Q4 2019 Earnings Call

Company Participants

- David Mordy, Director of Investor Relations
- John W. Somerhalder II, Interim President and Chief Executive Officer
- Xia Liu, Executive Vice President & Chief Financial Officer

Other Participants

- Antoine Aurimond, Analyst, Bank of America
- Charles Fishman, Analyst, Morningstar
- Insoo Kim, Analyst, Goldman Sachs
- Julien Dumoulin Smith, Analyst, Bank of America
- Michael Weinstein, Analyst, Credit Suisse
- Paul Patterson, Aanlyst, Glenrock Associates
- Shar Pourreza, Analyst, Guggenheim Partners
- Sophie Karp, Analyst, KeyBanc Capital Markets
- Steve Fleishman, Analyst, Wolfe Research

Presentation

Operator

Good morning and welcome to CenterPoint Energy's Fourth Quarter and Full Year 2019 Earnings Conference Call with senior management. During the company's prepared remarks, all participants will be in a listen-only mode. There will be a question-and-answer session after management's remarks.

(Operator Instructions) I will now turn the call over to David Mordy, Director of Investor Relations. Mr. Mordy?

David Mordy {BIO 20391499 <GO>}

Thank you, Mike. Good morning, everyone. Welcome to our fourth quarter 2019 earnings conference call. John Somerhalder, Interim President and CEO, and Xia Liu, Executive Vice President and CFO, will discuss our fourth quarter and full year 2019 results, and provide highlights on other key areas. Also with us this morning are several members of management, who will be available during the Q&A portion of our call. In conjunction with our call, we will be using slides which can be found under the Investors section on our website centerpointenergy.com. Please note that we may announce material information using SEC filings, news releases, public conference calls, webcasts and post to the Investors section on our website.

Today, management will discuss certain topics that will contain projections and forward-looking information that are based on management's beliefs, assumptions and information currently available to management. These forward-looking statements are subject to risks or uncertainties, actual results could differ materially based upon factors, including weather, regulatory actions, the economy, commodity prices and other risk factors noted in our SEC filings.

We will also discuss guidance for 2020. To provide greater transparency on utility earnings, 2020 guidance will be presented in two components. A guidance basis utility EPS range and a midstream investments EPS range. Please refer to Slide 30 in the appendix for further detail. Utility EPS guidance range includes net income from Houston Electric, Indiana Electric, and Natural Gas Distribution business segment as well as after tax operating income from the Corporate and Other business segment.

The 2020 utility EPS guidance range considers operations performance to date and assumptions for certain significant variables that may impact earnings such as customer growth, approximately 2% for electric operations, and 1% for natural gas distribution, and usage including normal weather, throughput, recovery of capital invested through rate cases and other rate filings, effective tax rates, financing activities and related interest rates, regulatory and judicial proceedings, and anticipated cost savings as a result of the merger. The Utility EPS guidance range also assumes an allocation of corporate overhead based upon its relative earnings contribution. Corporate overhead consists of interest expense, preferred stock dividend requirements and other items directly attributable to the parent along with the associated income taxes. Utility EPS guidance excludes midstream investments EPS range, results related to Infrastructure Services and Energy Services prior to the anticipated closing of the sale of those businesses and anticipated costs and impairment resulting from the sale of these businesses, certain integration and transaction related fees and expenses associated with the merger, severance costs, earnings or losses from the change in the value of ZENS and related securities and changes in accounting standards.

In providing this guidance, CenterPoint Energy uses a non-GAAP measure of adjusted diluted earnings per share that does not consider the items noted above and other potential impacts, including unusual items which could have a material impact on GAAP reported results for the applicable guidance period.

In providing the 2020 EPS expected range for Midstream Investments, the company assumes a 53.7% limited partner ownership interest in Enable, and includes the amortization of our basis differential in Enable, and assumes an allocation of CenterPoint Energy corporate overhead based upon Midstream Investments relative earnings contribution. The company also takes into account such factors as Enable's most recent public outlook for 2020 dated February 19, 2020, and effective tax rate.

The company does not include other potential impacts such as any changes in accounting standards, impairments or Enable's unusual items. For a reconciliation of the non-GAAP measures used in providing earnings guidance in today's call, please refer to our earnings news release and our slides on our website. Before John begins, I would like to mention that this call is being recorded. Information on how to access the replay can be found on our website.

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

John W. Somerhalder II {BIO 1770282 <GO>}

Thank you, David, and good morning ladies and gentlemen. Thank you for joining us today. I'm honored to serve as the Interim President and CEO of CenterPoint Energy and I look forward to visiting many of you in person in the near future. As you can see on Slide 5, CenterPoint proudly serves more than 7 million customers across eight states. Our core utility business represents over $15 billion of rate base, of which 96% are Electric T&D and gas LDC assets located in some of the most dynamic and high growth service territories in the United States.

CenterPoint's compound annual rate base growth is projected to be 7.5% over the next five years, as we streamline our business mix, CenterPoint is poised to deliver even stronger services for our customers and total returns for our shareholders. Alongside our leadership team, I am excited to move this company to deliver strong results and drive shareholder value. I would like to get give you an overview of both our ESG achievements to date as well as our ESG initiatives and commitments going forward.

Central to our ESG values is the commitment to serve our customers and our communities. We are honored to have received numerous recognitions over the past year, some of which are detailed on Slide 6. I would like to thank all of our employees for their effort, often going above and beyond their CenterPoint roles to be a positive influence in our communities. Our ESG effort also reflects our environmental stewardship and leadership. Slide 7 provides detail on our profile, as well as efforts to reduce greenhouse gas emissions from our generation assets and our gas distribution system.

First and foremost, our assets have a low carbon footprint as generation makes up approximately 4% of our overall rate base and electric T&D assets represent 51%. Since 2005 we have reduced our generation based emissions by 20%. With respect to our gas distribution business since 2012 we have invested heavily in our gas distribution system reducing greenhouse gases by 30% per unit of natural gas delivered. We have eliminated all cast iron pipe across our legacy CenterPoint systems and we anticipate removing all cast iron pipe from our Indiana and Ohio jurisdictions by 2024.

Turning to Slide 8, I'm proud to announce our goal to reduce carbon emissions by 70% from CenterPoint operations from our 2005 levels by 2035. We anticipate achieving this goal by continuing our robust pipeline replacement program continuing to enhance our generation mix supporting Southern Indiana and partnering with our suppliers to lower their methane emissions. Additionally, it is our goal to reduce carbon emissions by 20% to 30% from natural gas customers usage from the 2005 level by 2040.

We anticipate achieving this goal by continuing to work with our customers to improve their energy efficiency and supporting research to improve customer options. Next week, we will publish our full carbon policy, which will be located on our Investor Relations website under environmental, social and governance, along with our Corporate Responsibility Report.

Turning to Slide 9, I'd like to review CenterPoint's strong 2019 financial results. Full year diluted earnings per share on a GAAP basis were $1.33 and full year adjusted earnings on a guidance basis were $1.79 per diluted share. This was $0.09 above the top end of our guidance range of $1.60 to $1.70 and represents 12% year-over-year EPS growth relative to 2018. Xia will provide greater detail regarding the key drivers of our 2019 earnings performance in her comments.

Continuing on Slide 10, let me highlight some additional key accomplishments during 2019 that contributed to CenterPoint's strong financial performance. The strength of our core utility business continued to drive earnings growth underpinned by $2.5 billion of utility investment as well as strong fundamental customer growth across both our electric and gas utilities. We reduced year-over-year annualized O&M by approximately $100 million exceeding our annual cost savings targets as we continue to execute on merger integration. We settled the rate case for Houston Electric, our largest jurisdiction providing earnings and return clarity going forward for our core utility businesses. Additionally, we received approval from our various regulatory filings in 2019, which resulted in annual revenue increases of over $100 million. In addition to settling the Houston Electric rate case, we executed on a number of other important regulatory fronts in 2019.

These are shown on Slide 11. The Texas Commission approved our Bailey to Jones Creek transmission line at an estimated cost of $483 million, which we anticipate will be under construction during 2021 and early 2022. During 2019, we also reached a settlement in Ohio for $23 million of annual rate recovery. Near the end of 2019 we initiated rate cases in Minnesota and Beaumont/East Texas requesting $62 million and $7 million in annual revenue increases respectively.

The Minnesota Commission approved the interim rates, which began on January 1 in the amount of $53 million per year. Looking ahead, we anticipate Houston Electric will file a transmission cost of service or T-cost application in the near future seeking recovery of transmission investment put in service during 2019. We also anticipate Houston Electric will file a distribution cost recovery factor or DCRF application in April 2021 seeking recovery of distribution investment put in service during both 2019 and 2020. Additionally, we anticipate we will file an integrated resource plan in Indiana during the second quarter of this year, we have completed three of four planned stakeholder meetings in Indiana and we are eager to put forward a plan that reduces carbon emissions, maintains grid integrity and provides reasonable rates for our customers.

Turning to Slide 12, as we announced earlier this month, we have entered into agreements to sell both our Infrastructure Services business and our Energy Services businesses for combined gross proceeds of $1.25 billion. These divestitures are anticipated to provide combined after-tax proceeds of approximately $1 billion, which we plan to used to retire debt. These sales improve our business risk profile and earnings quality and strengthen our balance sheet and credit quality. Our focus will now be squarely on the utilities.

On Slide 13, we show our continued transition to be more utility focused and better aligned with our investors' risk return objectives. In 2018, our core utility businesses represented approximately 70% of overall company earnings. Our acquisition of Vectren and the sale of Energy Services and Infrastructure Services coupled with our continued robust utility capital investment are expected to increase the utility contribution to over 80% this year and to near 90% by 2024.

As Xia will detail later, we intend to continue this progress through rate base investment over the decade ahead. Helping to fund this growth will be our stake in Enable and the material cash flow of over $300 million per year that Enable is projected to distribute to CenterPoint. This is shown on Slide 14.

As we affirmed [ph] in 2019, after a thorough strategic review, we decided to retain our stake in Enable. Since its formation in 2013, Enable has contributed $2 billion in cash flow to CenterPoint and does not require any incremental capital investment from CenterPoint. Going forward, Enable is projected to provide approximately $1.5 billion of additional cash flow to CenterPoint through 2024. This capital will be efficiently recycled into the significant rate base investment and growth opportunities at our core regulated utility businesses and drive utility earnings growth in coming years.

Let me close by summarizing our investor value proposition as shown on Slide 15. Following our successful Vectren merger Integration and portfolio transformation, CenterPoint is committed to delivering increased shareholder value in the coming years. Our $13 billion capital investment program combined with a strong regulatory strategy and O&M discipline are anticipated to drive 5% to 7% utility EPS growth over our planning horizon, combined with our dividends, we anticipate delivering 8% to 10% total shareholder return. Additionally, we are firmly committed to maintaining solid investment grade credit quality. We believe this framework positions CenterPoint for long-term success and provides a compelling opportunity for our shareholders.

Let me now turn things over to Xia.

Xia Liu {BIO 6764768 <GO>}

Thank you, John, and good morning everyone. I will now turn to the consolidated full-year guidance basis EPS drivers on Slide 16, excluding merger impacts and impairments, we delivered a $1.79 per diluted share compared to $1.60 in 2018, which is $0.19 or 12% growth year-over-year. The primary factors driving this outperformance are our core utility businesses. The newly acquired Vectren Utilities provided $0.45 of positive variance. O&M savings, rate relief and customer growth from our legacy utilities provided $0.27 of positive variance. Additionally above normal weather as well as favorable tax outcomes were contributing factors to this outperformance. Partially offsetting these positive variances were underperformance at Energy Services and Midstream and merger financing. Overall, we were very pleased with our strong 2019 performance.

Turning to Slide 17, like we mentioned earlier, to provide more transparency to our core utility operations, we're now providing utility only EPS on a guidance basis for 2020. Let me start from the 2019 adjusted EPS on a guidance basis, excluding combined earnings from Midstream Investments, Energy Services and Infrastructure Services of $0.50 per share, our utilities delivered a $1.29 per share in 2019, favorable weather contributed $0.05 per share, and one-time tax and other items counted $0.05 during the year. Excluding weather and these one-time items, the normalized 2019 utility EPS on a guidance basis was $1.19 per share. Looking forward to 2020, the Houston Electric rate case outcome and lower equity return is anticipated to have an annualized year-over-year negative impact of $0.15. This includes operating income reduction from the Houston Electric rate case settlement and its dilution effect from new equity to address the negative impact on CenterPoint's FFO and credit metrics. Customer growth, rate relief and O&M management all are projected drivers of the positive $0.06 to $0.16 of earnings. In total, we are forecasting utility guidance basis EPS earnings in the range of a $1.10 to $1.20 for 2020. This guidance assumes normal weather. So, I will note that this quarter so far we have experienced unfavorable weather and we will work to address the anticipated revenue shortfall during the remainder of the year. As noted on the slide, since utility EPS range excludes earnings from Energy Services and Infrastructure Services prior to the anticipated closing of the sale of those businesses as well as Midstream Investments, on February 19, Enable affirmed their 2020 earnings guidance of $385 million to $445 million, including corporate overhead allocation, this translates to $0.23 to $0.28 per share for CenterPoint. However, Enable indicated on the call that in order for them to perform at or above the midpoint of the range, commodity prices and producer activity would need to improve from current levels. For our planning purposes, we assume the lower end of the range of $0.23 per share.

Guidance basis utility earnings per share are projected to grow 5% to 7% per year on a compound basis over the next five years as shown on Slide 18. This robust growth is driven by $13 billion capital investment plan in our core utility businesses, implying a 7% projected rate base growth CAGR. This solid regulated growth is expected to be supplemented by strong customer growth and continued discipline in O&M management. Through these efforts, we expect our utilities to earn close to their allowed ROEs and deliver strong earnings growth over the planning horizon.

Turning to Slide 19, we outlined the key element of our utility growth strategy; 96% of our current $15 billion in rate base is from lower risk gas LDC and electric T&D businesses and only 4% is from generation assets. Serving over 7 million customers and growing jurisdictions across eight states, we have scale and geographic diversity, coupled with our continued O&M discipline, we have the ability to earn close to our allowed ROE, while keeping our customer rates competitive.

This combination of growth and efficiency allows us to continue to deploy capital into our utilities to serve our customers' needs. As discussed earlier, our rate base CAGR is projected to be 7.5% driven by $13 billion of regulated capital investment over the planning horizon. Further, we will be recycling the over $300 million per year cash distributions from Enable to fund our significant rate base growth reducing our external financing needs. It is also worth noting that maintaining a strong balance sheet and credit profile is critical to efficiently funding our robust capital investment in our core regulated utilities. We remain firmly committed to our solid investment grade credit quality.

Turning to Slide 20, of our projected $13 billion of investment, approximately 40% or about $1 billion a year is anticipated to be deployed for Houston Electric. This capital is driven by continued load growth, system hardening and modernization as well as the construction of the Bailey to Jones Creek transmission project. Approximately 50% of the capital or about $1.2 billion per year is projected to be spent at our gas utility, primarily for system modernization and pipeline replacement. Indiana Electric is projected to spend 10% of the total capital and we will provide more details once we file its IRP in the second quarter. Additional details of capital spending for Houston Electric and natural gas distribution can be found in the appendix on Slides 31 through 33. As stated just now, all of this planned investment results in 7.5% rate base growth as shown on Slide 21.

Slide 22 demonstrates our track record of leading utility customer growth while keeping customer rates below the national average. Both our electric and gas utilities experienced customer growth rates above the national average, particularly across the greater Houston area and Minnesota. At the same time, our Texas electric customer rates are below many of our peers in the state and gas rates across all of our jurisdictions in aggregate have been reduced by approximately 1.6% compound annual growth rate over the past decade.

Turning to Slide 23, we discuss our continued discipline in O&M management. In 2019, our utilities reduced year-over-year annualized O&M by approximately $100 million or 6% from achieving merger and other cost efficiencies. Going forward, our goal is to manage O&M relatively flat year-over-year. We will continue to look for systematic opportunities, including optimization of organizational design process improvements workforce planning and strategic alignment, as well as using data analytics to streamline decision-making across all functional areas.

Turning to Slide 24, we reiterate our firm commitment to maintaining solid investment grade credit quality. The divestiture of Infrastructure Services and Energy Services, coupled with the use of net proceeds to retire debt materially improves our business risk profile and credit quality. Credit quality will be further strengthened by our discipline in O&M management and rigorous capital allocation process. We are also committed to raising equity as necessary to support our robust utility capital investment on our credit metrics. Going forward, we target a low to mid-14% FFO to debt ratio as defined by the rating agencies.

On Slide 25, we outline our anticipated equity needs to found our utility growth and strengthening our balance sheet. As illustrated on the chart, we expect to raise $800 million of equity by the end of 2020 primarily to strengthen our credit metrics post Houston Electric rate case. For 2021 through 2022, we expect to rely on ATM and drip to raise $300 million to $500 million per year to fund 15% to 20% of our significant capital program.

Turning to Slide 26, let me remind everyone of our recently declared quarterly dividend of $0.29 per share of common stock. This is the 15th consecutive year that we have increased common stock dividends. Going forward, we anticipate common stock dividend growth rate of 1.3% per year to achieve our targeted long-term payout ratio of mid 70%.

Turning to Slide 27, in conclusion we delivered strong results in 2019 by achieving guidance basis EPS $0.19 or 12% above 2018. Additionally, we made great strides in continuing to focus on our core regulated utilities. We resolved the major regulatory proceedings and focused on driving efficiencies throughout our business. We also are deploying significant capital to meet our customers' needs. The agreements to divest the Energy Services and Infrastructure Services businesses further support our fundamental strategy of focusing on core utility operations.

Furthermore, using the sales proceeds to retire debt and raising equity to fund our utility businesses, reinforce our commitment to strengthening our balance sheet and credit quality. Today, CenterPoint is poised to deliver 5% to 7% utility EPS growth and 8% to 10% total shareholder return while remaining firmly committed to our solid investment grade credit quality. I'll now turn it back to David.

David Mordy {BIO 20391499 <GO>}

Thanks, Xia. We will now open the call to questions. In the interest of time, I will ask you to limit yourself to one question and a followup. Mike?

Questions And Answers

Operator

(Operator Instructions) Thank you. Our first question is from Shar Pourreza from Guggenheim Partners.

Q - Shar Pourreza

Hey, good morning guys.

A - John W. Somerhalder II {BIO 1770282 <GO>}

Good morning, Shar.

A - Xia Liu {BIO 6764768 <GO>}

Good morning.

Q - Shar Pourreza

So two -- just two questions here separately related. Could we first touch a little bit on sort of the pushes and takes with your utility growth guide of 5% to 7%, when you're kind of factoring ongoing dilution and rate base growth that's around 7.5%, I guess sort of what are the drivers there that's offsetting that dilution. I have to imagine O&M is definitely a lever you guys have to pull, but I'm kind of trying to get a sense on how much under earning to be able to pull that lever and I have a followup?

A - Xia Liu {BIO 6764768 <GO>}

Yes, Shar. Most of the dilution -- most of the dilution from 7% and 7.5% to 5% to 7% is driven by the equity issuance as we outlined. We do know O&M has lever. We are very focused on finding ways to allow the utility to earn at allowed ROEs but we also have, as you are aware, in some jurisdictions we have the embedded regulatory lag that we will have to work through, but mostly it's driven by equity.

Q - Shar Pourreza

Got it.

A - John W. Somerhalder II {BIO 1770282 <GO>}

As Xia indicated, we plan to very closely control O&M for us to maintain that flat or near flat. We do have very good regulatory mechanisms in states to avoid regulatory lag. But we do have some regulatory lag. But the primary difference is exactly what Xia pointed out, which is we're strengthening the balance sheet as we're moving through this time period.

Q - Shar Pourreza

That's perfect. And then just on the new equity guide, does this update sort of account for like any kind of a draconian scenario for instance if Enable cuts its distribution. So, I guess, another way to ask this is, how much sort of balance sheet cushion does a new equity guide provide especially as you're de-risking the business. So, what's the capacity there? Did you over-equitize in order to prevent a situation that maybe you haven't accounted for?

A - Xia Liu {BIO 6764768 <GO>}

We project to maintain a low to mid-14% FFO to debt and we think that provides the healthy cushion in case of unanticipated events. So, we feel good about that, the FFO to debt coverage ratio.

Q - Shar Pourreza

Terrific, thanks guys.

A - John W. Somerhalder II {BIO 1770282 <GO>}

Thanks, Shar.

Operator

Our next question is from Michael Weinstein from Credit Suisse.

Q - Michael Weinstein {BIO 19894768 <GO>}

Hi guys.

A - Xia Liu {BIO 6764768 <GO>}

Hi, Michael.

Q - Michael Weinstein {BIO 19894768 <GO>}

Just to follow up on Shar's question, is there a, other pricing, is there any pricing for oil and gas that you're watching in terms of Enable's earnings where the guidance depends on the pricing for oil and gas being above a certain point, I mean, is there, are the limits there that you could discuss?

A - Xia Liu {BIO 6764768 <GO>}

We don't typically comment on behalf of Enable. I can tell you that we are very focused on cash, on their cash coverage, on their balance sheet, on their internal O&M management, their maintenance capital and how they recycle their cash flow. So, they do have a 1.3% cash distribution ratio and they're one of the few midstream players with an investment grade credit quality, the management is doing a good job of trying to manage internally. So, we will continue to work with them to -- to focus on the cash -- cash coverage.

A - John W. Somerhalder II {BIO 1770282 <GO>}

Yes, as Xia pointed out, 1.3 times coverage on the distributable cash flow compared to their distributions is solid [ph] to their credit metrics and the history of even when we saw lower commodity prices down closer in the $30 range, they have a history of being able to maintain that because of the strength of that business.

Q - Michael Weinstein {BIO 19894768 <GO>}

Right. And would you say going forward as part of that 5% to 7% is -- are the -- is that most of that growth coming from the gas utilities now after Houston Electric settlement at this point?

A - Xia Liu {BIO 6764768 <GO>}

I think they both -- all the utilities are growing at a healthy rate. We outlined that on the slides that you could see. The gas LDC businesses are growing faster. So, right now, they're about -- the gas LDCs and Houston Electric both have a $6.7 billion of rate base and as we continue to grow capital a little bit faster in the gas utilities eventually they -- the gas utilities will have a bigger piece of the pie, but they're all growing at a pretty healthy level.

A - John W. Somerhalder II {BIO 1770282 <GO>}

Yes, if you just look at how we're allocating capital, it's about 50% to the gas utility for rate base and then 40% Houston jurisdiction, 10% in Indiana, so, capital allocation is pretty evenly split between the two.

Q - Michael Weinstein {BIO 19894768 <GO>}

Okay, great. Thank you.

Operator

Our next question is from Insoo Kim from Goldman Sachs.

A - Xia Liu {BIO 6764768 <GO>}

Good morning, Insoo.

Q - Insoo Kim {BIO 19660313 <GO>}

Thank you. Good morning. Just first question is in your guidance for whether (inaudible) five-year plan, how do you think about what's embedded in terms of Enable preferreds and any timing on your assumption about when they are called?

A - Xia Liu {BIO 6764768 <GO>}

Yes, we said, the base answer is we expect Enable to make the best decision possible for their unit holders. So, we are working very closely with them. And in terms of developing our equity needs and the guidance range, we took into consideration the timing of possible redemption of the preferreds, but just from a FFO to debt standpoint, we wanted to make sure we have enough cushion to accommodate either way and, from earnings standpoint, our range will cover whether or not they call this year.

Q - Insoo Kim {BIO 19660313 <GO>}

Understood. And when you gave you updated utility CapEx for the five years, what are some upside or downside items we could potentially consider or, and then capital that's potentially nine your plan that may show up later this year?

A - Xia Liu {BIO 6764768 <GO>}

I mean, capital -- the capital decision we make that on a daily basis. We have a -- we have a budget for all the utilities, but they are on the ground trying to make the best decision possible every day. We do have a pretty rigorous capital allocation process in place such that we take into consideration the rate case filing timing, the recoverability -- we could -- we have a portion of the capital we could pull or put just being based on each jurisdiction situation. So, we feel really good about how we manage through that. And then on top of that, you have rate relief last year, like John said, we received approval of over $100 million of rate relief. And so we think that will add the growth engine for us and also the growth from the jurisdictions from a customer addition standpoint is another factor taking into account consideration.

A - John W. Somerhalder II {BIO 1770282 <GO>}

And then we have weather variability which Xia mentioned earlier but with normalization and with some weather hedging, we can minimize the impact but we still have impact of weather. And then we have the upside of being able to do what we did last year as part of the integration and that's very, very focused management of O&M costs.

Q - Insoo Kim {BIO 19660313 <GO>}

Understood. Thank you.

Operator

Our next question is from Antoine Aurimond from Bank of America.

A - Xia Liu {BIO 6764768 <GO>}

Good morning.

Q - Antoine Aurimond {BIO 20263073 <GO>}

Hey, good morning. Thank you for taking my question.

A - Xia Liu {BIO 6764768 <GO>}

Absolutely, go on.

Q - Antoine Aurimond {BIO 20263073 <GO>}

Hi, question on the balance sheet front. So, does the $500 million to $700 million equity issuance bring you to the low to mid-14% FFO to debt you highlighted, and more importantly, given that these levels are still sort of below Moody's 15% downgrade threshold, are you confident this allows you to stay in the mid triple B level, and do you remain committed to debt rating?

A - Xia Liu {BIO 6764768 <GO>}

We remain in close conversation with our rating agencies as we make decisions on -- business portfolio decisions and we remain very confident that the recent divestiture of Infrastructure Services and Energy Services as well as our execution on the utility front, our ability to earn allowed ROEs, all those things will play in the decision by the rating agencies. We remain very confident that they will see the recent decisions and execution favorably.

Q - Antoine Aurimond {BIO 20263073 <GO>}

Got it. And then just in terms of timing to get to that low to mid-14%, is it this year after the issuance or was it more later in the planning period?

A - Xia Liu {BIO 6764768 <GO>}

So, you do -- I do remind you that we are expecting $1 billion of net proceeds from the divestiture of those two businesses in the second quarter. So, we have tremendous flexibility in terms of getting to the desired FFO to debt ratio throughout the year.

Q - Antoine Aurimond {BIO 20263073 <GO>}

Okay, got it. Thank you very much.

Operator

Our next question is from Steve Fleishman from Wolfe Research.

A - Xia Liu {BIO 6764768 <GO>}

Good morning.

Q - Steve Fleishman {BIO 1512318 <GO>}

Yes, hi, good morning. Hey, Xia. I guess this question is for John, maybe you could just give a sense of how the Board and you are looking at timing of kind of a permanent CEO and what you're looking for there and I guess also was there any consideration of just, is CenterPoint's structure as it is today kind of set up okay or does it need to be kind of part of a larger organization?

A - John W. Somerhalder II {BIO 1770282 <GO>}

Yes, you have asked a number of questions all in all in one question, Steve. But, yes, the, our Board is very focused on exactly what we're focused on, that they see the value of our utilities, they see the value of investment in rate base, growing those earnings, they very much supported over this last time period simplifying the business, the sale of Infrastructure Services and Energy Services and so that strategy is what they support and what they believe is appropriate moving forward, and we believe we have a very good platform as CenterPoint as a structure today to do that. So, that strategy is very much in place, very much what we plan to move forward with.

On my own personal issue, I am Interim President and CEO. I have no timeline or no time limit. I am here, very proud to be here, very focused on executing on the strategy for as long as is required until the right transition to a permanent CEO at the right time is made and I'll focus on the real obvious things which is operational excellence everything from ESG performance which includes safety, compliance, reliability, managing O&M cost to achieve these outcomes, continuing to strengthen our regulatory relationships, we have a history of good regulatory outcomes, we'll make sure we continue to strengthen those to have the best outcomes. Moving forward, we're going to focus on the balance sheet to make sure that we strengthen the balance sheet and meet that objective that Xia talked about this year through the combinations of things she talked about, and we're going to focus and what I would expect when a new -- permanent CEO comes in, I'm going to focus and will continue to focus on meeting with our investors and understanding your concerns, needs, make sure that our plan is transparent to you, that we communicate what our expectations are to you and then work -- and then we consistently meet those. So those are kind of our priorities and I hope I answered all your questions, Steve.

Q - Steve Fleishman {BIO 1512318 <GO>}

Yes, I know that was very super helpful and I apologize, I have one other question for Xia. Just any color you could provide on timing of the equity issuance in 2020?

A - Xia Liu {BIO 6764768 <GO>}

Sure. And you are fully aware that the current market conditions are volatile and we believe it is very important to be patient and yet poised to act when market conditions present themselves. As I said just now that we are anticipating $1 billion of cash inflow from the divestiture of the assets in the second quarter so that we could reduce debt in 2020, support our coverage ratio. So, we have flexibility to execute our plan and so we are just remaining opportunistic, but, regardless, we might likely set up the ATM and turn on the drip to start contributing the equity needs, but we will remain opportunistic at this point.

Q - Steve Fleishman {BIO 1512318 <GO>}

Great, thank you. Thank you very much.

A - John W. Somerhalder II {BIO 1770282 <GO>}

Thanks, Steve.

Operator

(Operator Instructions).Our next question is from Paul Patterson from Glenrock Associates.

Q - Paul Patterson {BIO 1821718 <GO>}

Hey, how are you doing? I wanted to sort of just follow-up a little bit on Steve's question. I mean, it does you guys have a great opportunity that you're outlining all these things -- all these opportunities and the value of your properties quite well, but I'm just sort of wondering in terms of the potential for a strategic, additional strategic options, are those off the table, I mean, I just wanted to get a sense as to whether or not what the potential might be in terms of given the management changes and everything whether not we might see some additional exploration in that area?

A - John W. Somerhalder II {BIO 1770282 <GO>}

No, that is not our plan. Our plan is to execute and really focus on execution as I just talked about when I answered Steve's question. So that is what management will do, that was what the Board supports and that's what we're going to move forward with.

Q - Paul Patterson {BIO 1821718 <GO>}

Okay, thanks so much.

A - John W. Somerhalder II {BIO 1770282 <GO>}

Thank you, Paul.

Operator

Our next question is from Julien Dumoulin Smith from Bank of America.

Q - Julien Dumoulin Smith {BIO 20008787 <GO>}

Hey, good morning, team. Thanks for the time.

A - Xia Liu {BIO 6764768 <GO>}

Good morning, Julien.

Q - Julien Dumoulin Smith {BIO 20008787 <GO>}

Hey, just following up on a few different things, real quickly here, first Enable strategy, I was, and I think I hear what you guys, say, but I just want to be extra explicit about it, given your focus on execution, you sold several businesses already, there is no deviation from the commitment on Enable, and at the same time on the rating side, you've gotten assurances that despite having still some unregulated piece here that low 14% [ph] works from the agency?

A - Xia Liu {BIO 6764768 <GO>}

Julien, we don't speak on behalf of the rating agencies. When they're ready, they will let you know. We do know that we have been remaining in very transparent conversations with each of the agencies and they know exactly what we plan to do and the fact that we executed what we shared with the rating agencies would give us a lot of credibility from our perspective and at the same time as you are fully aware, the largest, the largest unregulated businesses are they Infrastructure Services and Energy Services businesses. Post divestiture, we will be 82%, projected to be 82% Utility and 18% Enable. So, essentially, we don't have anything else. We have a little bit of businesses, but they're not material at all.

Q - Julien Dumoulin Smith {BIO 20008787 <GO>}

Got it. And if I can move back to the core businesses in brief, just to clarify your earlier comment Xia around earned ROEs and through the forecast period. Just to clarify, very specifically, what kind of improvement in lag are you baking into that, I think that goes back to Shar's question about the reconciliation between earnings trajectory and rate base growth, again, specifically on the lag? And then also related to that in reconciling that, how much equity are you thinking on an ongoing basis through the full CapEx period that you've disclosed rather than just three [ph] years of financing here? Just to be clear about that.

A - Xia Liu {BIO 6764768 <GO>}

Yes, I mean we have a slide we laid out in the appendix to show you the thinking around that. So, I'll answer the second question first. First of all, we are fully focused, very focused on the FFO, then the generated FFO including Enable's contribution. We're mindful about our dividend, dividend policy and the Board will consider going forward. We're very focused on the capital program and wanting to provide a robust regulated growth. All of that take into account -- we take all that into consideration, then we decide how much external funding we would need to maintain our balance sheet. So, that's basically the thinking process. The reason we didn't provide any guidance beyond the three years is because when you get outside of the three-year window, you would have to take into consideration rate cases and other regulatory decisions and some other things that we might not foresee right now. So, I don't want to get ahead ourselves from that regard.

Q - Julien Dumoulin Smith {BIO 20008787 <GO>}

Okay, all right, fair enough. On that, a little bit on that lag piece to be extra clear, are you assuming, any willingness to share a little bit more of the (inaudible), I know that rate cases matter with their support?

A - Xia Liu {BIO 6764768 <GO>}

Yes, sure. I would be happy to. Yes, I did forget your first question, so (inaudible), so Houston Electric is about 40% of the business, their allowed ROE is 9.4%, so the team is highly focused on finding ways to get close to 9.4%, that includes revenue opportunities as well as O&M, very disciplined O&M management. So, then the rest of the business, the gas utilities they have a range of allowed ROEs of 9% to 10% on average. I'm generalizing, each jurisdiction is different. So, our goal is try to get closer to the top end of the of the range in the planning horizon.

Q - Julien Dumoulin Smith {BIO 20008787 <GO>}

Got it. Okay, fair enough. One last quick detail, in the CapEx budget, what are you assuming in Indiana Electric with regard to the RFP process and just generation procurement I know that might be sensitive?

A - Xia Liu {BIO 6764768 <GO>}

Yes, I don't think we're ready. They'll file in the next couple of months. So, once that is filed, we will be happy to share any details you might want.

Q - Julien Dumoulin Smith {BIO 20008787 <GO>}

Okay, fair enough, thanks guys for the time. All the best.

A - Xia Liu {BIO 6764768 <GO>}

Thank you.

Operator

Our next question is from Charles Fishman from Morningstar.

Q - Charles Fishman {BIO 4772353 <GO>}

And just on a housekeeping, Slide 30 that $1.2 billion internal note, I mean, that's always been out there, you're just -- you are listing it as a line item now where you haven't in the past, is that correct or is my memory off?

A - Xia Liu {BIO 6764768 <GO>}

You always knew that there was $1.2 billion of intercompany loan from the parent to the midstream.

Q - Charles Fishman {BIO 4772353 <GO>}

Okay. So it's just a question, you're just listing it now as in your guidance.

A - Xia Liu {BIO 6764768 <GO>}

Correct.

Q - Charles Fishman {BIO 4772353 <GO>}

I mean it's always been there though. Okay. And then, the preferred is in the $0.29 to $0.34 correct? Your preferred position in Enable?

A - Xia Liu {BIO 6764768 <GO>}

It's $360 million and a 10% rate, so that is the parameters of --.

Q - Charles Fishman {BIO 4772353 <GO>}

And that's -- but that is included in the $0.29 to $0.34 not, and it's not an offset to the corporate and other or anything?

A - Xia Liu {BIO 6764768 <GO>}

I'm sorry I misunderstood your question. And you were asking the 30 -- I'm sorry can you ask the question again. I'm sorry.

Q - Charles Fishman {BIO 4772353 <GO>}

I messed it. Well, you have, you still have this preferred, I think, it's Series A Investment in Enable, okay, and you've had that for a couple of years now, but that's included. If I look on Slide 30 that's included in the $0.29 to $0.34, correct? You are not treating that as corporate and other line as an offset or anything?

A - Xia Liu {BIO 6764768 <GO>}

No, we didn't. That's outside of Page 30.

Q - Charles Fishman {BIO 4772353 <GO>}

Okay. Got it. And that's it. Thank you.

Operator

Our next question is from Sophie Karp from KeyBanc.

Q - Sophie Karp {BIO 19699392 <GO>}

Hi, good morning. Thank you for taking my question. It may be a little housekeeping question here. Are there any non-utility businesses still left in the corporate and other segment. I believe there used to be something there.

A - Xia Liu {BIO 6764768 <GO>}

They are very little. You do know we have the Energy Services Group as part of the Vectren acquisition. They represent about 1% of the business. We have a small home warranty business but not anything major.

Q - Sophie Karp {BIO 19699392 <GO>}

Should we expect those to be sold in over the course of the year also?

A - Xia Liu {BIO 6764768 <GO>}

No, we are not considering those right now.

Q - Sophie Karp {BIO 19699392 <GO>}

Got it. And then so on the, when you, when I look at the corporate and other guidance and what's embedded in it, so it's mostly, I guess, corporate level debt right on preferreds, what do you assume as far as how long that remains outstanding right throughout the year when you come up with this guidance?

A - Xia Liu {BIO 6764768 <GO>}

I'm not sure I followed your question, what is lasting throughout the year?

Q - Sophie Karp {BIO 19699392 <GO>}

Your corporate debt -- corporate level debt?

A - Xia Liu {BIO 6764768 <GO>}

The corporate debt - the parent company debt. So, we have, that's on our balance sheet.

Q - Sophie Karp {BIO 19699392 <GO>}

All right. So how long do you believe it's going to continue to be outstanding throughout the year when you come up with the guidance what's baked into the guidance for that?

A - Xia Liu {BIO 6764768 <GO>}

The current parent company debt level that that we have on our balance sheet is embedded in there.

Q - Sophie Karp {BIO 19699392 <GO>}

All right, thank you. And maybe could you talk a little bit about the O&M effort right and we know historically, the O&M did not, maybe grow faster than inflation for CenterPoint and you've been working on identifying ways to fight that. How close are you to understanding what the drivers they are and what particular programs you are looking to bring their O&M down the growth way? Thank you.

A - Xia Liu {BIO 6764768 <GO>}

I'll start. I'm sure John has thoughts. The part of the big piece of the O&M effort is through our merger integration. So, we achieved, we over-achieved our synergy target last year and through not only headcount reduction on year one but throughout the year, I'm sorry on day one, but throughout the year. So, day one we removed a certain amount of head count and that momentum continued throughout the year and then we also had about close to 300 different initiatives to try to improve programs, consolidate functions, and with continued improvement processing in mind. So, and then, on top of that, we are looking at our organizational design, looking at a strategic alignment and using more data analytics and so forth. So, it's a combination of a lot of initiatives together.

A - John W. Somerhalder II {BIO 1770282 <GO>}

And I'd just add to that. The good news you talked about, a head start on this, what we're doing, the process of the integration gave us a real good understanding of many of the cost levers that we can focus on and we had success in implementing a number of those, but there are others that we have identified in areas like supply chain areas like how we use contractors and manage those issues. We will focus on all items related to that. At the same time, we're fully committed to make sure we spend what we need to, to maintain reliability, safety, compliance with those items, and I've been a part of companies that have managed tightly those issues for a number of years. So, I look forward to getting involved and really focus on the right way to manage our costs.

Q - Sophie Karp {BIO 19699392 <GO>}

Got it. And would you be able at some point to commit to a more concrete annual O&M reduction targets?

A - Xia Liu {BIO 6764768 <GO>}

I think we essentially did because as I said, both John and I said that last year we achieved the annualized reduction of $100 million, if we essentially maintain that level, so that's a pretty good target, we should think about.

A - John W. Somerhalder II {BIO 1770282 <GO>}

And then hold it as we move forward flat or near flat and the reason we phrased it that way as we absolutely will make sure we spend the dollars we need to in areas like safety, but my history has always been that when you find areas that you simply need to spend money and for those reasons, you also work hard to find other areas where you can reduce costs. So, that is our target, and I think that's a pretty straight, straightforward expectation that we have for ourselves.

Q - Sophie Karp {BIO 19699392 <GO>}

Got it. Thank you. That's all from me.

Operator

Our last question is from Shar Pourreza from Guggenheim Partners.

Q - Shar Pourreza

Hey guys, thanks for taking a quick follow-up from me. Just on, Xia, can you just followup question from what Julien was asking was, can you without going into details at least confirm that in Indiana you're not assuming any outcome from the IRP, i.e., there is not a placeholder amount that's in that number?

A - Xia Liu {BIO 6764768 <GO>}

There is a placeholder amount. I don't want you to think we didn't put in placeholder. The placeholder amount is embedded in the Indiana numbers.

Q - Shar Pourreza

Okay, great, thanks guys. That was it.

A - David Mordy {BIO 20391499 <GO>}

I believe that's our last question. Thank you everyone for your interest in CenterPoint Energy. We will now conclude our fourth quarter and full year 2019 earnings call. Have a great day.

Operator

This concludes CenterPoint Energy's fourth quarter and full year 2019 earnings conference call. Thank you for your participation.