Q2 2021 Earnings Call

Company Participants

- David J. Lesar, President & Chief Executive Officer
- Jason P. Wells, Executive Vice President & Chief Financial Officer
- Philip Holder, Senior Vice President of Strategic Planning and Investor Relations
- Thomas Webb, Senior Advisor

Other Participants

- Constantine Lednev, Guggenheim Partners
- David Peters, Wolfe Research
- Insoo Kim, Goldman Sachs
- James Thalacker, BMO Capital Markets
- Kody Clark, Bank of America Merrill Lynch

Presentation

Operator

Good morning, and welcome to the CenterPoint Energy's Second Quarter 2021 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 Phil Holder, Senior Vice President of Strategic Planning and Investor Relations. Mr.Holder?

Philip Holder {BIO 22115119 <GO>}

Good morning, everyone. Welcome to CenterPoint's earnings conference call. Dave Lesar, our CEO; Jason Wells, our CFO; and Tom Webb, our Senior Advisor, will discuss the company's second quarter 2021 results.

Management will discuss certain topics that will contain projections and other forward-looking information and statements that are based on management's beliefs, assumptions and information currently available to management.

These forward-looking statements are subject to risks and uncertainties. Actual results could differ materially based upon various factors as noted in our Form 10-Q, other SEC filings and our earnings materials. We undertake no obligation to revise or update publicly any forward-looking statement.

We will also discuss non-GAAP EPS, referred to as Utility EPS, earnings guidance and our utility earnings growth target. In providing these financial performance metrics and guidance, we use a non-GAAP measure of adjusted diluted earnings per share.

For information on our guidance methodology and a reconciliation of the non-GAAP measures used in providing guidance, please refer to our earnings news release and presentation, both of which can be found under the Investors section on our website.

As a reminder, we may use our website to announce material information. This call is being recorded. Information on how to access the replay can be found on our website.

Now I'd like to turn the discussion over to Dave.

David J. Lesar {BIO 1519300 <GO>}

Thank you, Phil. Good morning, and thank you for joining our second quarter 2021 earnings call. This call marks my one-year anniversary as CEO of CenterPoint, and I am excited to update everyone on our results this morning. We are now hitting the fast-paced organizational stride I want us to have, and the length of today's prepared remarks will be more in line with the template I want to follow going forward.

Now while we are always keen to discuss our great future, we are planning to discuss our exciting longer-term strategy updates at our Analyst Day, which will take place on September 23 here in Houston. Though this is our second Analyst Day in less than 12 months, we feel that it is warranted as we are now well into our strategic transition and we want to use that forum to update our investors on our longer-term business plan, earnings capacity, financial metrics and the net zero emissions target that we will be sharing with you. We are also excited for the opportunity to spend more time with you in our hometown here in Houston and to see you in-person.

Let me quickly remind you of just how far we have come in the last year. A year ago, CenterPoint was going through a strategic review at the direction of our Business Review and Evaluation Committee or BREC. The goal of the review was to optimize shareholder value and address specific shareholder concerns.

Initially, in my role as Chairman of the BREC, and then later when I became CEO, it was crystal clear to me that while the company had a great asset base and talented employees, we have not unlocked all of our potential, and certainly had not taken full advantage of all of our inherent opportunities.

Before the BREC process, CenterPoint was targeting modest EPS growth and had reduced capital spending in our regulated businesses. We had work to do to strengthen our regulatory relationships. The company had previously announced a strategic review of Enable, but had not found an executable opportunity to actually reduce exposure to its midstream investments. This frustrated investors.

Our O&M expenses were historically growing, and we needed a stronger balance sheet. We had minimal renewables opportunities on our radar screen, and we were in search of a permanent CFO. So, yes, the list of challenges was long.

I mentioned these not to revisit the adversities our investors and company were experiencing, but to highlight for you the aggressive speed and approach used by our new team to attack and resolve the challenges and headwinds we faced. Let me quickly recap our progress.

I substantially refreshed and diversified our Executive Committee, and we now have what I believe is a best-in-class management team. We announced an updated five-year strategy that prioritizes investment in our regulated businesses and boosted our planned capital spending by about 25% to $16 billion.

We instituted a 10% utility rate base CAGR, well above our peer group average of 8%. That rate base growth then supported an increased long-term utility EPS target growth rate of 6% to 8%, which is also above the consensus peer average of 6%.

To efficiently fund our growth while repairing our balance sheet, we announced the sale of our Arkansas and Oklahoma gas LDCs at a landmark earnings multiple of 2.5x rate base. We were instrumental in the Enable and Energy Transfer merger, which once closed, will provide us a pathway to eliminate our exposure to midstream. And we announced a commitment to a 1% to 2% annual reduction in O&M over the five years to keep our customer rate growth manageable.

We recently announced changes to our Board leadership to bring our governance structure in line with best practices and shareholder expectations, and we will be announcing a commitment to an industry-leading net zero carbon commitment at our Analyst Day.

So in my view, we certainly have walked the talk, and through timely and aggressive actions overcome many of the headwinds we faced. Now it's time for CenterPoint to switch gears. We are going to use the same aggressive approach and organizational speed to take advantage of the tailwinds we have today. Our strong execution, coupled with a privilege to serve some of the fastest-growing regions in our country, have created the foundation for CenterPoint to trade as one of the premium utilities in the U.S. Believe me, we are just getting started.

Our six-month financial performance in 2021 has been strong. Today, we are raising our 2021 Utility EPS guidance range to $1.25 to $1.27. This 8% growth projection in '21 puts us at the high end of our 6% to 8% Utility EPS annual growth target. And as a reminder, this increase in guidance is after the dilution impact of the 18% increase in our share count that we experienced in 2020.

When we compare our Utility EPS growth to analysts' long-term consensus growth for our peers, we are now in the top decile. And as you would expect, we are also reaffirming both our long-term 6% to 8% Utility EPS annual growth target and 10% rate base compound annual growth rate target. This 10% rate base growth also exceeds the average 8% rate base growth of our peer group.

For the second quarter of 2021, we reported strong results, including $0.28 of Utility EPS compared to $0.18 for the second quarter of 2020. The comparison to Q2, 2020 is a bit noisy, and I believe essentially irrelevant as both quarters included a number of one-off items.

Q2, 2020 results also reflected the impact of COVID on our business. The bottom line for me is to focus on the reality that our Utility EPS is expected to grow 8% this year over last year, and then target 6% to 8% growth from there. Jason will go into more detail on the quarterly results a little later in this call.

Our O&M continuous improvement programs have strengthened our results for the first six months of 2021. We are already on track to save over $40 million in total O&M costs this year alone, while maintaining our focus on safety. This is almost 3% of our annual O&M cost.

However, when compared to last year's second quarter, our O&M costs are actually up a bit. Again, this is just more noise that I don't worry about as last year's second quarter O&M costs were artificially depressed by the impact of COVID and disconnect moratoriums. We are still absolutely committed to our continuous improvement cost management efforts and our target of 1% to 2% annual reductions in O&M.

In fact, as a result of our excellent 2021 results to-date, we were in the fortunate place to be able to already make a management decision and begin pulling recurring O&M work forward from 2022 into the last six months of this year and still be able to hit the 8% Utility EPS growth for this year. This allows us the luxury of reducing near-term run rate O&M costs today, and immediately reinvesting them for the future long-term benefit of our customers and investors.

We continue to see industry-leading organic customer growth rates. Despite COVID, our Houston service territory continues its 30-plus years of consistent growth. Overall, we saw about 2% customer growth for electric and 1% for natural gas for the first six months of the year when compared to the prior year.

The growth is supported by the highest level of new home starts in Houston since 2005. This continued and consistent growth reinforces the value of the fast-growing markets that we serve. This organic growth plays a key role in keeping our service costs reasonable for our customers.

Moving to capital investments. We have invested approximately $1.5 billion for the first six months of this year and are still on track to invest approximately $3.4 billion for the full-year 2021. More importantly, we now have better line of sight to additional capital investment opportunities beyond the five-year $16 billion investment plan we outlined on our Analyst Day.

New Texas legislation provides more tools to transmission and distribution utilities to improve the resiliency of the electric grid and helps minimize the risk of prolonged outages and allows us to put all of this into rate base. Some of these laws include the ability to lease and put into rate base backup battery storage capacity for resiliency and to assist with restoring power.

Next, the ability to lease and put into rate base emergency generation, which may include mobile generation capabilities. The ability to immediately procure, store and put into rate base long lead time items related to restoring power and the allowing of economic versus resiliency justifications for new transmission projects.

Based on initial analysis, these legislative changes provide support to increase our five-year capital investment plan by at least $500 million. Now this is on top of the $1 billion in reserve capital investment opportunities we previously identified during our last Analyst Day, but were not incorporated into that plan.

Just as important, we will have the ability to efficiently fund $1.1 billion of these incremental opportunities. This is primarily due to the incremental proceeds expected from the sale of our gas LDCs and the execution of tax mitigation strategies, which Jason will discuss shortly, as well as additional debt, assuming a roughly 50-50 cap structure. Even better, all of this is before the additional proceeds we anticipate from the sale of Energy Transfer units given the significant appreciation in value since the Enable and Energy Transfer merger was announced.

We are in the midst of quantifying what the whole new slate of organic opportunities will look like, and we'll be in a position to provide more detail at our Analyst Day in September. However, just as a teaser, we are confident that we will be in a position to announce an increase to our previous five-year investment plan, fund that increase with no incremental equity and execute on projects that will continue to improve the resiliency and safety of our systems for the benefit of our customers, a very nice trifecta.

Now I will briefly touch on strategic initiatives, which we have announced over the recent months, including our gas LDC sale and our planned exit of our midstream investment. We know that investors are highly focused on the ultimate completion of these initiatives, and we believe we will achieve our timing expectations. We continue to make progress on the gas LDC sale and still anticipate closing by the end of the year. We are working closely each day with Summit to secure regulatory approvals for the sale and to successfully transition that business.

Turning to the Enable transaction. We still anticipate the transaction between Enable and Energy Transfer to close in the second half of the year. We remain absolutely focused on reducing and then eliminating our midstream exposure through a disciplined approach. Now to be clear, it would be very unlikely for either of these transactions to close prior to our September Analyst Day.

And finally, to reiterate what we said when we announced the news of these two transactions and on our last quarterly call, completing these transactions will not change our industry-leading 6% to 8% Utility EPS growth target or 10% rate base compound annual growth rate target.

Finally, I want to highlight the Natural Gas Innovation Act that recently passed in Minnesota. This is a landmark law that establishes a new state regulatory policy that creates additional opportunities for a natural gas utility to invest in innovative clean energy resources and technologies, including renewable natural gas, green hydrogen and carbon capture, and further demonstrates the forward-thinking mindset of the jurisdictions that we serve.

This is a successful outcome for all stakeholders as we work to collectively achieve lower greenhouse gas emission reduction goals. With the approval from the Minnesota Public Utility Commission, a utility can invest up to 1.75% of our gross operating revenue in the state annually. This opportunity increases up to 4% of gross operating revenues by 2033.

Under the new law, we expect to submit our first innovation plan to the PUC next year. This law aligns with our steadfast commitment to environmental stewardship and more specifically, our carbon reduction goals. Our customers are asking for ways in which we can deliver not only safe and reliable, but cleaner electricity and gas, and we are working to achieve that.

Across jurisdictions, we are collaborating to find ways to introduce more renewable fuels into our systems as we firm up our goal to achieve a net zero target. We look forward to unveiling this in September during our Analyst Day.

For now, I'll just remind everyone how thrilled I am to be able to deliver these messages. As I've said, this marks one year for me as CEO, and a lot has changed. I look forward to these calls every quarter, so I can proudly share our team's accomplishments with you. I strongly believe the strategy we have laid out and the progress we have made so far more than demonstrates what a unique value proposition CenterPoint offers.

With that, let me turn the call over to Jason.

Jason P. Wells {BIO 19168211 <GO>}

Thank you, Dave, and thank you to all of you for joining us this morning for our second quarter earnings call. While I don't quite have a full-year with CenterPoint under my belt, I am just as energized as Dave by our recent execution and more importantly, about the path we are on to becoming a premium utility.

Let me get started by discussing our earnings for the second quarter of 2021. On a GAAP EPS basis, we reported $0.37 for the second quarter of 2021 compared to $0.11 for the second quarter of 2020. Looking at Slide 4, we reported $0.36 of non-GAAP EPS for the second quarter of 2021 compared to $0.21 for the second quarter of 2020.

Our Utility EPS was $0.28 for the second quarter of 2021, while Midstream investments contributed another $0.08. As Dave mentioned, there were a few onetime items for both quarters that made the comparison a bit noisy. This included favorable impacts for the second quarter of 2021, inclusive of $0.05 attributable to deferred state tax benefits.

Of this $0.05 in total, $0.03 of the benefit was related to legislation in Louisiana that eliminated the NOL carryforward limitation period. This amount is included in our Utility EPS results. The remaining $0.02 of benefit was due to Oklahoma's revision of the corporate tax rate, which is a favorable driver in our midstream segment.

Our 2020 Utility EPS included a negative $0.06 impact due to COVID. Beyond those onetime items, other notable drivers for the second quarter of 2021 include customer growth and rate recovery, which contributed about $0.04 of favorable impacts as well as miscellaneous revenue contributing another $0.02 of favorable impacts. These were partially offset by a negative $0.02 impact from the share dilution resulting from the May 2020 issuance and a negative $0.03 for unfavorable O&M variance.

So there's a lot of noise when comparing to second quarter of 2020 as that was the quarter most impacted by COVID worldwide. I look through that noise, and I think you should, too. The bottom line is we expect to grow our Utility EPS 8% this year and target 6% to 8% thereafter. And that's what we should all focus on.

As Dave mentioned, O&M is a bit noisy this quarter as well. The key takeaway is we are delivering on our planned efficiencies of over $40 million in cost reductions for the year, and are now beginning to accelerate O&M work from 2022. This will help improve reliability of our service for our customers while sustaining growth for our shareholders.

With two quarters of financial results behind us, we have good line of sight to our full-year 2021 earnings per share outperformance. Our disciplined execution and tailwinds led us to raise our Utility EPS guidance range to $1.25 to $1.27 per share for the full-year, which is at the high end of our 6% to 8% annual Utility EPS growth target.

Beyond 2021, I want to reiterate, we are focused on growing Utility EPS at 6% to 8% each and every year. No CAGRs here. And we look forward to discussing incremental drivers over a longer-term horizon during our September Analyst Day.

Moving to a discussion of future capital opportunities as shown on Page 5. We are currently developing our full analysis of additional capital opportunities resulting from bill signed into effect in Texas during the last legislative session.

There will be some shorter-dated opportunities that develop, such as the ability to procure long lead time items or to lease a portion of battery storage or backup generation across our footprint, and then some longer-dated projects such as transmission opportunities through economic justification.

Based on our first look, we have confidence the new Texas legislation will support at least $500 million of incremental capital investment opportunities over just our current five-year plan. This number will likely increase as we work with stakeholders to refine the implementation of this new legislation and develop a longer-dated plan to incorporate some of these opportunities. We are confident the new tools we have been provided will help create a more resilient electric grid and help reduce the risk of prolonged outages.

Regarding the previously identified incremental $1 billion, we may be able to deploy above our 2020 Analyst Day plan of $16 billion. This incremental capital spending is likely to be allocated towards recurring system improvements to accelerate the improvement in resiliency, reliability and safety of our services.

We will provide a more comprehensive update on this additional capital spend in our upcoming Analyst Day, but it is important to highlight any incremental capital we include in this plan won't begin contributing to earnings until 2023 at the earliest, as we will begin recovering incremental spend the year following the investment.

As far as the funding sources for these incremental capital opportunities, we continue to take advantage of a number of tailwinds that will allow us to incorporate additional capital spend. As we reported last quarter, and Dave reinforced, we will receive an incremental $300 million of proceeds above our original plan once the gas LDC sale closes.

Additionally, we have continued to refine the estimate of the incremental benefit for the method we use to determine the amount of repairs expense that can be deducted for tax purposes. While we are still refining this study, we have confidence that the benefit will generate at least $1 billion in incremental tax deductions, resulting in at least $250 million in additional cash to us and likely more. This enhanced method for determining repairs expense is an efficient way for us to fund these capital investment opportunities, which improve the resiliency and safety of our systems for the benefits of our customers.

The combination of these improved sources of funding, coupled with debt that will be authorized under our regulatory capital structure supports incremental investments of at least $1.1 billion. And importantly, this amount is before we consider any additional proceeds due to the unit appreciation of Energy Transfer.

Moving to the financing updates. We closed our $1.7 billion debt issuance in May, which was comprised of $700 million of 3-year floating rate notes, $500 million of 5-year fixed rate notes at 1.45% and $500 million of 10-year fixed rate notes at 2.65%. The use of the proceeds was to refinance $1.2 billion of near-term maturities at the parent as well as to pay down commercial paper. Based on our current financing plans, we have no further issuance needs for 2021.

Our current liquidity remains strong at $2.2 billion, including available borrowings under our short-term credit facilities and unrestricted cash. Our long-term FFO to debt objective is between 14% and 15%, aligning with the Moody's methodology and is consistent with the expectations of the rating agencies. We continue to actively engage with them and they have informed us that they are comfortable with the outlook and thresholds we've indicated. Based on our current financing plans, we will not issue any incremental equity through an aftermarket equity program in 2022, as previously discussed, and are evaluating if or when we would initiate it beyond that.

As we've said in the past, we take our commitment to be good stewards of your investment very seriously and realize our obligation to optimize stakeholder value. I am energized with our execution over the last year, and I am confident we are positioning CenterPoint to be a premium utility moving forward.

Those are the updates for the quarter. As mentioned, we'll be hosting an Analyst Day here in Houston on September 23. We look forward to the opportunity to engage and introduce you to the depth of the CenterPoint team then.

And with that, I'd now like to turn the call over to Tom Webb, our Senior Advisor. This will be Tom's last call with us, as Tom's work here at CenterPoint is winding down. I want to extend our sincerest appreciation to Tom for his counsel and support over the past year. I have, and I know we all have benefited greatly from his time here. Tom will be joining us in September for our Analyst Day for a final event with CenterPoint, and I hope you can all join us for a celebratory toast in-person to acknowledge all that Tom has done for CenterPoint.

Thomas Webb {BIO 1881788 <GO>}

Thank you, Jason, and thank you, Dave. I fondly remember your visit to Kalamazoo a year ago, went over Donna's cooking and a bottle of nicely aged Bordeaux wine, I explained how I was busy and retired. You were persuasive. I was humbled to be asked and honored to help in a very small way on your extensive checklist.

Top of your list was identifying and attracting one of the very best CFOs in the business. Check. Thank you, Jason. Thank you for taking the challenge. You already have made immediate critical improvements that will be lasting.

CenterPoint has transformed in less than a year, selling noncore, nonutility businesses, think Enable, securing more efficient financing, think LDC sales, driving clean energy, think coal closures, renewable growth and a lot more to come, and accelerating performance, think continuous improvement.

We are witnessing the emergence of a premium utility with sustainable, predictable EPS growth every year. I trust you see it, feel it. We truly do sweat the details so you don't have to. You'll see bumps in the road, serious challenges like the winter storm that impacted many utilities. ll bet you had doubts. But watch CenterPoint. This team promptly addresses challenges to protect our customers and deliver for you, our investors.

With important capital investment to deliver needed improvements for our customers, our rate base growth target at 10% substantially outstrips the peer average at about 8%. Our resulting annual Utility EPS growth target of 6% to 8% is strong. We expect it to be at the high end of the range this year. And as Dave mentioned, that's top decile.

Customer growth of 2% is just the level our peers would celebrate, coupled with O&M reduction of 1% to 2% a year, this creates a lot of headroom for needed capital investment. Our five-year plan includes 1% to 2% cost reduction every year. Our plan for this year is for a fast start, down more than $40 million or 3%. And with a fast start, we already are pulling work ahead from 2022. The cost reductions, favorable tax changes, lower financing cost, economic recovery and more allow us to reinvest $20 million for our customers now and possibly more later.

This performance reflects good business decisions and continuous improvement. It comes from management commitment, experienced teams and ground-up process improvements that enhance safety every day, quality, doing things right the first time, delivery, doing things on time, cost, we see and eliminate waste and morale higher every day.

This continuous improvement process is powerful. It shifts dependence from heroic individual work to better processes that are repeatable as we eliminate human struggle, the cost fall out.

And one of my favorite charts is on the right. As Dave often observes, we take on the headwinds, we take advantage of the tailwinds. We deliver our earnings per share commitment consistently every year. We deploy surplus resources to our customers. It is all about our customers and our investors. We did this last year. We're doing it again now. No ors, just ands here. It's fun to be part of a premium winning utility.

Thank you, Dave. Thank you, Jason, and thank you, team. Thank you for allowing me to join the ride. CenterPoint is a great company with wonderful people and a huge investment opportunity. Godspeed.

David J. Lesar {BIO 1519300 <GO>}

Thank you, Tom. As Jason said, you've been a valuable part of our team, and we're grateful for the time you have shared with us. This has been one exciting year for CenterPoint. I could not be more pleased by the momentum we have, what we've accomplished and the bright future that we see for ourselves.

We have truly been sweating the details so you don't have to. And I believe our effort is evident in our consistent and more predictable earnings and rate base growth in our world-class operations in growing service territories. I hope you now have the trust that we will continue our commitment to deliver on our promises to you, our investors. I believe the best is yet to come.

Philip Holder {BIO 22115119 <GO>}

Thank you, Dave. I'd also like to remind everyone to register for our upcoming Analyst Day on September 23 here in Houston. We will now take a few questions.

Operator?

Questions And Answers

Operator

(Question And Answer)

At this time, we will be taking questions. (Operator Instructions) Our first question comes from James Thalacker with BMO Capital Markets.

Q - James Thalacker {BIO 1794957 <GO>}

Good morning. Can you guys hear me?

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

Good morning. Yes, loud and clear.

Q - James Thalacker {BIO 1794957 <GO>}

Okay. So not trying to front run the upcoming Analyst Day too much, but yeah as David touched on Slide 5, the $500 million of opportunities in Texas. I was just hoping to dig in a little bit more on the timing of these incremental investments, how you're looking at the regulatory treatment? And also, where you see the best opportunities across the platforms, whether it'd be energy, storage, generation, transmission? And again I'll pile on a little bit more, but any additional thoughts on the scope or the growth beyond this initial view and when you'd be in a position to kind of talk a little bit more about this?

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

Yeah. I mean, certainly, we're not going to front run our Analyst Day, and we -- and for one main reason is, we're still trying to assess the all the details in the bills, when they go effective and what is essentially a practical time when they can come into a effect. I think another thing to focus on, a lot of people think that these were tools put in our toolkit basically to face a winter storm. And in reality, what they really help us more for is hurricane season, and that's more likely that we'll have a hurricane before we'll have another Uri in terms of the territories that we serve. So, I think it's a good set. As we said in the call, the initial view is at least another $500 million in capital.

I'll maybe let Jason give a little color on what those -- what -- where that $500 million may land and sort of what the timing might be.

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

Thanks Dave. I would say, we're obviously very appreciative of all the work the legislature went through to give us the tools to reduce the risk of a widespread outage. In terms of timing, I would say about half of that $500 million likely to be deployed over the next call it about two years with the remainder over the back half of the five-year plan. We see the tools coming through in sort of a couple of different ways. Our system was designed to shed about 3 gigawatts of load and -- in sort of widespread outage events. This past winter storm, we were asked to produce about 5 gigawatts of load. And so what we see sort of as an immediate opportunity for us is the opportunity to own emergency generation for outages that are expected to be longer than eight hours.

We will be deploying mobile generation at the substation that with in combination with a year-round demand management program will give us the flexibility to shed much more significant load for ERCOT, yet still provide power on a rolling basis for our customers and that's some of the work that we will pursue aggressively.

There are then some additional opportunities related to owning battery storage, kind of a grid level resource as well as a bill that introduced an economic dimension to siting new electric transmission lines. That -- those tools will help provide congestion relief and ensure even better reliability of our electric grid, but those programs will likely take a couple of years to site and build. And so, I would think about half of the $500 million is coming in over the next couple of years with the remainder in the back half of the five-year plan.

Q - James Thalacker {BIO 1794957 <GO>}

Great. Thanks so much for that detail. Appreciate it, guys.

Operator

Your next question is from David Peters with Wolfe Research.

Q - David Peters {BIO 20551535 <GO>}

Yeah. Hey, good morning guys.

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

Good morning.

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

Good morning.

Q - David Peters {BIO 20551535 <GO>}

So the CapEx plan you maintain the $16 billion for the five years, but clearly you're pointing to that moving higher, and I think you said, there's no equity needed for that $1.5 billion. But could you maybe just talk more about the sources of funding for that? Specifically, I think you kind of talked on the tax efficiencies, but even to the extent that you see kind of more upside above that $1.5 billion, is it still fair that we shouldn't expect any additional equity?

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

I mean that's a question that's right in Jason's wheelhouse, so I'll let him answer it.

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

Thanks Dave. I think that's a fair assumption. As you pointed out, we outlined back in December a five-year capital investment plan of $16 billion. At that time, we acknowledge that we held back about $1 billion of what I would consider to be sort of routine capital investment spend. We really wanted to make sure that we could efficiently grow into the increased level of CapEx as well as funded efficiently and we're gaining that level of confidence. And then as I just mentioned and we just discussed, we see the opportunity for at least $500 million of incremental capital investment related to the recently passed legislation here in Texas. And so the combination of those factors allow us to at least increase our five-year CapEx plan up to about $17.5 billion.

And back to the central part of your question around funding it, we've got a couple of strong tailwinds that give us the ability to fund it without any incremental equity. First, as we announced on the first quarter call, we have about $300 million in incremental proceeds above our original plan from the set sale of our gas LDCs. And as we talked about on today's call on our prepared remarks, we're seeing at least $250 million in after-tax cash benefits from the implementation of the tax repairs method change that we will put in place.

Think about that as providing $550 million of equity related financing and so we can effectively double that with debt that would be authorized under our regulated capital structure. And so that gives us at least $1.1 billion to fund that capital investment increase. And these figures are all before we take into consideration any of the significant unit appreciation from Energy Transfer. So in short, we have significant capital investment opportunities above that $16 billion plan that we outlined in December, and we have confidence we'll be able to fund that without any incremental equity as we move forward.

Q - David Peters {BIO 20551535 <GO>}

Thanks. And then maybe this is something for the Analyst Day, but just the 6% to 8% going forward given, I think you said a lot of this won't start contributing till '23, should we maybe think of it as a like a step up at that point or just a bias towards the top end through '25?

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

We're focused on this year on delivering on the high-end of the 6% to 8% utility EPS range that we had outlined, we'll reserve further comments on long-term growth for the Analyst Day later this year, but I think you highlighted an important element. As we spend this incremental capital likely beginning here towards the end of '21 to '22, it really will not drive earnings until 2023. And so think about this as a long-term tailwind for the company[ph] and we look forward to sharing more at our upcoming Analyst Day.

Q - David Peters {BIO 20551535 <GO>}

Fair enough. Thanks guys.

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

Thank you.

Operator

Your next question comes from the line of Shar Pourezza with Guggenheim.

Q - Constantine Lednev {BIO 20877967 <GO>}

Good morning, team. It's actually Constantine here for Shar. Congrats on a strong quarter and congratulations to Tom on a job well done.

A - Thomas Webb {BIO 1881788 <GO>}

Thanks.

Q - Constantine Lednev {BIO 20877967 <GO>}

Just in regard to the CapEx plan and bridging the new disclosures and maybe elaborating on the $1.5 billion of incremental opportunity that you're now presenting, do you feel that there is more work to be done beyond the current IRP in Indiana, and is that number inclusive at all of any upsides in Minnesota and kind of do you anticipate that this would be reflected at the Analyst Day?

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

I'll let Jason handle that. He's on a roll handling capital questions today.

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

Constantine, can you repeat the question around Minnesota?

Q - Constantine Lednev {BIO 20877967 <GO>}

Is the $1.5 billion in upsides at all inclusive of the new legislation in Minnesota like the RNG and/or any reliability enhancements?

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

Yeah. The Natural Gas Innovation Act up in Minnesota. So no, the $1.5 billion figure that we've been discussing is prior to any incremental capital related to that new innovation gas act up in Minnesota. I would say the -- we do have incremental upside related to Indiana and the coal transition plan as a potential. Right now, we've outlined is part of the $16 billion capital investment plan. The cost associated with the closure and transition of two of our three coal facilities in Indiana, we will be looking at that third coal facility as part of the upcoming integrated resource plan that we will file in 2022 in Indiana.

To the extent of that filing changes sort of timing around the closure of that third and final plant in -- coal plant in Indiana, that potentially could provide further tailwind to the capital investment opportunity up there. So, overall, we still have -- as we try to indicate I think additional tailwinds beyond what could be about a $17.5 billion five-year capital investment plan, those would come from increased opportunities as we continue to work with stakeholders around the Texas legislation as we pointed out here, the opportunities around the Natural Gas Innovation Act in Minnesota as well as further work on the coal transition plan.

Q - Constantine Lednev {BIO 20877967 <GO>}

Sounds great. Momentum is good. Can we shift to O&M and kind of maybe some updated thoughts on cost savings? The targets are staying the same, but are you finding it easier to reach those targets at this point? And what sort of visibility do you have for '22? And just as a quick follow-up of that kind of post-Enable sale, what trajectory do you see for the remaining parent costs?

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

Let me handle sort of the 50,000 foot view of that, and I'll let Jason come in and sort of fill the blanks then. I mean, our commitment is to a 1% to 2% reduction every year and we have every intention of living up to that commitment. I think as we tried to provide some color on the call here this morning is we have the luxuries, we're running ahead of the 1% to 2% this year. And think of the 1% to 2% as averaging over the five-year horizon that we're talking about. We're actually ahead of that which gives us the ability to pull forward '22 into '21. And so, we are taking run rate O&M out, and I view it is that just turning around and immediately investing it in sort of opportunities to save in the longer run. So, I think we're dead on track on O&M. We've learned a lot from Tom about what -- going from sort of O&M reductions to the thought of continuous improvement, which is just grinding out a more efficient operation quarter-after-quarter. And clearly as you -- we start to think about '22, I mean, we're halfway through '21, so we're having a lot of dialogue right now about what '22 looks like, where we're going to spend our money, where we're going to get savings, and clearly that is in high focus for us right now.

I don't know Jason you want to add anything else or think I've covered it.

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

Okay. I'll spend a minute on providing a couple of examples that we're really proud about. We've talked about some big opportunities, things like we're finally integrating the legacy veteran companies onto our SAP platform. We went live with that integration this summer, and so as we tackle big events like that that allows us to reduce significant cost. But importantly, what we're seeing is the real beginning of adoption of a continuous improvement mindset.

On previous calls, we've highlighted a focus on reducing truck rolls in the field and we had some success in the second quarter this year in our electric business by bundling some of our major underground work, bundling both the capital and the expense work to be executed at the same time. And so we saw not only the benefit of reducing truck rolls, but also reducing a lot of the support cost behind the scenes. And so we are very pleased with the continuous improvement mindset that is it is building giving us confidence in '22.

I know you also asked about sort of post-Enable parent. We see some opportunity for parent costs coming down as we use the proceeds from the sale of the -- what will be the Energy Transfer units to de-lever at the parent level as well as the reset of the preferred dividends that are Series A preferred stock in 2023. So we do see an opportunity over the next few years, as well to see sort of as parent company cost, also come down and help further support and overall reduction in our cost structure.

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

I think that's the reason that we keep emphasizing that post the sale of the LDCs and post the elimination of the midstream, we are absolutely confident and around our 6% to 8% growth. We don't want to leave the impression of losing that earnings stream means that we are going to back off of that 6% to 8% growth.

Q - Constantine Lednev {BIO 20877967 <GO>}

That's very helpful. Thanks for taking our questions.

Operator

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

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

Good morning, Julien.

Q - Kody Clark {BIO 22251951 <GO>}

Hey, it's actually Kody Clark on for Julien. Good morning.

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

Hello Kody.

Q - Kody Clark {BIO 22251951 <GO>}

So first, can you give a little bit more color on the gas cost recovery process in Minnesota? I know there was a hearing on the matter yesterday, but just wondering what the latest feedback is from parties and when are you expecting a resolution there?

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

Jason, you want to take that one?

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

Yeah, happy to. Let me first start sort of overall with going to where we expect to be with gas cost recovery. I think the punchline is we expect to recover about 80% of those incremental gas costs by the one-year anniversary of the storm. That's really going to be largely driven by the issuance of the securitization here in Texas. The reimbursement for the incremental gas costs in Arkansas and Oklahoma as part of the sale to Summit, as well as the recovery that has begun or will be beginning here shortly in the remaining states.

Back to Minnesota, later today the commission there will likely vote on a proposal to begin recovering costs over 27 months and we've been working with stakeholders there. We understand that it is a significant amount of money for our customers and we appreciate the commission and others work to try to find a balance between timely recovery of those costs, as well as helping mitigate the bill impact for our customers up there and I think the proposal that will be heard strives to strike that appropriate balance, and we're obviously very appreciative of the work.

We are also looking forward to working with regulators in each of our states going forward to see what tools we should put in place to help mitigate this risk going forward, but a lot of work's been done and we expect to hear more later today as the -- in Minnesota as the commission considers our proposal for cost recovery.

Q - Kody Clark {BIO 22251951 <GO>}

Got it. Okay. And then utility results have been strong year-to-date. So, I'm kind of wondering, how you're thinking about the drivers in the balance of the year, what are the factors that would put you towards the top or the bottom end of the range? And you talked about them a little bit already, but if you could just give a little bit more detail, that would be helpful.

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

Certainly, very strong results, driven by a few things, obviously, the continued growth that we see in our business, the rebound in the economy sort of post-COVID, and some one-time tax changes that we've highlighted on today's call. What I would say though is some of those one-time events will enable us to fully accommodate the cost of the recent governance changes that we announced for the Board here at CenterPoint, which will likely -- mostly be incurred during the third quarter this year. And so as we look at sort of the balance of the year, I think there are a couple of things that would drive us or continue to improve our profile, that's really continued growth in the markets we serve as well as continued O&M discipline.

And as we try to highlight here and we try to highlight on previous calls, our focus is on consistently growing our utility earnings at the top of the peer group. And when we have the ability to pull forward incremental work for the benefit of our customers, we'll do so. And we highlighted today that we've already made decisions to pull forward about $20 million to spend from '22, that's allowing our electric business in part to execute more vegetation management work which helps with the reliability and for the benefit of our of our customers. And so as we (Technical Difficulty)

Q - Kody Clark {BIO 22251951 <GO>}

(Technical Difficulty) and so does that include some optimization for the LDC sales?

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

What I would consider is more optimization of our tax position for our ongoing utility operations. It's largely driven by the adoption of a method change for how we account for our repairs expense for tax purposes. It's a pretty standard deduction in the industry. It's a temporary reduction. It effectively allows us to expense upfront what otherwise would be a capital addition on our system. We will claim that method change essentially starting back after bonus depreciation was phased out. So back to about 2018. And the real benefit here is, obviously it gives us this one-time cash tax benefit, but going forward it's really a very efficient way for us to fund the incremental capital investment for the benefit of our customers, because it is a temporary difference. It will reduce rate base of increased deferred tax liability. And so it gives us what I consider to be cash to address sort of on a one-time basis, some of the tax gains that you pointed out, gas LDC sales as well as the sale of Energy Transfer units. But more importantly, it gives us a really efficient way to fund incremental capital investment for our customers going forward.

A - Philip Holder {BIO 22115119 <GO>}

We probably have time for one more question.

Q - Kody Clark {BIO 22251951 <GO>}

Thanks so much.

Operator

Our last question will come from Insoo Kim with Goldman Sachs.

Q - Insoo Kim {BIO 19660313 <GO>}

Yeah. Thank you. My first question is on that additional CapEx that you're talking about, the $1.5 billion, it's definitely pretty impressive. And whenever we talk about the upside to CapEx, one of the questions that come up is customer bill impact and I think definitely through this 1% to 2% O&M and decrease plan that you've laid out, it definitely helps with that somewhat as it moderates the balance of the customer bill impact. How does this incremental CapEx -- how do you plan to deal with the potential increases in build, and are there some other moving parts besides that just cost management efforts that that could help on that effort?

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

So, I think it's a good question and it's something that we debate internally all the time. Because at the end of the day, we exist to serve our customers at a good rate, but I think you put your finger on one of them, the continuous improvement program and focus there passing some of that along to our customers. But I think the thing that we have that most other utilities don't that people forget in the equation is our organic growth, so by continuing to grow for instance our Houston Electric business 2% sort of quarter-over-quarter, year-after-year, you're spreading essentially that fixed cost across a wider base, which also helps in terms of the impact on customer billing. So, we're cognizant of the set of responsibilities we have and I think the combination of continuous improvement, organic growth and just bringing new technology and more resiliency and hardening of the grid, which sort of pays benefits over time is the key to doing that, but we're confident that we can pass muster with PUC here in Texas and our other jurisdictions with respect to the CapEx that we're going to spend.

Q - Insoo Kim {BIO 19660313 <GO>}

Got it. That makes sense. My last question is on that Natural Gas Innovation Act in Minnesota, just for my purposes to clarify, is that basically allowing these investments full rate base treatments in that utility, I know I think currently if there's like a feed-in tariff type of system in place, so just wanted to clarify there. And piggybacking [ph] off of that, are there any similar proposals or initiatives at some of your other jurisdictions that, would allow for certain rate base treatment of RNG type of investments? Thanks.

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

We will work with the Minnesota Commission obviously on the implementation of the Innovation Act, but the way that we read it as it would provide incremental rate base opportunity for our utility there to help invest in the decarbonization of the gas that we provide our customers up there. And so, we do see this as a potential additional driver of incremental CapEx in the future. And sort of more broadly, yes, we are working with our other jurisdictions in a focused effort to help reduce the carbon intensity of the gas we supply our customers, across our footprint. And obviously that we've got a green hydrogen pilot that will come online here in Minnesota at the end of the year, it gives us a great opportunity to begin to kind of understand that technology, how our system responds to green hydrogen and we're looking to take those learnings and see if we can expand it across the broader part of our gas system as well as working on renewable gas, renewable natural gas opportunities. And so I think Minnesota is taking a leadership position with respect to helping reduce carbon intensity of the gas we provide our customers and we're looking to take that beyond the work we're doing there.

Q - Insoo Kim {BIO 19660313 <GO>}

Understood. Thanks so much.

A - Philip Holder {BIO 22115119 <GO>}

Again, thank you everyone for joining us today and for your interest in CenterPoint.

Operator

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