Q1 2022 Earnings Call

Company Participants

- David J. Lesar, President & Chief Executive Officer
- Jackie Richert, Vice President of Investor Relations and Treasurer
- Jason P. Wells, Executive Vice President & Chief Financial Officer

Other Participants

- Anthony Crowdell, Mizuho
- Insoo Kim, Goldman Sachs
- Julien Dumoulin-Smith, Bank of America
- Nicholas Campanella, Credit Suisse
- Ross Fowler, UBS
- Shar Pourreza, Guggenheim Partners
- Steve Fleishman, Wolfe Research

Presentation

Operator

Good morning and welcome to the CenterPoint Energy's First Quarter 2022 Earnings Conference Call with Senior Management. During the company's prepared remarks, all participants will be in a listen-only mode. There will be a question-and-answer session after Management's remarks. (Operator Instructions)

I will now turn the call over to Jackie Richert, Vice President of Investor Relations and Treasurer. Ms.Richert?

Jackie Richert {BIO 22249352 <GO>}

Good morning, everyone. Welcome to CenterPoint's earnings conference call. Dave Lesar, our CEO and Jason Wells, our CFO will discuss the company's first quarter 2022 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 be discussing certain non-GAAP measures on today's call. When providing guidance, we use the non-GAAP EPS measure of adjusted diluted earnings per share, on a consolidated basis referred to as non-GAAP EPS. For information on our guidance methodology and a reconciliation of our 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 call over to Dave.

David J. Lesar {BIO 1519300 <GO>}

Thank you, Jackie. Good morning and thank you to everyone joining us for our first quarter 2022 earnings call. I'll run through our latest highlights and headlines as we continue to build on our consistent track record of earnings delivery.

First, we have now delivered eight straight quarters of operational execution by this current management team. We are now among the pure-play utilities having sold our remaining energy transfer position and fully exiting our midstream investment well before the year-end 2022 target that we committed to you. The 2022 ET common and preferred net proceeds were approximately $490 million after taxes, bringing the combined total net proceeds from the ultimate divestiture of Enable to approximately $1.3 billion after taxes. In addition, following our first quarter Arkansas and Oklahoma LDC divestiture, our rate base is now forecasted to be 62% electric based on 2022 year-end projections. Getting us into the range of some of our premium utility peers.

We utilized the total net after tax proceeds of approximately $2.9 billion from these two transactions to pay down associated debt and plan to recycle the remaining cash to fund our industry-leading rate base growth, all without planned external equity issuances. We are also on track to meet our $1.36 to $1.38 non-GAAP EPS guidance for 2022, including the $0.47 we reported for the first quarter of 2022. Keep in mind that the gas LDCs we sold, we moved $0.03 from earnings this quarter when compared to the first quarter of 2021 and the full year impact of the loss of the divested gas LDCs will normalize to about $0.02 when compared to last year.

We also reiterate our non-GAAP EPS annual growth rate guidance of 8% through 2024 and from there, the mid to high-end of our 6% to 8% growth guidance through 2030, and Jason will get into these details shortly. We also continue to see organic growth across our system, including 11 consecutive years of 2% or greater customer growth in the Houston Electric area, a differentiating luxury many other utilities just do not have. We continued working with our customers to identify their needs for increased safety, reliability, and clean sustainable investments, including Houston's Master Energy Plan called Resiliency Now, which is helping us to determine further capital planning decisions, and we will have more to say on that in future quarters.

More importantly, we remain focused on keeping our bills affordable for our customers. We believe that the combination of expected organic growth across our jurisdictions when combined with our plan to have average reductions of 1% to 2% in O&M per year over the course of our 10-year plan and the securitization charges rolling out of rates in Houston Electric will create bill headroom to help reduce the impact of new capital spending. Those are our latest headlines. We strive to continue our track record that we've established over the past two years of executing on this world-class investment thesis.

Moving to capital investments. We are in year two of our capital plan, which is now increased to $19.3 billion over the next five years. This is an increase from the $19.2 billion we discussed at year end, and is our second increase to our five-year plan since our Analyst Day. Our 10-year plan is still currently expected to be $40 billion plus of investments to support the safety, resiliency and growth across our system to benefit our customers. We expect that this decade of growth will be achieved through traditional utility investments with no big project or technology bets in minimal regulatory lag. This leads to our industry-leading projected rate base growth of 9% CAGR over the 10-year plan.

In the first quarter of 2022, we invested approximately $1 billion, including the mobile generation leases and are now tracking slightly ahead of our capital plan for the full year. Today, we are announcing an increase in our estimated spend for 2022 to $4.3 billion, up from $4 billion, as we have accelerated approximately $300 million of work from the latter years of our plan, which Jason will get into shortly. As we execute on the capital investment plan we outlined, we also continue to work closely with our customers to serve their needs including safety, increased system resiliency and growth to drive further incremental capital investments that are not currently in the $19.3 billion.

For example, last quarter, we highlighted the initiative called Resilient Now jointly launched with the City of Houston. We continue to work with the City of Houston and surrounding cities to develop future capital opportunities in the Houston area to help support the community with its continued economic growth, help meet the challenges of more frequent weather events, support the build-out of its EV infrastructure and advance its environmental goals. This includes grid and infrastructure hardening and modernization, residential weatherization and investments around renewable energy infrastructure. This will be a multi-year investment need. We have made good progress with our customers in identifying the framework for continued grid resiliency and will be excited to discuss more on this topic in the Fall of this year.

In addition to the city driven initiatives, the broader Houston port area, which includes the world's largest petrochemical complex, refining industries and global LNG export facilities, are experiencing unprecedented investment and increased energy needs. We are anticipating increased load demand across our system over the next three to five years to accommodate their continued investment and development needs. This includes at least 1 gigawatt related to expected projects, which based on current system capacity in that area will likely accelerate our capital investment plans by a further $150 million to meet those needs, once these projects are finalized. And there's likely more opportunities as other projects in this area gain further support and move toward final investment decisions.

Furthermore, we are also continuing to work with other industrial or manufacturing customers across other areas of our service territory, which could drive further incremental investments. It's fair to say that when our investments are helping support the economic vitality of the communities that we have the privilege to serve, it is an exciting time to be here at CenterPoint.

Shifting to customer affordability, as I stated earlier, as we invest in future capital, we remain focused on how to keep customer bills affordable. One way we can do this is with continued discipline on our operating and maintenance expenses. We have opportunities across our system, which we expect will result in an annual average 1% to 2% of O&M savings over the course of our 10-year plan. It is our responsibility as a management team to strive to achieve this benefit for our customers, even in these inflationary times. As we look across our system, we still believe there are plenty of ways to do so.

One great example of such work is our Entellus Smart Meter System deployment, which some of you saw in person back at our Analysts Day. We initially piloted this program in the first quarter of 2021 and began the official deployment here in our Texas Gas business last month. These advanced meters are expected to offer safety, environmental, operational and cost benefits for our customers. For example, they are designed to enable automatic shut offs to help reduce the risk associated with safety events, allow for remote disconnects and centralized meter reads. This program will help drive significant savings across our gas system when deployed fully. We'll soon be working towards implementing this in our other service territories as well.

Similarly, our continued execution of our coal transition plan in Indiana is helping avoid what otherwise would be significant customer bill increases related to coal generation. Continued operation of our coal facilities would cost customers an additional $50 per month as federal EPA regulations around operating coal plants, which we are obligated to comply with, become increasingly stringent. All things being equal, we currently estimate that the cleaner portfolio of renewables and the gas CT will result in customer bill increases less than the $10 a month we originally anticipated while also significantly reducing our carbon footprint.

Back in our Houston electric territory, there will be incremental headroom created through the continued roll-off of charges from securitization bonds associated with the 1999 electric market restructuring law and Hurricane Ike from 2007. Back in 2019, two transition bonds ended. The charges related to these bonds of almost 7% of the average residential bill was then eliminated. The bill charge is related to the upcoming storm bond rolling off in August makes up over 3% of the current average residential bill, while the charges related to the remaining transition bond, their rolls off in 2024, is approximately another 5% of current average residential bills. All of these things will help reduce the impact to our customers of capital investments across our system and we will seek to keep executing on these kinds of opportunities to keep bills affordable for our customers.

So in summary, before I turn the call over to Jason, we are meeting our customers growing needs across our system due to both organic growth and by upgrading the current system safety and resiliency needs, which we expect will likely lead to incremental capital above our $40 billion plus over the course of our 10-year plan. And we plan to fund it without issuing external equity and without straining our balance sheet. Despite this growth, we remain committed to providing affordable service by managing our costs targeting an average 1% to 2% reduction annually in our O&M, taking advantage of our organic growth and benefiting from things like the regulatory charges that are rolling out of rates at Houston Electric.

Our current capital investment plan leads into our 10-year rate base outlook. We project approximately 11% rate base growth CAGR through 2025, which normalizes into an approximately 9% CAGR over the full 10 year plan. From that rate base, we expect industry-leading 8% annual non-GAAP EPS growth through 2024 in the mid to high-end of our 6% to 8% range from there through 2030. And we are excited to share with you later this year the impacts of the expected incremental capital that I have discussed.

As I stated in my opening remarks, we are excited about the eight straight quarters of execution and all of the employees here at CenterPoint that are delivering results every single day. We heard loud and clear that many of you wanted CenterPoint to exit the midstream industry. We did it in a way we believe was better and quicker than many of you ever expected. Within four months of the merger between Enable and Energy Transfer, we've sold 100% of our common units at a 20% premium to Energy Transfer's unit price when the transaction was announced last February, not a bad outcome for those shareholders who thought we would never get out of this investment let alone receive approximately $1.3 billion of net after tax proceeds from it.

We listen to our investors and are now a pure-play regulated utility with continued growth driven by customer demands. And lastly, we remain focused on achieving our value proposition, which is sustainable earnings growth for our shareholders, sustainable, resilient and affordable rates for our customers, and a sustainable positive impact on the environment for our communities.

With that, I'll 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 first quarter call. I'll start by covering the financial results for the quarter.

On a GAAP EPS basis, we reported $0.82 for the first quarter of 2022. This includes midstream related earnings of $0.05, including the net gain on the sale of the Energy Transfer common and preferred unit sales, and the cost associated with the early extinguishment of the related debt as well as the net after tax gain on our Arkansas and Oklahoma LDC sale of $0.30. Excluding those and other items as noted, we reported $0.47 of non-GAAP EPS for the first quarter of 2022, which was flat to the comparable quarter of 2021 as shown on Slide 5.

Our first quarter of 2022 earnings were reduced by $0.3 due to losing the earnings related to Arkansas and Oklahoma operations, which were divested on January 10 and as Dave mentioned those earnings are seasonally weighted towards the winter months.

Our results included a favorable growth in rate recovery contributing $0.05 this quarter, while weather usage and other contributed $0.02 when compared to the first quarter of 2021. These positive benefits were partially offset by $0.03 compared to the same quarter last year. Due to higher ongoing cost management expenses, one penny of which was related to interest expense and was previously allocated to our midstream segment in the first quarter of 2021, which will be absorbed in the consolidated earnings going forward. The remaining variance is related to the timing of our O&M savings in 2021.

On the O&M side and as we discussed throughout last year, we had a fast start to savings in the first quarter, but we reinvested that savings back into the business throughout the remainder of the year. That acceleration into last year has driven a higher run rate of O&M in the first quarter of 2022, but we see this as purely a timing related variants. The bottom line is, we fully expect to hit our average annual 1% to 2% O&M reduction over the 10-year plan.

We continue to have confidence in our ability to drive further O&M efficiencies. One example is the meter program that Dave discussed. We piloted this program back in the first quarter of 2021. And as of April this year, we are now in full deployment mode for the meter program in Texas and anticipate productivity improvements for the remainder of this year.

We are also reaffirming our full-year 2022 guidance range of $1.36 to $1.38 of non-GAAP EPS, which reflects 8% growth over the comparable $1.27 non-GAAP EPS results for 2021. We expect that our earnings for this year will be somewhat back-end loaded as some of our recovery mechanisms persecute towards the latter half of the year, such as our DCRF filing, which I'll discuss shortly.

The actions we have taken to simplify our story are illustrated on this page. We expect to have a simpler, more digestible investor story going forward. Beyond 2022, we continue to expect to grow non-GAAP EPS 8% each year through 2024 and at the mid to high point of 6% to 8% annually through 2030. Our focus is to deliver strong growth each and every year.

Turning to Slide 6. Dave covered a lot of the customer driven capital investment opportunities we have ahead of us. As he said, we are in year-two of a very attainable and tangible capital investment plan of $40 billion plus through 2030, which you can see here on this page. These projects are focused on safety, resiliency, reliability, growth and clean enablement.

One item to discuss in a clean energy side, recognizing there is a lot of conversation regarding the availability of imported solar panels. While we're not immune to the current market factors, our next facility is not slated to come into service until the fourth quarter of 2023, and a lot can and will happen between now and then. We are working with our developers and suppliers and feel good about their early attention towards identifying possible alternatives if needed. We'll obviously be learning more over the coming weeks and months, but we remain firmly committed to our long-term renewable generation transition and our timeline for our net zero and carbon reduction emission goals will remain unchanged.

It is important to note that while we're only anticipating less than $0.02 of earnings benefit in 2024 from the generation transition, we have pulled forward some other capital work into 2022 from the latter part of the plan to reduce the risk and to continue to invest for the benefit of our customers. As a result of this acceleration, we are now forecasting to spend $4.3 billion in capital expenditures during 2022 and have increased our five-year capital expenditure forecast to $19.3 billion from $19.2 billion. This is our second increase to the plan since Analyst Day.

We're also fortunate to have regulatory mechanisms that allow for timely recovery of our capital investment. About 80% of the 10-year capital plan is eligible for recovery and expected to be recovered through interim capital recovery mechanisms. An example of which includes our recent distribution cost recovery factor or DCRF rate, which is expected to go into effect

September 1st this year. This is a filing for Houston electric to recover $1.6 billion in distribution capital we have made since 2018. These investments were dedicated to system improvements, load growth intelligent grid projects and temporary emergency mobile generation. Our continued focus on cost controls and other items should help mitigate the bill impact for our customers.

As is often the case with including something new like Mobile Generation in an existing mechanism, there is more regulatory scrutiny than usual around this year's DCRF, which includes the first tranche of our Mobile Generation investment. We look forward to working constructively with stakeholders to resolve the rate application on a timeline consistent with a DCRF statute.

In our Minnesota gas jurisdiction, we recently filed a constructive rate case settlement with all intervening parties specifying a rate of return on equity of 9.39% and resulting in an annual revenue requirement increase of $48.5 million. This settlement is subject to Minnesota PUC review and the anticipated approval is expected in the third quarter of 2022. That rate case application used a forward test here, providing timely recovery of our forecasted capital investments in reliability and safety across our system for the benefit of our customers, as well as our first green hydrogen pilot project, which recently went into service.

We are excited to now have the green hydrogen production facility online, which will use about 1 megawatt of renewable generation to produce hydrogen, which is then mixed into our natural gas system. While this is a small pilot project, it's a step in the right direction as we, our customers and our regulators progress towards a better understanding of how hydrogen can fit into our long-term, broader carbon emission reduction goals. Additional green hydrogen and other renewable gas projects will be considered in future a natural gas innovation act filings, which we plan to submit later this year.

Turning towards a broader regulatory update. We have securitization efforts going on in a couple of jurisdictions which I'll provide an update on. This mechanism allows for recovery of certain cost while once again lessening the impact to our customers by recovering over a longer period of time. The funds received from securitization can also be redeployed into capital investments for another form of efficient funding.

Lastly, from a credit perspective, the rating agencies typically remove the securitization bonds and cash flows from the credit metric calculations. In the state of Texas, we still anticipate the statewide securitization bonds to be issued in the coming months as the Texas Public Financing Authority is currently in their RFP process. We expect that this will provide 100% recovery of the $1.1 billion of gas cost incurred during last year's winter storm as well as the carrying costs.

In Indiana, in the coming weeks, we anticipate filing for costs related to the retirement of two coal facilities. This is a first-of-its-kind filing in Indiana. The current procedural schedule anticipates a decision by the end of 2022. And if the financing order is approved, we would expect a bond issuance in the first quarter of 2023. Outside of these updates on securitization, I'll remind everyone on the regulatory side, we have limited regulatory risks in your term with no major rate cases until late 2023.

Turning to strategic transactions. We sold our remaining $51 million Energy Transfer common units and preferred units this quarter for approximately $700 million of combined net proceeds or roughly $490 million net of taxes. Along with the 2021 sales, we received approximately $1.3 billion net after tax, which is a 20% premium to the Energy Transfer unit price when the transaction was announced. Additionally, in January, we received Arkansas and Oklahoma LDC transaction proceeds of $1.6 billion net of taxes, including approximately $400 million for the remaining outstanding incremental gas costs.

We have now utilized $1.8 billion of the combined LDC and Energy Transfer proceeds to reduce debt, including the $1.2 billion discussed on our last quarter's call, as well as paying down CenterPoint parent level debt, including $600 million of high coupon senior notes this quarter. These actions are also in-line with our goal to reduce parent level debt to approximately 20% of total debt by the end of this year, a goal we are well on our way towards achieving. We plan to use the remaining proceeds to fund the equity portion of our industry-leading rate base growth without external equity issuances. Separately and as we discussed at our Analyst Day in throughout last year, we have had an ongoing evaluation of our repairs expense deduction methodology, which would be another way for us to mitigate our cash tax position efficiently funding our growth and helping offset customer bills.

We currently expect that this process will result in a one-time cash tax benefit of approximately $300 million in 2022 and at least an incremental $25 million annually in future years, which over the five-year period would equate to at least $400 million of capital that we can redeploy into our business for the benefit of our customers and our shareholders. This is approximately $50 million more than what we estimated at our Analysts Day update. It is yet another example of efficiently funding our industry-leading growth plan. Our long-term FFO to debt objective remains between 14% to 15% aligning with Moody's methodology and is consistent with the expectations of the rating agencies.

Additionally, let me remind you, Moody's recently revised our downgrade threshold of 13%. Noting our improved business risk profile. And to be clear, we're continuing to focus on retaining this incremental credit cushion as opposed to using it to fund our growth. We believe, that these improvements in our balance sheet coupled with our efficient recycling of capital put us in a position of being able to offer industry-leading growth without the need for external equity. As we continue to express, we take our commitment to be good stewards of your investment very seriously, and we realize our obligation to optimize stakeholder value for all.

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

David J. Lesar {BIO 1519300 <GO>}

Thank you, Jason. As you heard from us today, we now have eight straight quarters of meeting or exceeding expectations, and have checked the box on executing on our strategic transactions. We are a pure regulated utility and firmly on the pathway to premium with incremental growth opportunities driven by our customer demands.

Jackie Richert {BIO 22249352 <GO>}

Thank you, Dave. We'll now turn to Q&A and it will be cognizant of the busy calendar call schedule following us. Operator?

Questions And Answers

Operator

(Question And Answer)

At this time, we'll begin taking questions. (Operator Instructions) Our first question is from Nick Campanella from Credit Suisse. Your line is open.

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

Good morning.

Q - Nicholas Campanella {BIO 20250003 <GO>}

Hey. Good morning team and thanks for having me on. Appreciate it. I just wanted to talk quick, you talked about industrial load and just higher demand leading to incremental capital over the course of the 10 year plan. You talked about not issuing external equity for the incremental capital. So I guess, just if you don't -- is it that you don't need the equity or that you would look to further portfolio rotation? Just how should we think about that?

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

No. I think if you sort of track all the way back to our Analyst Day and what we've talked about since then, the proceeds of Enable transaction, the original LDC sales when matched up against our $40 billion plus plan don't really require us to go into the market for any equity which is a sort of a north star for us right now and nor does it require us divesting of any LDC. So we have sufficient cash flow to meet this plan. What we have tried to signal is that as we identify additional capital opportunities either on top of the five year $19.3 billion or so plan we have or the $40 billion plus plan, at that point, we would look to selling additional gas LDCs. But right now, we have sufficient cash flow to meet our needs without issuing any more equity.

Q - Nicholas Campanella {BIO 20250003 <GO>}

Very helpful. Thank you for that. And then, I guess, just higher level like thinking to the cadence of your updates to the course of 22 here. And as I look back to 2020 and 2021, you've kind of maintained a pace that's been kind of fairly splashy. Understand there's been a lot to do also, but that story is kind of behind us now and things -- to your point, you're prepared remarks are just a lot simpler. So I guess, just to kind of set expectations on the pace of updates are you just kind of planning for this to just be all around a quieter execution here, blocking and tackling on the core metrics or are there larger strategic items in your mind that we should be kind of thinking about?

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

No. I think blocking and tackling is probably a good way to summarize it. Although, if you think about even Q1, it was still a pretty active quarter for us. We closed on the LDC sales. We got rid of the rest of the Enable transaction proceeds we had. We continued to execute against a very aggressive rate base growth plan. We certainly met our earnings commitment. We've reiterated our 8% growth for the next few years and set at the top end of the range going forward. We met the challenges of inflation and supply chain. So I guess, I would think about it as yes, blocking and tackling. I think we did a really good job to Q1. I don't anticipate that changing, but I think the pace of change that I am trying to drive to CenterPoint is going to continue that's not going to change and we expect to hit all our marks that we have in our strategy.

Q - Nicholas Campanella {BIO 20250003 <GO>}

Thanks a lot. We'll see you at AGI.

Operator

Thank you. Our next question is from Ross Fowler from UBS. Your line is open.

Q - Ross Fowler {BIO 16864050 <GO>}

Good morning. How are you?

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

Good.

Q - Ross Fowler {BIO 16864050 <GO>}

So just maybe following on Nick's question and just looking from the Analyst Day incremental capital changes. So at year end, you accelerated $200 million into 2022 and then you added $300 million around this is 500 megawatts in mobile generation and now you're adding another $100 million into 2022 kind of on industrial demand, if my understanding is correct. So that's $300 million of that total $600 million increase since the Analyst Day in 2022, but to point some of that from the back end of the five year plan. So maybe talk a little bit about that shift and then your ability to sort of back fill capital in sort of year four and five.

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

Sure, let me -- let Jason handle that one. He keeps track of our capital going forward literally on a day-to-day basis, as I think you picked up today.

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

Good morning, Ross and thanks for the question. As you pointed out, we increased the CapEx forecast for 2022 by $300 million and increased the five year CapEx plan by $100 million. What we effectively did was brought for over $200 million from 2023 and 2022 and then increased the overall plan by about $100 million. Really that increase relates to routine work in our gas and electric businesses. Then we have the luxury to pull forward because as mentioned in our prepared remarks, we have an efficient way to fund that for our shareholders in terms of higher incremental proceeds from the tax repairs deduction as well as higher incremental proceeds from the securitization that's anticipated in Indiana and this work continues to help kind of benefit our customers by improving again the safety and resiliency of the system, which is why we put it forward.

It further helps de-risk any impact from solar delays as I mentioned in my prepared remarks. And so as we look at then sort of a longer-term execution to your plan or to your question, we continue to I think make positive momentum I think with the City of Houston around improving resiliency here in Houston. We will likely have an update around that work probably around the Q4 or sorry, Q3 earnings call. And then as Dave mentioned in his prepared remarks, we're seeing increased demand from our industrial customers, both here in Houston, as well as Indiana. And as we work to serve those customers' needs, we hope to have a more holistic update around the longer-term impacts to our CapEx plans later this year. So it's an exciting time here at CenterPoint. The best is still yet to come.

Q - Ross Fowler {BIO 16864050 <GO>}

Thanks, Jason. Thanks for that. Very detailed review. I'll hop back into the queue and I'll see you guys at AGI.

Operator

Thank you. Our next question is from Anthony Crowdell from Mizuho. Please ask your question.

Q - Anthony Crowdell {BIO 6659246 <GO>}

Hey. Good morning, Dave. Good morning, Jason.

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

Good morning.

Q - Anthony Crowdell {BIO 6659246 <GO>}

Dave, is Jason doing both the blocking and tackling or is he just doing the tackling?

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

No, he can do both. He can block and tackle as can everybody on our management team today.

Q - Anthony Crowdell {BIO 6659246 <GO>}

That's great. Just hopefully two quick questions. One is you talked about the But the O&M targets in your 10 year plan. I believe you said it's about 1% to 2% reduction each year. Just curious current tight labor market, supply chain issues, just maybe how challenging is it going to be to meet that? And I also think you kind of highlighted the AMI investment perhaps I guess went one out in April. Just wondering if you give us some color on the rate base opportunity that AMI represents and plans on getting pregnant or recovery of that. I have one more follow-up.

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

Okay. I'll let Jason handle the AMI question. I think I'll take the former part of your question. I guess, my view is that's what you pay a management team to do is to sort of take the challenges of supply chain, the challenges inflation had on. So I view is every utility is experiencing it. Most companies across the U.S. are experiencing it and it's coming at us every day, believe me. But I think that we have put a standard out reducing our O&M 1% to 2% on average every year. And as Jason said, we believe we're going to continue to do that. As to AMI, I'll let Jason talk about that.

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

Yes. Thanks Anthony for the question. It's several hundred million over the course of the 10-year plan. We'll seek to recover that. We've started here as Dave mentioned in his prepared remarks in Texas. The recovery will follow our typical capital investment through the grips. And then obviously, the longer-term implementation of the AMI program will be addressed in the gas LDC rate case that we'll file late 2023. So it follows sort of a normal course of events here and we'll follow kind of a similar process as we roll it out to the rest of our service territory. What I would say and just sort of reinforcing confidence around our ability to continue to meet our O&M objectives is I think this is one of many programs that we've highlighted, whereas we implement improvements to our system to lower our O&M cost structure going forward just like we've highlighted the coal transition in Indiana. I think these O&M reductions from capital is core sort of driver near-term of our ability to meet our O&M targets. And then we continue to see broad adoption of our continuous improvement program throughout our service territory and are excited what that will yield over time as we mature in that area.

Q - Anthony Crowdell {BIO 6659246 <GO>}

Great. And just lastly, I guess, Dave following up on maybe Nick's question earlier. We've seen LDC valuations have recovered and are more in line with like electric utility valuations. And it seemed that right now investors are really focused on maybe energy security and view of an LDC has kind of changed more favorably. Just I know you don't have any need for funds in the current 5 year or the 10 year plan, but does the recovering LDC valuations change your view that you view them more as a source of funds or as a prepaid debit card? And I'll leave it there.

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

No, I think as we said, I think nearly every quarter when we've talked about this, I do view them as sort of prepaid debit cards, I guess, that's become the lexicon of the industry. I guess, we've talked about it so much, but my view is it really gives us optionality, but I -- and I do like the fact that their valuations I think are being more accurately reflected in share prices today. But because they're opportunistic asset for us, I don't see any reason to accelerate the divestiture any of those until we have an opportunity to redeploy that capital back into our electric business. So we're just going to stay the course in that area for now. As I said, be opportunistic. But as we've said several times in the prepared remarks, we are looking for incremental capital opportunities and I'll trade off selling gas LDCs at a multiple of rate case and invest in it at one time rate base every day of the week. We just got to wait for those opportunities to develop and then we'll make the decision.

Q - Anthony Crowdell {BIO 6659246 <GO>}

Great. Solid quarter. Thanks for taking my questions.

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

Thanks.

Operator

Thank you so much. Our next question from Shar Pourreza from Guggenheim Partners. Your line is open.

Q - Shar Pourreza

Hey. Good morning guys.

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

Hey, Shar.

Q - Shar Pourreza

So just on as we're kind of looking broadly at sort of some of the supply chain issues and inflation and mainly obviously the tariff circumvention investigations going on with the commerce department which could kind of lead to some pricing uncertainty at least through '23 and maybe beyond, I guess, how do these sort of tail risks impact how you're thinking about the electric IRP process especially as we're shifting focus to the upcoming '23?

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

Yes, Shar. Thanks for the question. Obviously, it's front of mind. I would say as we mentioned, we're not immune to what's going on in the market. However, we've got a great set of development partners that we're working with constructively to find a solution. We are seeing the price increases that you alluded to. But I think what's important to reinforce is despite the price increases that we are currently seeing, the path on the coal transition is still substantially less than the cost of continuing to operate these coal facilities. The current estimate given the age of these coal facilities would be -- it would cost our customers in Indiana about $50 a month to continue to maintain and I think will come in despite cost increases at a cost of the coal transition of less than $10 a month.

So while we still see sort of short-term pressure, this is still the best long-term solution for our customers in Indiana. And as we think about gearing up for the IRP, we will be going out with a broader request for proposal here this summer. We will be trying to get kind of the best and latest thinking on pricing technology costs that will factor into the integrated resource plan that we will file next year that will address the third and handling coal facility. And so more to come on this, but we've got a great set of development partners that we're working with constructively to find a solution here.

Q - Shar Pourreza

Got it. And then just lastly, I know obviously with the Texas Energy legislation passed, you've got resiliency now. There's a lot of incremental opportunities. I guess, at what point can we start seeing some of these opportunities kind of materially come into plan versus these small bumps we've been seeing recently?

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

Sure. I'll take these small bumps every day second increase since the Analyst Day almost six months or so ago. But that being said, I do think by Q3 this year on the earnings call we should have a better view of the longer-term impact or capital plans around resiliency, not only in the in the City of Houston, but the surrounding communities. And then the pace of the updates around the industrial demand that's going to be dependent on those customers, those industries, but I would likely want to be in a place where we can provide a holistic update to the 5 and 10 year CapEx plan again around the Q3 timing related to that incremental demand as well.

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

I mean, I would just add maybe an editorial comment. I know that we have sort of teased the update here for a couple of quarters. But I also think it's important for everyone there to understand we are working with the City of Houston here. We're not going to front run the outcome. Those discussions are ongoing, but I think it's just in everyone's best interest to wait until the plan is finalized and we sort of can announce it jointly and we'll do so when us and the city are ready to do it.

Q - Shar Pourreza

Okay. Perfect. You guys. Appreciate it. Thanks.

Operator

Thank you so much. Our next question is from Julien Dumoulin from Bank of America. Your line is open.

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

Hey. Good morning team. Thanks for time. Appreciate it. So just to follow up and clarify some of the earlier questions around inflation and spending. Just can you speak a little bit more about the sort of normal course inflationary impacts on CapEx budget? Just trying to get a sense especially across the industry. To what extent is some of those coal forward and allocated in this year driven in part by just normal course inflation? And to what extent does that have sort of an expectation for cascading in to your program? Or said differently is there sort of an assumption that there's some deflation in the back end of your program or is the entire program in inflated at this point?

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

Yes. Thanks, Julien for the question. At this point, the increase that we've been discussing related to the -- this quarter's update is really a reflection of a pull forward to projects, lesser on inflation. This is discrete work that we had planned in 2023 pulling forward to 2022 and then planned the incremental $100 million for the five years is really a component of that $1 billion of capital that we hold in reserve to make sure that we have the opportunity to fold in when we can efficiently execute and fund that work. So it really isn't a reflection of inflation now. That being said, clearly, we are starting to feel the impacts of inflation.

I think our supply chain team has been working effectively with our suppliers to find long-term commitments around work volumes that can be of interest, not only to their workforce, but interest to kind of our plans as well. And so I think today we're managing the impact of inflation. I wouldn't consider it a driver. I consider it a potential risk depending on how long we continue to face this inflationary pressure. We're not making any assumptions around deflation today on the back end of the plan. We're really just trying to understand how long we'll be in this inflationary cycle. And so again, it's really driven by work as opposed to inflation at this point.

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

Right. And just to clarify that even to the extent to which that you look at your plan here is there potential further inflationary factors you just reassessed what it costs you for electrical equipment here and gas equipment?

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

Realistically, there could be some inflationary impact. We're starting to monitor what that risk in terms of a cost increase could be, but to-date, we have not seen that. We need to fold that into the plan yet. So it will be something we continue to monitor and happy to continue to provide updates in future quarters around it.

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

Excellent. Just going back to the other Texas conversation on (inaudible). Obviously, you've seen developments in freight with the queue here on transmission. Any thoughts or perspectives to add on that front specifically moving past the Houston resiliency and just focusing on additional transmission integrity?

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

We continue to be very excited about the opportunity there. It was clear coming out of the legislature last year that the State of Texas wanted to put a priority around incremental transmission lines bringing more pathways, if you will, to provide electricity. We continue to work with the commission to see how we can accelerate the sighting of new transmission projects. We can execute on that work. So I would say it's early days, but that continues to be another area where we may see incremental upside to the plan and we continue to have excitement around.

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

Good luck guys. Thanks for the time. Appreciate it.

Operator

Thank you so much. Our next question is from Steve Fleishman from Wolfe Research. Your line is open.

Q - Steve Fleishman {BIO 1512318 <GO>}

Thank you. Good morning, Dave. So just a question on the, I guess, Indiana and the solar projects in IRP. There's other utilities in Indiana, pretty much all of them are going through the same transition you are. So I'm curious just overall political regulatory feedback on this kind of solar anti-circumvention and do they get us -- do they have -- do they give you the sense that they understand the cost increases and just in the context of obviously everything going on with energy inflation?

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

Yes. Thanks, Steve for the, the question. It's an ongoing dialogue with commission staff as you pointed out. We're certainly not alone, not only other utilities in Indiana, but obviously utilities all over the country are facing these inflationary cost pressures, as well as impacts on timing of the projects. And so I think the broader set of issues around timing and costs are well known. And I think that the commission is looking at us to work effectively with the developers to find a constructive solution for our customers, for the developers and for the execution of this work and so we'll continue to do so. I think it's early days in those conversations. But again, they're -- I think they're well attuned to kind of the pressures that we are all facing.

Q - Steve Fleishman {BIO 1512318 <GO>}

Great. And then one just another quick one. The -- appreciate you highlighted the shift in the business mix more to electric, I think 62% now. Do you have any on a target for that long-term? Where you see that going?

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

No, I think, Steve, if you would -- if you sort of look at the $40 billion in capital spend, it's clearly biased toward electric. So if we did nothing else, I think you would see that 62% creep up over the 5 and 10 year plan that we have. Clearly as we've indicated if we find a big slug of incremental capital to invest in that generally is going to be focused on the electric side. We would have the commensurate sale of an LDC to fund that. So we wouldn't have to issue equity that would push it even more dramatically in the direction of higher bias toward electric. But I think inevitably over time, if we did nothing else, it's going to bias toward electric. And as I said, if we -- if and when we find the larger plug a capital, it will push it that direction even more aggressively. So instead of a perfect mix, I don't think there is one out there. But at the end of the day, we'll sort of seek the level that makes sense for our investors and for our customers.

Q - Steve Fleishman {BIO 1512318 <GO>}

Thank you.

A - Jackie Richert {BIO 22249352 <GO>}

Operator, we're at the top of the hour. I think we have time for one more question.

Operator

Okay. Sure. Our last question is from Insoo Kim from Goldman Sachs. Your line is open.

Q - Insoo Kim {BIO 19660313 <GO>}

Hey. Thank you for squeezing me in. Just first question, going back to the capital plan and the increases there, we've talked a lot about the cost side on the inflationary front, but just in terms of labor availability, are you not seeing any pressures in finding the labor to accommodate any increase in the CapEx?

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

No. I think if you remember back two or three calls ago, I can't remember which quarter it was in, we highlighted the fact that we recognized that labor was going to be an issue to basically address the challenges of our capital plan. So we actually moved pretty aggressively at that point in time to tie up crews that were sufficiently large enough for us to handle the capital spend plan that we have. So at this point in time, we've got those crews sort of tied up in sequence to come in and serve our needs as we do this capital build. Certainly, there's labor cost pressure, but the actual bodies I think were in really good shape on that.

Q - Insoo Kim {BIO 19660313 <GO>}

Got it. That's good color. My other question is just on the Houston electric demand growth. We -- I know customer growth was strong and I think weather may have helped this quarter as well, but still pretty impressive numbers especially on the residential front. Just more color on what you've seen on the ground there that's contributing to that versus some other parts of the country that has seen more normalization?

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

Well, I mean, yes. I think almost any economic indicator you look at, I mean, Houston is doing just great. I saw a note the other day that there were more housing starts in the City of Houston in the last two years than anywhere in the United States. You look at the turmoil going on in Europe and all of a sudden the pivot toward meeting set of more energy exports out of the U.S. to serve Europe and the whole sort of LNG and petrochemical complex, refinery complex that sits in our territory and in our backyard here in Houston and the number of conversations that are taking place about either starting new facilities, upgrading facilities they have here, the sort of continued industrial growth outside of the ship channel that's taking place in this area, continued population growth, you just sort of go right down the line. And you really just got to come here and experience it, just get in your car and drive around Houston in this area and you just sort of the economic vitality is oozing out of this city at this point in time.

Q - Insoo Kim {BIO 19660313 <GO>}

That makes sense. No, I definitely felt that at the Analyst Day there last fall. So thanks for the color. Thanks, Dave.

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

All right. Thank you.

A - Jackie Richert {BIO 22249352 <GO>}

Thanks, Insoo. All right. Thank you, everyone again for joining us for our 2022 first earnings call. And with that, operator I think we can all disconnect as that will conclude our call for today.

Operator

Thank you. The recording for this call will be available on our website by 11 a.m. Central Time today until May 11. This includes CenterPoint Energy's first quarter 2022 earnings conference call. Thank you for your participation.