwind to the 2020 that you were looking at a few months ago, or does it not changed that, does it move with slightly higher, can you just calibrate this so we have a better sense of framework of how 2020 is shaping up today versus last quarter?

A - Xia Liu {BIO 6764768 <GO>}

We are not ready to comment on the 2020. We're going through the normal planning process. We want to build a bottom-up plan that incorporates all the newly acquired jurisdictions to really go through a disciplined process to give you a clear picture about 2020. So we need time to do that. As Scott iterated just now, we do expect strong utility capital investment program, we do have -- we're laser focused on O&M management. So the business fundamentals are still the same, but we need to go through the process. We need to hear Enable's 2020 guidance and all of that is to lead us to want to take a pause and really, let's say normal process do its work and give you a guidance on the fourth quarter call.

Q - Ali Agha {BIO 1509168 <GO>}

Right. And just to clarify that, again, is there anything you heard or seen at Enable today that is looking different than what you were assuming when you laid the 2020 guidance out for us originally?

A - Xia Liu {BIO 6764768 <GO>}

We're not comment on Enable. The one thing you didn't -- you didn't know is we took the lower end of the guidance range to develop our 2019 EPS walk.

Q - Ali Agha {BIO 1509168 <GO>}

Right. Thank you.

Operator

Your next question comes from the line of Julien Dumoulin-Smith from Bank of America.

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

Hey. Good morning, team. (multiple speakers).

A - Scott M. Prochazka {BIO 17360314 <GO>}

Good morning, Julien.

A - Xia Liu {BIO 6764768 <GO>}

Good morning.

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

And so -- good morning. So a lot of little cleanup items here from the last two questions. Maybe just kicking things up, can you just affirm you have obviously put the 5-year CAGR out there, once more. Can you kind of give us a sense -- is the individual each year throughout that 5-year is still intact, maybe this is another way to reconcile the '20 guidance.

A - Scott M. Prochazka {BIO 17360314 <GO>}

Julien, I think you were breaking up a little bit there, but could you just restate your question?

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

Is the 5-year CAGR, do you think about each of the individual years implied from that compounding growth factor still intact with respect to each of the individual discrete years?

A - Scott M. Prochazka {BIO 17360314 <GO>}

Well, Julien, probably the best way to answer this is when we're looking at the 5-year plan, the focus is on the effects of investment over a longer period of time, getting out to the end, what the actual impacts are for a given year and in particular, as we think about 2020 is going to really become clear as we complete this planning process. So while we've got confidence in our CAGR, I would say that what we -- what this planning process needs to do is really zero-in on what our 2020 number looks like as we build it up from a combined company perspective as opposed to the way we had been building it up, which was based on a prior plan and making adjustments to the prior plan.

So it's -- I don't want to get out in front of my answer on 2020. But I do know -- I can tell you that as we think about the performance of our business on an annual basis, it's still very much driven

very heavily by the investments we make in our utilities and the recovery of those investments.

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

Got it. Excellent. And then following up here on the CapEx, you talked about, remaining impact with respect to the 10-K from 2018, does that assume no Vectren electric generation spend through '23, you obviously caveat that the timing might be post 2023 and then separately, we understand coal ash is perhaps a relevant factor here in the state as well. I suppose, with respect to both generation, and coal ash, if there is indeed the RFP executed according to plan, could we see either of those items put back and would that be incremental to the 10-K at that point?

A - Xia Liu {BIO 6764768 <GO>}

We are assuming -- we are not -- we don't want to get ahead of the process, the IRP process. The team is working very hard on the ground to work with the stakeholders for solutions. But we would expect some spending through 2023 related to the IRP. It probably would not be to the amount that we originally shared with you, but we also know that the pipeline replacement program requires additional capital. We also know that the system modernization program at CEHE requires more capital. So I would say that overall -- from an overall standpoint, you would look at the 5-year as is, it will be very similar from what you had before.

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

And then quickly on the utility side, what are the prospects for settlement at this point given where we stand in the case especially turning into September?

A - Scott M. Prochazka {BIO 17360314 <GO>}

Julien, there is always an opportunity for settlement in these cases. I would say at the moment that conversations are being had, but they're not overly active, so we'll still have time between now and when the commission meets to pursue one. I don't know how to handicap it, I can't say that settlements have occurred in the state before, but there are also many cases where the rate case has actually gone to the Commission for decision. So tough to handicap this one, but I don't want to say that settlement is off the table.

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

Got it. Great. And sorry last quick clarification, integrating the technology systems, that's a different set of assumptions in the synergy assumptions you initially articulated and I think we reiterated today of \$75 million to \$100 million?

A - Scott M. Prochazka {BIO 17360314 <GO>}

Yeah. The systems that we talked about the systems integration work is more in line of the cost to achieve dollars, that would be spent. So those are what I'll say cost to achieve dollars and they are not going to impact the \$75 million to \$100 million of savings that we have planned for 2020.

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

Okay. Fair enough. There are net against that rather, at least for '20.

A - Scott M. Prochazka {BIO 17360314 <GO>}

What do you mean by a net against?

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

The reduction to the synergy savings that you've targeted.

A - Scott M. Prochazka {BIO 17360314 <GO>}

To the extent that there is cost to achieve dollar spent in 2020 that would obviously come out of our financials, if that's what you're asking.

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

Yeah. Okay. Fair enough. I'll leave it there. Thank you, guys.

A - Scott M. Prochazka {BIO 17360314 <GO>}

Okay.

Operator

Your next question comes from Michael Weinstein with Credit Suisse.

Q - Michael Weinstein {BIO 19894768 <GO>}

Hi, guys.

A - Scott M. Prochazka {BIO 17360314 <GO>}

Michael, good morning.

Q - Michael Weinstein {BIO 19894768 <GO>}

Hi. Good morning. A lot of questions have been answered, but on system integration costs, would you say that those are weighted in any kind of way between 2019 and 2020, is it more -- or is it evenly spread over the 2 years?

A - Xia Liu {BIO 6764768 <GO>}

We're in the process of finalizing the estimate on the integration costs. I think we have a appendix slide in the earnings deck that we describe the details of the year to date spend and the year-to-date roughly we have spent \$150 million and so we will continue to expect a similar range we previously disclosed with you, the timing of it, depending on the system integration costs estimation process could be slightly different from prior. But the total amount should be relatively the same, very similar.

Q - Michael Weinstein {BIO 19894768 <GO>}

And I'm just trying to get a sense of how the timing might be changing and whether that's a significant source of uncertainty in the 2020 number that caused you to pull the guidance from for that year?

A - Xia Liu {BIO 6764768 <GO>}

It wasn't -- I think we wanted to go through -- again, go through the rigorous process to build up the plan and to have visibility about the variability, the factors we described. One thing we are thinking about is if the integration process goes beyond 2020, how should we treat the cost to achieve and within our outside of the guidance range.

Q - Michael Weinstein {BIO 19894768 <GO>}

Well, currently it's inside the guidance range, right? It's actually included.

A - Xia Liu {BIO 6764768 <GO>}

Currently, yes.

Q - Michael Weinstein {BIO 19894768 <GO>}

All right. So I mean factoring my question would be whether it might be more appropriate to exclude them, but I mean if they do continue past 2020, then you might consider including them, I guess, but they're already being included.

A - Xia Liu {BIO 6764768 <GO>}

Yeah. I think you said it very well. If they do past 2020, the likelihood is that we would exclude it from guidance going forward.

Q - Michael Weinstein {BIO 19894768 <GO>}

I see. So longer they last, the more likely you might be to exclude it, and that would include 2020 as well?

A - Xia Liu {BIO 6764768 <GO>}

Correct.

Q - Michael Weinstein {BIO 19894768 <GO>}

I see. Okay. Thank you very much.

Operator

Your next question comes from the line of Greg Gordon with Evercore.

Q - Greg Gordon {BIO 1506687 <GO>}

Thanks. Good morning, everyone.

A - Scott M. Prochazka {BIO 17360314 <GO>}

Good morning, Greg.

Q - Greg Gordon {BIO 1506687 <GO>}

Yeah. I think the full waterfront of questions has been asked, I do have one sort of incremental one though with regard to as you're thinking about tightening up your and reissuing your guidance range for 2020 amongst the other things that you're trying to batten down the hatches on, is one of them that sort of, there has been a little bit of a moving target with regard cash flow and financing needs as it pertains to Enable and the underlying as you pointed out earlier, Scott, just higher level of volatility in the unregulated suite of business, notwithstanding the fact they're a small piece of the overall company, but is the denominator, not just the numerator part of the sort of the re-stacking of the guidance and that you have to make sure you've got your financing sources and uses tightened down.

A - Xia Liu {BIO 6764768 <GO>}

Absolutely. That's definitely a part of the equation.

Q - Greg Gordon {BIO 1506687 <GO>}

Okay. Thank you. Have a great day.

A - Xia Liu {BIO 6764768 <GO>}

Yeah.

Operator

Your next question comes from the line of Ashar Khan with Verition.

Q - Ashar Khan {BIO 19979997 <GO>}

Hi. Good morning. I just wanted to check some remarks that you made. So in the second quarter in slide 15 in the other section, you have \$0.04 of reduced income tax expense. Are you saying that's likely not to repeat itself, as we build next year in 2020. So that's something that is one-time in nature for this year and it's not repeatable for next year.

A - Xia Liu {BIO 6764768 <GO>}

Correct.

Q - Ashar Khan {BIO 19979997 <GO>}

Okay. So that is if --

A - Xia Liu {BIO 6764768 <GO>}

When I say correct, the positive variance this year we experienced was driven by some state law change related to state income tax. So the state law change will stay -- We expect the law to stay the same in 2020. So you wouldn't see another positive variance. It doesn't mean that the tax rate will go up next year. So I want to make sure I'm not misleading you when I say, it's a one-time. Does that make sense?

Q - Ashar Khan {BIO 19979997 <GO>}

Okay. It makes sense. But so it's like -- it's a permanent change, so it remains there going forward period. Correct?

A - Xia Liu {BIO 6764768 <GO>}

Yes.

Q - Ashar Khan {BIO 19979997 <GO>}

Okay. I just wanted to kind of like clarify. And then, Enable said that they're going to take the write-off, I guess in the fourth quarter, right? So then the lower Enable's guidance that you have for the second half, is that primarily in the fourth quarter, as we look into the third and fourth quarter?

A - Xia Liu {BIO 6764768 <GO>}

I don't have the quarterly breakdown, it's projected to be for the year, \$0.06, you know year-to-date and they are positive to, so for the second half of the year, we have \$0.08 downside compared to the same period of last year. For the full year, it's \$0.06 down.

Q - Ashar Khan {BIO 19979997 <GO>}

Okay. Okay. Thank you so much.

Operator

Your next question comes from the line of Paul Patterson with Glenrock Associates.

Q - Paul Patterson {BIO 1821718 <GO>}

Hey, how are you guys doing?

A - Scott M. Prochazka {BIO 17360314 <GO>}

Good morning, Paul.

Q - Paul Patterson {BIO 1821718 <GO>}

Just wanted to follow up on Enable a little bit. You mentioned the sort of the enhancements that you see in terms of its de-risking and its increase in the distributions everything but what sort of is left out is sort of the valuation, which as you know, it's gone down a bit and I'm just sort of wondering if you could elaborate a little bit more on sort of how you guys look at Enable through longer-term here and how the actual -- the valuation of the company has in any way influenced it or the ability to actually getting out of it and what have you. Just how should we think about that?

A - Scott M. Prochazka {BIO 17360314 <GO>}

So just a couple of thoughts. One, clearly the valuation issues that the sector is seeing is a factor in terms of the ability to sell those units without incredible tax leakage and therefore a very non-value creating transaction for shareholders. So the market clearly has made the idea of selling something more challenging, but the fundamental issue for us was just one around given where Enable sits today and its financial health and how they've de-risked their business, their ability to continue to provide cash to us that we use for investment, we feel better about today perhaps than we did years ago. So with their change in their coverage ratios and with their some of the shifts in their contracting and some things that they've done to de-risk their business and knowing that they made it through the more severe downturn years ago without having to cut distributions, we see the real value of Enable being as a source of cash for our capital needs?

Q - Paul Patterson {BIO 1821718 <GO>}

Okay. So we shouldn't think about perhaps that changing much even if there is a significant change in valuation. Is that correct? Obviously there is, at some point, you guys will sell anything, I assume, but just -- but outside of that sort of a huge change we really shouldn't think of you guys making much of a change in your own, is that correct?

A - Scott M. Prochazka {BIO 17360314 <GO>}

That is correct. We went through a -- we went through an analysis, we spent time as management team, certainly with our Board around our position on this and have arrived at the

conclusion that we believe it's more valuable now to keep and utilize the cash flows than it is to sell.

Q - Paul Patterson {BIO 1821718 <GO>}

Okay. And then just on the Vectren legacy, non-reg stuff or yeah non-reg stuff, how should we think about what your experience has been so far in those businesses, your ability to integrate them and what have you and what's your outlook for them is, is it the same as it was during when you guys announced the merger and just, you guys have had more time to sort of kick the tires here and what have you -- any thoughts about how the composition of that might change or just how the performance of that the outlook for that going forward?

A - Scott M. Prochazka {BIO 17360314 <GO>}

Yeah. Our view on the business hasn't really changed. We've got a good quality management team that came over with the acquisition, the management team over there knows this business well and operates it extremely well. They have, as you've noted, increased their business. So their business performance this year is anticipated to be better than last year and that's as a result of expanding both their distribution business and some of their transmission business continue to see strong demand for that type of work out in the market. So as we sit here today, we see that as a business that has good fundamentals to keep -- to keep driving its performance.

Q - Paul Patterson {BIO 1821718 <GO>}

Okay. Great. Thanks so much. My other questions were answered. Thank you.

A - Scott M. Prochazka {BIO 17360314 <GO>}

Okay. Thank you.

Operator

(Operator Instructions) Your next question comes from the line of Charles Fishman with Morningstar.

Q - Charles Fishman {BIO 4772353 <GO>}

Good morning. Slide 14. So you're -- the three bullet points at the bottom, you're taking CapEx from Indiana Electric and I would assume most of that would have been subject to a traditional rate base, you're pushing it to natural gas distribution pipe replacement and grid mod at Houston Electric, a lot of that is covered by rate track or at least more regularly scheduled type rate adjustments without going through a full-blown rate case. I would think on that CapEx piece, that piece you should have some pretty good clarity. Am I correct or am I missing something?

A - Scott M. Prochazka {BIO 17360314 <GO>}

Clarity with respect to the additional dollar amount or clarity with respect to how we would recover the investments?

Q - Charles Fishman {BIO 4772353 <GO>}

Recover the investment in earnings power?

A - Scott M. Prochazka {BIO 17360314 <GO>}

You are correct. We do have clarity on that. That's right.

Q - Charles Fishman {BIO 4772353 <GO>}

Okay. So then another question on Slide 14, you list the customer growth for Houston Electric, customer growth for natural gas distribution. Do you have some stat, what kind of customer growth you're experiencing at Indiana Electric going back a year ago when Vectren owned it?

A - Xia Liu {BIO 6764768 <GO>}

They stay pretty flat, but is a very small portion of our total customer accounts, it accounts for 145,000 customers for the entire Indiana Electric.

Q - Charles Fishman {BIO 4772353 <GO>}

Okay. So it's just really not moving the needle, whether it's growing or not. I got it.

A - Scott M. Prochazka {BIO 17360314 <GO>}

That's correct. Yeah.

Q - Charles Fishman {BIO 4772353 <GO>}

Got it. Okay. That's all I had. Thank you.

A - Scott M. Prochazka {BIO 17360314 <GO>}

Thank you.

Operator

And there are no further questions at this time.

A - Scott M. Prochazka {BIO 17360314 <GO>}

Thank you, everyone for your interest in CenterPoint Energy. We will now conclude our second quarter 2019 earnings call. Have a great day.

Operator

This concludes CenterPoint Energy's second quarter 2019 earnings conference call. Thank you for your participation.

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