

Q3 2020 Earnings Call

Company Participants

- David J. Lesar, President & Chief Executive Officer
- David Mordy, Director, Investor Relations
- Jason P. Wells, Executive Vice President & Chief Financial Officer
- Thomas Webb, Senior Advisor

Other Participants

- Anthony Crowdell, Analyst, Mizuho Securities
- Durgesh Chopra, Analyst, Evercore ISI
- Insoo Kim, Analyst, Goldman Sachs
- Jeremy Tonet, Analyst, J.P. Morgan
- Julien Dumoulin-Smith, Analyst, Bank of America Securities
- Michael Weinstein, Analyst, Credit Suisse
- Shar Pourreza, Analyst, Guggenheim Securities
- Steve Fleishman, Analyst, Wolfe Research

Presentation

Operator

Good morning, and welcome to CenterPoint Energy's Third Quarter 2020 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, and good morning, everyone. Welcome to our third quarter 2020 earnings conference call. Dave Lesar, CEO; and Jason Wells, CFO, will discuss our third quarter 2020 results and provide highlights on our strategy. 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 result could differ materially based upon various factors, including weather, regulatory actions, the economy and unemployment, commodity prices and the impact of COVID-19 pandemic and other risk factors noted in our SEC filings.

We undertake no obligation to revise or update publicly any forward-looking statement for any reason. We will also discuss guidance for 2020 in two components. In providing this guidance, CenterPoint Energy uses a non-GAAP measure of adjusted diluted earnings per share. In summary, our guidance basis Utility EPS range includes net income from our Utility segment as well as after-tax corporate and other operating income.

This guidance range considers operations performance to-date and assumptions for certain significant variables that may impact earnings as noted in our earnings release. The range reflects dilution and earnings as if the Series C preferred stock were issued as common stock and incorporates anticipated COVID-19 impacts.

Finally, the guidance basis Utility EPS range assumes an allocation of corporate overhead based upon its relative earnings contribution. Our guidance basis Utility EPS excludes the Midstream Investment to EPS range, results related to our recent divestitures, and costs and impairment resulting from the sale of these businesses, certain expenses associated with the merger, integration and Business Review and Evaluation Committee activities, severance costs, earnings or losses from the change in the value of ZENS and related securities and changes in accounting standards.

In addition to these exclusions, CenterPoint Energy's guidance does not consider unusual items, which could have a material impact on GAAP reported result for the applicable guidance period. We also provide guidance for Midstream Investments, which takes into account among other things, the outlook provided by Enable on their earnings call. For further information on our guidance methodology and a reconciliation of the non-GAAP measures used in providing earnings guidance during today's call, please refer to our earnings news release and our slides, which can be found under the Investors section on our website.

As a reminder, we may use our website to announce material information. Before Dave 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. Dave?

David J. Lesar {BIO 1519300 <GO>}

Thank you, Dave, and good morning. Since we last talked 90 days ago, it has been a very busy time for both me and CenterPoint. These are exciting times for us, I'm even more optimistic about where we can take this great company in the future than I was 90 days ago. I want to share with you why I'm so optimistic.

Today, I will also bring you up to date on where we are on our BREC recommendations but first, I want to discuss some of my general observations on the last 90 days. To start, we now have a newly energized leadership team made up of a great combination of experienced CenterPoint executives and external hires. Our management team is now more diverse and bring significantly higher level of utility experience to the table. The team is eager to embark on our new strategy, where we can take advantage of industry-leading organic customer growth. We also have greater opportunities to invest more in growing our current rate base.

We have all the right pieces to deliver what our investors and our customers want and expect from premium utilities. Throughout the many challenges CenterPoint has had during 2020, our

employees have always stepped up. I especially want to thank our frontline crews for going into the field and providing reliable service to our millions of customers every single day. They have done an excellent job in helping the neighboring utilities get back up to speed after multiple storms. During the last quarter, we sent CenterPoint mutual assistant crews as far away as New York, Georgia and Florida and of course to Louisiana, where I spent some time with them as they worked in difficult conditions to restore power in hard hit Lake Charles. I am impressed with their dedication to both customers and to maintaining a safe working environment and I'm very proud of them.

Our performance this quarter puts us right where we want to be in terms of delivering within our newly increased 2020 Utility guidance range, which we highlighted in our press release this morning. Our focus going forward will be on consistently providing improved utility-driven earnings and you're going to hear a lot about that today and how we're going to execute and make that happen.

In this quarter, I also focused on enhancing our management team. We had several new additions to an already strong performing management team. I am thrilled to have Jason Wells on our team. Jason is well known to you and brings a sharp intellect, deep industry knowledge and a firm commitment to success. Jason has really hit the ground running and has been heavily involved with me in finalizing the BREC recommendations and our new strategy.

I also brought Tom Webb on board as Senior Advisor to CenterPoint. Not only is Tom helping us accelerate our implementation of proven utility value drivers, but he is also critical in identifying Jason as our new CFO. With his vast experience in the industry, he has also been instrumental in helping us set CenterPoint on a path to focus on and execute a continuous improvement program not only as a day-to-day mindset but also as an ongoing discipline. In addition, we brought in Greg Knight to join the team. Greg joined us from National Grid and he has a proven history of driving excellent customer service.

Our company also needs to learn to deal better with adversity. I strongly believe a first rate management team deals with whatever challenges it confronts and effectively manages through them. No matter if it's COVID, the weather or any other challenge, our organization must learn to confront and overcome any headwinds. In the future, whatever impact these items may have on our business, we will work our way through them like any good management team would and deliver consistent results and our team has truly embraced that mentality.

Now, let's move on to the update I suspect you are most eager to hear about. As you know, we concluded the Business Review and Evaluation Committee work in October and provided recommendations to the entire CenterPoint Board. We had a requirement to hold an analyst day by the end of Q1 2021, but I did not believe it was fair to shareholders to have you wait until then to hear the outcome of this effort. Therefore, I have accelerated the timing of our Investor Day to December 7th, just a few short weeks from now.

We, of course, are clearly eager to introduce our new strategy to you. And while our Investor Day will be full of details on our strategy, I believe it is only right to share with you some of our conclusions this morning. First, increasing capital investment. The most positive and striking outcome from the BREC review is that we are absolutely flush with incremental capital spending

opportunities, way, way beyond our prior stated plans. Apart from safety, our number one goal is, of course, to grow our premium regulated utilities and maximize the advantage of this growth for customers and shareholders. So organic growth opportunities are a great place to start this conversation.

One of the most exciting advantages we have at CenterPoint are the organic growth opportunities in our core regulated markets. Consistent organic growth is a luxury most utilities simply do not have. On a rolling 12-month basis, our organic customer growth across our electric utilities was 2.4%, including 33 years of consecutive growth in our Houston territory. This growth highlights what an unappreciated crown jewel we have in both our regulated electric and gas utilities in the Houston area.

As you will see, Houston Electric will be one of our main earnings drivers going forward. And even when you include all of our gas distribution utilities, our total company organic growth was over 2%. Now, that's pretty amazing, given the diversity of states where we currently operate in. And as you know, organic growth drives incremental demand, which drives the need for significant, incremental rate base investment and helps to keep customer rates lower.

During the BREC process, we did a complete ground up review of capital investment opportunities available to CenterPoint. I took the approach that we should look at all available capital investment opportunities without considering balance sheet constraints. Using this ground-up approach allowed us to determine how much we could increase capital spending on both, our base regulated business and these great organic growth opportunities. We found increased capital investment opportunities were driven not only by these organic growth opportunities, but the continuing need to harden our grid, take advantage of renewable opportunities and provide safe, reliable and greener energy for our customers.

The upshot is we will be able to increase our '21 to '25 capital investment plan by \$3 billion to \$16 billion. This \$3 billion increased spend is now expected to deliver rate base growth of approximately 10% per year. This 10% rate base growth will put us at or near the top of the entire utility industry. Think for a second or two about what \$3 billion more in capital spending and a 10% annual rate base growth will do for us. Well, I'll let you do the math for now. They will, of course, provide impressive future earnings growth power and we believe will push us towards the top end of our 5% to 7% guidance basis Utility EPS growth.

And that's not all, during the same '21 to '25 time frame, we've identified an additional \$1 billion-plus of capital spending opportunities on top of that incremental \$3 billion that we can use to even further increase our spend. We will begin to look at spending this additional \$1 billion once I am confident we have built up our internal resources to efficiently spend it. So at this point, these additional \$1 billion in capital spending opportunities are not even included in our stated 10% rate base growth plan.

Second, we're going to add renewables to our portfolio. It is critical that we take advantage of current opportunities to provide renewable energy for our customers. This includes aggressively pushing to build renewable generation outlined within our Indiana IRP, where we now plan on investing \$950 million in both wind and solar generation that we will own as a

company. This will have the added benefit of providing tax credits to CenterPoint, something that we have not had in the past.

We will also be advancing RNG and hydrogen renewables in Minnesota. We are also exploring building new transmission interconnects with renewable generation in other parts of Texas, but more importantly for us in the near-term are the renewable generation investment opportunities that are now being built in our Texas service territory. Jason will add more on these great opportunities in a few minutes and we will share even more details on these exciting additional renewable opportunities with you at our Investor Day.

Third, enhancing balance sheet optionality. I would like to share some of our conclusions on how we will finance the \$3 billion-plus in additional capital spending opportunities. First and to eliminate any initial anxiety you may have, I want to immediately emphasize that our plan does not require any block issuance of new equity nor require a reduction to our current earnings per share. To prime the pump on achieving this plan, we plan to sell one or two of our natural gas LDC utilities. Now, all of our gas LDCs are good assets in constructive regulatory environments and we hate to sell any of them, but a hard capital allocation decision needed to be made and I made it.

The LDC assets we plan to sell are well-positioned in the states they operate in and should be attractive to a wide range of buyers. These LDC sales will have the additional benefit of more heavily weighting our portfolio towards growing our regulated electrical utilities. I will not comment on which LDCs we plan to sell today, but we will share more details with you during our upcoming Investor Day.

We also value and understand the importance of our ongoing engagement with the rating agencies, an area where both Jason and Tom not only have significant experience, but excel. In summary, we expect to finance this increased capital spend with enhanced internal cash flow, restructuring our debt profile, LDC asset sales, a more efficient operating structure and a small amount of routine equity via such things as reinstituting our DRIP, which Jason will discuss in more detail.

Fourth, operations and maintenance cost discipline. Over my 20-year career as a CEO, I have worked in very competitive industries. Therefore, cost discipline has always been important to me. This year at CenterPoint, the cost discipline we have implemented has been vital to maintaining our profit guidance as we work through our many challenges. We are now quickly transforming this current year cost discipline mindset into a culture of continuous cost improvement. This is an area where Tom Webb has been invaluable in helping me to accelerate my thinking about how to get more value for less cost year-after-year. Now that's very doable at CenterPoint and after having been here only a few months, I believe that Tom fully agrees.

So going forward, we plan to deliver a 1% to 2% in O&M reductions every year. And once again, think about what that will do for our earnings profile as this effort will benefit not only our customers but our investors. The most critical part of delivering on these reductions is instituting that can-do culture across the entire organization, and I can tell you we will institute that cultural change at CenterPoint.

Fifth, Enable. As you can appreciate, I will only comment on Enable within our prepared remarks and we will not be addressing additional questions. We continue to evaluate Enable options. To do this effectively, we believe that was important to regain strong alignment with OG&E regarding our Enable interest. Investors may have noticed OG&E's appointment of Luke Corbett to the Enable Board, as well as recent commentary from OG&E that CenterPoint and OG&E are now well aligned in our desire to maximize the value of Enable. Luke has tremendous depth in Midstream experience and joined CenterPoint's two Enable representatives, Al Walker and Bob Gwin. Luke knows Al and Bob well and we believe these three will help Enable determine the best way to maximize stakeholder value.

Six, regulatory relationships. I have now personally met with all of our eight states regulators except for Minnesota where we have an open rate case. Now there has been a perception among investors that we do not have good regulatory relationships at CenterPoint. Nothing could be further from the truth. We operate in business-friendly states and have very strong relationships with our regulators. We enjoy rate mechanisms that greatly reduce regulatory lag, allowing us to efficiently recover on any investments we make.

I would also like to point out that despite the commonly held negative view, our results in the Houston Electric rate case earlier this year were in line or actually better than that received by peer utilities in Texas. Now, don't get me wrong, I'm not making excuses for the fact that we misread both the depth of our Texas regulatory relationships and the shifting regulatory realities in Texas. That is a fact. I do know that right now the relationship with the Texas Public Utility Commission is getting better as we have staffed up resources and I spend more time in Austin. Above all, Texas remains an excellent state for regulated investment as do our other premium utilities within the Central United States. It's also important to note that we are earning at or near our allowable returns in almost all of our jurisdictions.

Now, let me wrap up by saying that I will not be satisfied until we are recognized as a premium utility, one with high organic and rate base growth and a management team that is focused on delivering consistent quarter-over-quarter results, increasing stakeholder value and getting the most out of our assets and people. I look forward to seeing everyone on December 7th and on giving investors the chance to see our new management team in action.

With that, in a few minutes I will turn the call over to Jason Wells. Jason will provide additional details on results and delve further into our strategy and upcoming plans. But before we do that, Tom Webb would like to say a few words.

So like a blast from the past, here is Tom Webb.

Thomas Webb {BIO 1881788 <GO>}

Thank you, Dave, and my thanks to all of you on our call today. I'm delighted to be a part of CenterPoint as a Senior Advisor, although the title does make me feel a little older. From the day Dave and I met at my home in Michigan over a glass of wine, well, that's not a surprise to most of you, I was convinced that his leadership at CenterPoint would make a real difference.

My first assignment from Dave was clear, help find a world-class CFO to partner with us. I too am thrilled that Jason agreed to join. Dave's vast experience as a CEO and his drive to excel,

coupled with Jason's deep utility knowledge and skill is a perfect stunning match. Dave's assembled a world-class leadership team and established a clear, we'll make it happen plan. CenterPoint is fortunate to operate in one of the few strong growth markets in the U.S. The team is unlocking powerful CenterPoint strengths, it's impressive. Just two of these strengths include points Dave just mentioned, implementing \$3 billion of new investment and embracing continuous improvement to raise quality and reduce costs 1% to 2% every year.

As we all know, growing revenues and shrinking cost provide valuable customer rate headroom. Headroom to fund sector-leading CapEx growth, what a win-win for our customers and you, my old friends, our investors. I look forward to working with Dave and Jason, along with the management team on this journey, laser focused on delivering high-end EPS growth every year. We'll sweat the detail so you don't have to. This commitment to a premier utility business model is not new to me, anyone can do it, only premier utility teams do. CenterPoint is positioned now to become one of those admired premium companies.

Dave, thank you for allowing me to partner in a small way to deliver extraordinary performance for our customers and investors. I look forward to joining you and our great team at our Analyst Day on December 7. We'll share more insight into the emergence of CenterPoint, moving from legacy issues to consistent premium performance. Jason, it is a real pleasure to partner with you, so over to you.

Jason P. Wells {BIO 19168211 <GO>}

Thank you, Dave and Tom, and thank you to everyone for joining us for our third quarter earnings call. Before I cover the details of the quarter and share some thoughts on our approach to the business going forward, I want to express how excited I am to be part of the team here at CenterPoint. It was clear to me that the company was uniquely positioned to increase and maximize value for all of our stakeholders.

The ingredients are all here starting with premium utilities anchored by one of the fastest growing cities in our country an abundance of opportunities to deploy capital to improve our service, and a management team led by Dave who is absolutely committed to delivering results. And after six weeks on the ground, I can tell you I'm even more optimistic today about our future than I was when I started.

Now turning to Slide 4, I want to re-emphasize some of the key themes Dave just laid out. First, we had strong financial performance across our utilities during the third quarter and on a year-to-date basis, which is giving us confidence to raise the low end of our 2020 guidance range. Second, we now have confidence in our annual rate base growth of 10% for the next five years. And finally, that rate base growth provides a solid foundation for earnings per share growth at the high end of our 5% to 7% long-term guidance range.

For this quarter, our diluted earnings per share was \$0.13. Our third quarter guidance basis Utility EPS was \$0.29 as shown on Slide 5. Including Midstream Investments, we delivered \$0.34 on a guidance basis, up modestly from analyst estimates. Year-to-date guidance basis Utility EPS stands at \$0.95 versus a loss of \$2.10 on a GAAP basis, primarily due to Midstream impairments recorded earlier in the year.

We overcame the COVID-related impacts in the increased share count with customer growth more favorable than modeled in maximum rate cases, O&M reductions, lower tax rates and lower interest expense. Given the strong performance through the third quarter, we are pleased to raise the low end of our utility guidance range and present the revised guidance of \$1.12 to \$1.20 per share for the full year.

Now turning to Slide 6. As Dave has discussed, we have fundamentally re-evaluated our focus as part of the BREC process and I'd like to take a few minutes to highlight our approach to the business going forward. We are fortunate to have sustainable capital investment opportunities and as you know, that is the fuel for growth in our business. As Dave mentioned, we have plans to invest \$16 billion over the next five years, which is approximately \$3 billion above our previous 2020 through 2024 plan. We will build on this growth opportunity by accelerating our disciplined approach to operational excellence, enhancing the quality of our service for our customers, all while conducting our business more efficiently.

We will seek to lower our O&M cost by 1% to 2% a year. Couple that with organic customer growth and constructive regulatory environments in our service territories, and we have a simple model that delivers for our customers and you, our investors.

Slide 7 provides a little more detail behind our new five-year CapEx plan of \$16 billion. Two-thirds of the incremental \$3 billion of CapEx is anchored by new investment opportunities in our electric businesses in Houston and in Indiana. Presently, we see the opportunity to invest an additional \$1 billion over the next five years in our Houston Electric business, which will bring us up to about \$6 billion for the 2021 through 2025 plan. These opportunities include equipment to support organic customer growth, improving reliability and resiliency, hardening our transmission systems against the increasing frequency and intensity of tropical storms.

Dave also mentioned the additional investment needed to support the growth in renewable generators, who are building more solar farms in our Houston service territory. There are currently 10 solar projects with an investor green light inside our Houston Electric service territory and at least twice that number being contemplated. As these projects come to market, they will require significant investment and an expansion of our transmission GRID to connect them.

In Indiana, we're right in the middle of a major transition from age coal generation to new cleaner natural gas and greener solar and wind generation. This is a wonderful opportunity to provide our customers with more cost-efficient, clean energy compared with upgrading our old coal generation units. We think this will be a win-win for our customers and again for our investors.

Dave mentioned we would aggressively push to build the IRP outline generation. The new plan has \$1.3 billion of planned capital for Indiana generation, includes \$950 million of wind and solar to be owned directly by CenterPoint. And for our gas LDCs, we plan to increase our CapEx by approximately \$1 billion over last year's five-year plan, driven by the continued focus to modernize our systems, replacing old vintage transmission and distribution pipes. These are large important projects that we believe will advance the safety and efficiency of our systems.

In total, these capital investments will result in long-term annual rate base growth of approximately 10%, which is at the top of our industry. The confidence in this level of annual rate base growth gives us clear line of sight to grow in utility earnings per share on a guidance basis at the high end of our 5% to 7% range. And remember, none of this includes the additional \$1 billion-plus in opportunities we have on top of this \$16 billion capital investment plan.

Turning to Slide 8. Part of our capital investment plan includes improving our quality of service and reducing O&M cost by a target of about 1% to 2% each year. We are on track to deliver over a 1% reduction in O&M this year and we will strive to find new ways to continuously improve our processes, resulting in better quality, delivery and cost. Building on what Dave and Tom have discussed, our cost reduction efforts will include using advanced technologies like increasing the use of drones, automation and machine learning with our offices and call centers.

Further, imagine being able to spend less time rolling our trucks out the door each morning because we are better prepared with the right equipment, parts and tools that permit us to do our job on time and get it right the first time. Our quality goes up and our cost decrease. Implementing new technology and processes sounds easy, but it's not. Improving these processes will be good for our customers and our investors. Where Dave spoke of our organic customer growth, I am a personal example of that growth. El Dorado, an affordable business-friendly state is strong for many people living in other parts of the country as it was for me. The customer growth we have in Houston is unrivaled. As you can see on Slide 9, we have over 2% customer growth year-over-year. This organic growth is not unique to the last 12 months. Even with the impact of COVID, periodic ups and downs in the energy sector or the financial crisis, our Houston service territory has continued to grow for over three decades.

As Dave mentioned, we are spending more time with our regulators, so that we are coordinated in bringing higher quality, reliable service to our customers. Here too, we are fortunate that our regulators and legislators are forward thinking to provide mechanisms to minimize the regulatory lag between capital investment and recovery, which we've highlighted on Slide 10.

Whether it's our ability to recover storm-related expenses or manage bad debt during the pandemic, our regulators have worked with us to find the right solutions for our customers and for our investors. We're also fortunate to work in states that understand the importance of natural gas as a cleaner, more affordable energy source for our customers and several have either passed or introduced legislation to prevent local ordinances banning the use of natural gas and new building codes as we've seen on some of the coasts.

This model summarized on Slide 11 is available across the utility sector. It's simple, the best utilities use it. They apply it well, starting today, we will too. Capital investment growth provides EPS growth and recall our annual investment over the next five years is expected to be \$3 billion above our prior plan. Our strong focus on cost reductions and service territory with growing sales provides substantial headroom for our customer-driven capital investment. That's what makes such large investment programs to improve the quality of our service for our customers sustainable over years to come.

We are also laser-focused on efficiently and sustainably financing these investments for our customers and our shareholders. We plan on financing this new investment with incremental authorized levels of operating company debt, a small amount of routine equity from reinstating our dividend reinvestment plan and beginning in 2022, introducing a small annual at-the-market equity issuance program.

Overall, we anticipate growing to an annual issuance of approximately \$75 million in incremental equity through highly efficient programs by 2022. This modest level of equity will help us maintain a strong balance sheet with ample access to low cost financing. In addition, as Dave mentioned, we are exploring a potential sale of one or two of our gas LDC businesses to efficiently raise the capital for our growth, while preserving balance sheet health and to simplify our service territories. We'll go into this in much more detail with you at our Investor Day on December 7th.

Before I wrap up to take questions, let me share two more important points. Dave is still in a commitment to consistent strong EPS growth every year throughout the management team in the organization. During the year, good and bad things will occur every quarter, every month, as it is become more evident, given the events of 2020. It's our job, the job of management to deal with that change and to deliver to you, our investors, consistent earnings growth. We manage the business so you don't have to worry and capitalize on opportunities to reinvest surpluses to accelerate planned improvements for our customers.

For example, if the weather was favorable to earnings, we could accelerate tree trimming to improve customer reliability even faster than planned. Our job includes maximizing service for our customers and delivering the high end of our 5% to 7% EPS growth range for our investors.

Dave and I thank you for your patience, your time and interest in us. And now, Dave has a few closing remarks.

David J. Lesar {BIO 1519300 <GO>}

Thanks, Jason. My final remarks will be short. They're really just the headlines I want you to take away from today. First, we are on the launch pad and about to unleash our strategy for accelerating our earnings results at CenterPoint. Next, we have industry-leading rate base growth opportunities driven by \$3 billion in incremental spend above our prior plans. In addition, we have more than \$1 billion in capital spend on top of those opportunities.

We are aligned around maximizing the value of Enable, we can execute our plan with no block issuance of equity, we plan to sell one to two of our LDCs to help finance our capital spend, we are committed to better cost control, we're going to become a larger player in renewables, we will manage the business so you don't have to worry and we plan to earn at the high end of our expected range of 5% to 7%. And without a doubt, I can't wait to show you how all of this fits together on December 7th.

David Mordy {BIO 20391499 <GO>}

Thank you, Dave. We will now take questions until 9 o'clock Eastern. As our prepared remarks covered both the quarter and the BREC updates, we have a bit less time for questions. So I'll ask

you to limit yourself to one question. But rest assured, we will cover a lot more of your questions during the EEI Conference and on December 7th. Maria?

Questions And Answers

Operator

At this time, we will begin taking questions. (Operator Instructions) Our first question is from Anthony Crowdell of Mizuho.

Q - Anthony Crowdell {BIO 6659246 <GO>}

Hey, good morning, Dave, good morning, Jason. And congrats on a great quarter. Also Jason, best of luck at the new job. You are moving to a city that has the professional football team with more wins than or the same amount of wins as both of our New York teams so good luck there.

Just quickly, the CapEx raise is quite impressive. If you can give us some clarity on how much of that CapEx is maybe right or eligible or any approvals required for it and if anything requires a rate case? And then, I have one follow-up.

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

Let -- yeah, thanks for the comment. And yeah, even our football team isn't all that great here either though by the way. But I'll let Jason answer the question.

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

Yeah. Thank you, Anthony. It's great to be here. And I would say, just shy of \$2.5 billion of that incremental CapEx that we've described is right or eligible. I think we are very fortunate to work in very constructive regulatory jurisdictions that provide for capital recovery on a timely basis. And so, as I said, about \$2.5 billion -- just shy of \$2.5 billion of that is right or eligible, just a little bit more than \$0.5 billion will be dependent upon additional approvals in Indiana related to our generation plan that I described in our prepared remarks.

Q - Anthony Crowdell {BIO 6659246 <GO>}

Great. Just quickly, if you could bridge the gap between the really strong rate base growth of 10% and the 5% to 7% EPS CAGR. Is that just some additional parent interest expense or wondering if you could give clarity on that.

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

Yeah. No, thank you for the question. We are focused on narrowing that delta over time. I think you hit on one of probably two of the larger drivers. First, let me kind of cover. While we -- while I highlighted some of the constructive regulatory mechanisms that we have to recover our capital investment timely, there is still a small lag in certain jurisdictions. So for example in

Houston, for Houston Electric, we are able to file for incremental recovery of our capital investment on the distribution side annually.

On the transmission side, we're able to file twice a year. But that small little lag provide some of or causes some of that leakage. The second item that I point to is exactly what you highlighted, we do have some parent company debt that is kicking off some interest expense, that's not recoverable from customers and contributing to that delta. We are focused though on addressing that parent company debt as part of the comprehensive set of BREC recommendations. And so, over time, we would see that delta beginning to narrow.

Q - Anthony Crowdell {BIO 6659246 <GO>}

Great. And just lastly I guess for Dave. I appreciate the clarity on your -- how you are going to fund the CapEx, you mentioned selling one to two LDCs. Just curious right now, I think the LDC multiple is really contracted over the last 12 months. Do you see that recovering or do you view it as -- are you selling at a low? Just curious on that and that's all I have.

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

No, I don't think we're selling at a low. When it becomes apparent which LDCs we're going to put it in the market, I think you'll recognize that there are not only a group of financial buyers that will look at them, but strategic buyers in those states that will be interested in them. So I'm not concerned at all that we're selling at a low.

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

I think it's also important, if I could add as well, sort of a difference of operating sort of big continent. There's been a lot of focus on the coasts around local ordinances banning natural gas and new building codes, but what we're seeing in a number of the states that we have the privilege to serve is that states are -- have either passed or are in the process of proposing legislation to ban those local ordinances. So we are fortunate to serve communities that prioritize the clean nature of natural gas and I think that that will be recognized by the universe of potential buyers.

Q - Anthony Crowdell {BIO 6659246 <GO>}

Great, thanks for taking my questions and look forward to seeing you at EEI.

Operator

Our next question comes from the line of Shar Pourreza of Guggenheim Partners.

Q - Shar Pourreza

Hey, good morning, guys.

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

Morning.

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

Morning.

Q - Shar Pourreza

Hey, just one primary and then just a quick follow-up. Just getting a little bit more in the weeds on the \$1 billion incremental spend, what's sort of the trigger point to put them in plan, how do you sort of plan to file for the incremental spend and assuming you guys would be able to utilize your trackers, so a little bit more details there, Dave, if it's okay? And then, on the \$3 billion increase, anything coming from your other states outside of Indiana and Texas, so anything being sourced in Oklahoma or Arkansas, per se?

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

Sounds like you're trying to get us to potential (inaudible) I have to say, I'm not going to take the bait and bite on that.

Q - Shar Pourreza

You're good, Dave. You're good. You're good.

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

I think to answer the first part of the question, the incremental \$1 billion on top of the \$3 billion that we talked about is -- it's a pretty heavy ramp up in capital spend and clearly you need to want to make sure you're spending it efficiently and it really is a matter of getting on board the engineering resources, the construction management resources and things like that that you need to be able to efficiently spend it. So as soon as I'm confident that resource is on board, we'll take a look at pulling the trigger on that stuff.

Q - Shar Pourreza

Got it. And then just since you mentioned the LDC sales, just curious and sorry I have to ask, but where are you kind of in the process? Are you going to be in a position to announce a transaction on the 7th, do you have buyers kind of already there, and then should we really be thinking about this as a sale versus maybe an asset swap and not a counterpart?

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

No, I think the answer is no, we won't have a sales to announce on the 7th. We clearly will share with you which LDCs we have that we're going to be putting in the market and then you can sort of extrapolate from there what the potential buyer universe will look like, but I think, back to the sort of the prior question, to maximize the value on these things you want to go through a very rational and direct sales process and it's not something we have to hurry. We have the luxury of time here, and we might as we'll take it.

Q - Shar Pourreza

Terrific. Congrats guys on the results and nice...

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

Yeah.

Q - Shar Pourreza

To hear Tom and Jason...

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

Thank you.

Q - Shar Pourreza

On the call. Bye, guys.

Operator

As a reminder, ladies and gentlemen, if you'll please limit yourself to one question. Our next question comes from the line of Steve Fleishman of Wolfe Research.

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

Hey, Steve.

Q - Steve Fleishman {BIO 1512318 <GO>}

Hey, good morning. Had a little deja vu listening to this call, if you know what I mean, Tom, in a good way. And -- but just my question is back to the one about the difference between the 10% rate base growth and the 7% high-end earnings growth. Are you incorporating in there things like some potential -- the loss of earnings if you sell one or two LDCs, and then also the I guess potential for some need to reallocate parent debt. If something ends up changing on Enable, is that kind of embedded and is that part of the difference there or would that be something incremental we need to kind of address?

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

No. I think, Steve, I'll let Jason sort of handle the backend of the question, but to be clear, we do not expect to take a step back in our earnings per share as we put these LDCs in the market. That's why in my view, O&M cost control is so critical in this because it sort of would be crazy to take a big step back in your earnings per share to get the opportunity that sort of boost your earnings going forward. So I think the plan we put in place is a pretty rational one. Next year's

earnings will be driven off whatever this year's actual is and we'll sort of control things from there. I'll look to Jason to sort of address the second part of the question, but I think he did hit on it earlier. The gap between the rate base growth and the earnings growth will close over time.

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

Yeah, Steve, I obviously won't re-cover what I provided earlier, I will say though that as we were looking at this plan and evaluating our confidence in achieving the high-end of our stated long-term growth range, we did incorporate things like obviously the scenarios around Enable. I'm reticent to go any deeper today. Obviously, we will provide more of an update around Analyst Day there, but the confidence we have in achieving the high-end of that earnings growth range does incorporate our considerations around Enable. It does incorporate smaller things like the loss of the equity return on the securitization bonds at Houston Electric, and so sort of coming back at the central theme that we shared as part of the prepared remarks, it's our job as the management team to address any of the headwinds that we see in our business. And as we've shared with you our confidence in achieving the high-end of the range we've taken into consideration some of those smaller moving parts.

Q - Steve Fleishman {BIO 1512318 <GO>}

Thank you very much.

A - Thomas Webb {BIO 1881788 <GO>}

Nice to hear your voice, Steve.

Operator

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

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

Hey, good morning to you and congratulations.

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

Thank you.

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

Let me just make this -- absolutely. If I can pick it up off of Steve's question a little bit further, just can you clearly define to us just what the base EPS is for the 5% to 7%, just to make sure we're all on the same page? And then separately, as you think about the trajectory here, you got some up -- earlier dilution if you think about '20 and '21, as you think about pushing this CAGR forward with subsequent years, how do you narrow that gap between the 10% of the 5% to 7%? Does that make sense?

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

Yeah. And those are perfectly teed up questions for Jason because he and I have talked about this about a 100 times since he's been onboard.

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

Thanks, Julien for the questions. In terms of the growth from here forward, it really is on the Utility guidance basis range of \$1.12 to \$1.20 per share. Given where we are in the year, I think it's likely that we end the year right at or slightly above the midpoint of that revised guidance range and so, I'd use that as the factor to grow earnings on the 7% basis going forward.

In terms of confidence ability to deliver at the 7% range, we still continue as I've indicated a couple of times, have confidence of our ability to address some of that drag. Part of our plans coming out of the BREC is to restructure the balance sheet, we have been issuing parent company debt to fund operating company debt needs. We will address that over time, reduce some of the leakage from that excess interest expense, as I've said, and taking advantage of those opportunities will help us grow to that and deliver at that 7% EPS growth range.

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

Got it. And the top-end there assumes earning your ROEs across all the utilities? Given what...

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

We are targeting to earn at or slightly below all of our operating company ROEs. There is -- as I've indicated, a couple of times, there is a small delay in capital recovery. These are very constructive mechanisms that allow us to layer in that incremental expense, but there is some time delay at -- with that and so as a result, there are periodically small differences in our allowed return, but I think it's important to know that we sort of operate the business on a portfolio basis and across all the utilities or as assuming that we are in the allowed return on equity sort of across the enterprise over that time period.

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

Got it, okay. Actual 20% for the starting point for 7%.

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

Correct.

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

Thank you.

Operator

Our next question comes from the line of Insoo Kim of Goldman Sachs.

Q - Insoo Kim {BIO 19660313 <GO>}

Thank you, and congratulations Jason on the appointment. Just a question on Enable on the timing of that. I know the process is ongoing but by December 7th or by -- if not December 7th, is there any broad range of timeline where we could get an update on what that strategic review would entail for Enable?

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

It's -- I appreciate the question. I know it's top of mind for our investors. We aren't going to comment in any further detail on today's call with respect to Enable. What I will just reiterate is some of the comments that Dave shared in his prepared remarks that we are pleased with the alignment with OG&E. We are focused on addressing Enable. But for purposes of today's call, we're not going to go into any greater level of detail with respect to the timing of that transaction.

Q - Insoo Kim {BIO 19660313 <GO>}

Got it. And whether something happens or doesn't happen or some combination your Utility EPS growth rate that should remain unchanged as a result of any of those actions?

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

That's correct.

Q - Insoo Kim {BIO 19660313 <GO>}

Got it. Thank you so much and congratulations.

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

Thank you.

Operator

Our next question comes from the line of Michael Weinstein of Credit Suisse.

Q - Michael Weinstein {BIO 19894768 <GO>}

Hi, good morning, guys.

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

Morning.

Q - Michael Weinstein {BIO 19894768 <GO>}

Hey, good to see you again, Tom. Hey, what regulatory strategy are you guys planning to achieve or planning to help achieve close to 7% EPS growth, considering 1% to 2% annual O&M decreases? Do you plan multi-year rate plans across jurisdictions, how are you going to keep customer bills in that below inflation zone?

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

From a rate case standpoint, this is really taking advantage of the constructive mechanisms in these states. We are focused on delivering results that are consistent with our allowed return. As long as we stay and -- in or at our allowed return, we have the opportunity to fold in this incremental capital on annual, semi-annual basis as I've alluded to. And so, the incremental depreciation that will come from this will help sort of offset a little bit of the O&M reductions so that we stay at and earn the allowed returns and have the opportunity to continue to deploy this incremental capital and take advantage of these constructive regulatory mechanisms.

And so, from a procedural standpoint, this is sort of squarely in-line with how our regulators have set-up these systems sort of more broadly as it relates to customer rates, we're very attuned to impact of the cost of our service for our customers and our communities, we have the privilege to serve. I think all-in, we're looking at growing our rates in line with inflation. There might be periodic deviations from that but over time, we see the opportunity to grow our rates in each of the states, generally in line with inflation. That's really driven by those factors that I discussed, the fact that we've got growth in the majority of the states we serve, that we have O&M discipline around our cost structure and so, that helps balance that incremental capital investment that we shared with you this morning.

Q - Michael Weinstein {BIO 19894768 <GO>}

Thank you very much guys. Good luck.

A - Thomas Webb {BIO 1881788 <GO>}

And nice to hear your voice.

Operator

Our next question comes from the line of Durgesh Chopra of Evercore ISI.

Q - Durgesh Chopra {BIO 20053859 <GO>}

Hey, good morning, team. Thanks for taking my question. Just if you can -- to the extent you can, the comment on one to two gas LDCs, is that predominantly -- should that -- should we think about it predominantly driven by sort of you trying to bridge the financing gap in the plan or is it that you've identified two gas LDCs, which are non-strategic and don't fit into your long-term portfolio and that's how you're going about it? Appreciate any color you could share there. Thank you.

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

Yeah, it's really the former. I mean, we like all our gas businesses as Jason has said a number of time, they're in constructive markets. Our gas businesses make good returns and the others, certainly an integral part of our portfolio but it was really taking the approach that I aligned in the -- in my prepared comments, which is how much can we spend and what we really want to focus on for the future, which is our regulated business in our bigger states with a bias toward Electric and how much can we spend on those and where can we go find the capital to make those required investments.

So it was really threading the needle, almost think about it as backward integration of an equation, how much can we spend and therefore, what do we need to go find in terms of cash flow and where do we find it. And that's going to drive and has driven the conclusion as to which LDCs we're going to sell.

Q - Durgesh Chopra {BIO 20053859 <GO>}

Got it.

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

If I could amplify...

Q - Durgesh Chopra {BIO 20053859 <GO>}

Got it.

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

Some of the thoughts...

Q - Durgesh Chopra {BIO 20053859 <GO>}

Yes.

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

On sort of the capital allocation standpoint. We believe we should be trading as a premium utility given industry-leading growth we have line of sight to, given the constructive jurisdictions, we had the privilege to serve. We recognized that's the case -- that isn't the case today but we plan to get there over time as we deliver on the strategy that we've outlined today. But recognizing we're not there today and to Dave's point in terms of priming the pump on this capital investment plan, we see the opportunity to sell one to two gas LDCs at well north of 1.5 times rate base to reinvest those proceeds at 1 times rate base without losing any earnings power of company.

That gives us time then to grow into that modest amount of equity that we've outlined on today's call, that we will issue on a highly efficient basis to keep our balance sheet strong and minimize any overhang from a fear of a dilutive equity block in the future. And so, we -- it really is, as Dave has said, it's sort of priming the pump in a very capital efficient way to grow our regulated utility businesses.

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

Yeah. I guess, I would just sort of add one more editorial comment in that. When we went through the process of looking at how much capital we could spend here and it became very apparent very quickly that there was a lot more upside here, especially in and around our core regulated businesses. It was like, okay, you're going to be crazy not to spend that money but you'd also be crazy not to or to fund it with equity, because your shareholders at the end of the day don't benefit from that.

So it was sort of an easy extrapolation then to say you got to sell something that you have to be able to fund that, that's a tough -- it was a easy decision, it's tough to decide which one to do, but that's what you pay us for. And we made that decision, we'll share it with you on our Analyst Day. But I think the upshot is it's going to be a great outcome, not only for CenterPoint but our customers and more importantly, our shareholders.

Q - Durgesh Chopra {BIO 20053859 <GO>}

Super guys. Thank you so much for that color. Appreciate it.

Operator

Our next question comes from the line of Jeremy Tonet of J.P. Morgan.

Q - Jeremy Tonet {BIO 15946844 <GO>}

Hi, good morning. Just want to turn to Slide 7 here and dig in a little bit more. Can you provide a more of a breakdown on the components of your \$3 billion CapEx increase here and kind of what's the timing and cadence of generation investments here? And are there any other large projects in your plan we should be thinking about?

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

We're going to be sharing a lot more detail around this CapEx plan at the Analyst Day but let me kind of just give you a little bit of color today. I think outside of the generation plan in Indiana, the CapEx plan that we're highlighted here is really made up of a series of smaller sort of routine projects, a classic example of that is targeting sort of the low voltage transmission lines in and around the Houston area or 69 kV lines.

It's about a ten-year replacement plan that provides us sort of certainty for ongoing kind of capital investment. And so, I would say, again, outside of the generation plan in Indiana, these are a series of routine and sort of repetitive programs. We will there definitely be sharing a lot more detail with you at the upcoming Analyst Day.

Q - Jeremy Tonet {BIO 15946844 <GO>}

Got it. Makes sense. Thank you.

A - David Mordy {BIO 20391499 <GO>}

Great. Well, thank you, everyone for your interest in CenterPoint Energy. I know we didn't get to all of the questions today but I want to encourage everyone to reach out to us. We're here to help you understand our strategy and the potential of what we've laid out today. Have a great day.

Operator

Thank you. This concludes CenterPoint Energy's third quarter 2020 earnings conference call. Thank you for your participation. You may now disconnect.

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