Q3 2018 Earnings Call

Company Participants

- David Mordy, Director of Investor Relations
- Scott Prochazka, President & Chief Executive Officer
- William Rogers, Executive Vice President & Chief Financial Officer

Other Participants

- Abe Azar, Analyst, Deutsche Bank
- Ali Agha, Analyst, SunTrust
- Anya, Analyst, Bank of America Merrill Lynch
- Ashar Khan, Analyst, Verition Fund Management
- Christopher Turnure, Analyst, JP Morgan
- Julien Dumoulin-Smith, Analyst, Bank of America Merrill Lynch
- Khanh Nguyen, Analyst, Credit Suisse
- Michael Lapides, Analyst, Goldman Sachs

Presentation

Operator

Good morning and welcome to CenterPoint's Energy Third Quarter 2018 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'll now turn the call over to David Mordy, Director of Investor Relations. Mr. Mordy?

David Mordy {BIO 20391499 <GO>}

Thank you, Catherine. Good morning everyone. Welcome to our third quarter 2018 earnings conference call. Scott Prochazka, President and CEO; and Bill Rogers, Executive Vice President and CFO, will discuss our third quarter 2018 results, and provide highlights on other key areas, including our pending merger with Vectren. Also with us this morning are several members of management who will be available during the Q&A portion of our call.

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

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

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

We will also discuss our guidance for 2018. The guidance risk considers utility operations performance to date and certain significant variables that may impact earnings such as weather, regulatory and judicial proceedings, throughput, commodity prices, effective tax rates and non-merger financing activities.

In providing this guidance, the Company uses a non-GAAP measure of adjusted diluted earnings per share that does not include other potential impacts such as changes in the accounting standards or unusual items, earnings or losses from the change in the value of the Zero-Premium Exchangeable Subordinated Notes or ZENS securities and the related stocks or the timing effects of mark-to-market accounting in the Company's Energy Services business. The guidance range also considers such factors as Enable's most recent public forecast and effective tax rates.

During today's call and in the accompanying slides, we will refer to public law number 115-97, initially introduced as the Tax Cuts and Jobs Act or TCJA as simply -- or simply Tax Reform. Before Scott begins, I would like to mention that this call is being recorded. Information on how to access the replay can be found on our website.

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

Scott Prochazka {BIO 17360314 <GO>}

Thank you, David, and good morning ladies and gentlemen. Thank you for joining us today and thank you for your interest in CenterPoint Energy. I will start on slide five with an update on the pending merger with Vectren, as well as recent financing activity. In October, we participated in the Indiana Utility Regulatory Commission informal hearing and continue to target closing the pending merger with Vectren in the first quarter of 2019. Our integration planning teams are hard at work as they progress through the design phase. These teams now have targets in place that are in line with our anticipated $50 million to $100 million in pretax earnings from potential merger benefits by 2020.

CenterPoint completed both the equity and fixed-rate debt components of the merger financing in October. We believe that the strong results of the merger financing will help reduce the equity financing needed for our capital budget. Bill will provide additional color on the financing, as well as drivers for our combined 2020 EPS potential.

Turning to slide six. We are currently conducting our annual CenterPoint capital review process and I want to provide a preview. We anticipate a 5% to 10% increase in capital investment for the 2019 to 2023 plan, versus the 2018 to 2022 plan. We will provide further detail on the our updated capital spending plan in our 2018, Form 10-K, and on our fourth quarter earnings call. The increase expected is partially driven by the Freeport Master Plan project, but we anticipate that the updated plan will also include capital expenditure increases across each of our CenterPoint business segments. We will not be reviewing or updating the Vectren capital expenditure plan until after we are one company.

Next, I will cover the quarterly results. Turning to slide seven. This morning, we reported third quarter 2018 net income available to common shareholders of $153 million or $0.35 per diluted share, compared with $169 million or $0.39 per diluted share for the third quarter of 2017. On a guidance basis, excluding $18 million of after-tax impacts associated with the pending merger with Vectren, third quarter 2018 earnings were $170 million or $0.39 per diluted share compared with earnings on a guidance basis of $167 million or $0.38 per diluted share in the third quarter of 2017.

Increases were associated with rate relief, the lower federal income tax rate related to tax reform, midstream investments, customer growth, and equity return, primarily due to the annual true-up of transition charges. These benefits were largely offset by higher operations and maintenance expense, and depreciation and amortization, as well as a non-cash charge associated with state-deferred tax assets that are no longer expected to be utilized after the internal midstream spend. Bill will discuss that further later in his remarks.

O&M has elevated this quarter compared to the third quarter of 2017, due in large part to timing, both within 2018 and in comparison to the third quarter of 2017. The compound annual growth rate for utility operations O&M during the 2014 to 2018 period is expected to be approximately 3%. Generally, over a multi-year period, we expect O&M increases to be in line with inflation.

Midstream Investments had a strong quarter and both it and our utility operations posted solid earnings that were in line with our expectations. As a result, third quarter performance keeps us on track to achieve the high end of our $1.50 to $1.60 EPS guidance range for 2018, excluding impacts associated with the pending merger with Vectren. Our business segments continue to implement their strategies, which are focused on safely and reliably addressing the growing needs of our customers, while enhancing financial performance.

Turning to slide eight, I will cover business highlights, starting with Houston Electric. Electric transmission and distribution core operating income in the third quarter of 2018 was $214 million, compared to $236 million in the third quarter of 2017. We continue to see growth in our electric service territory, adding more than 39,000 metered customers since the third quarter of last year.

On the regulatory front, our transmission investment recovery filing for an annual increase of $41 million became effective in July, and our most recent distribution investment recovery filing became effective in September, providing an annual increase of $31 million. We filed our certificate of convenience and necessity with the PUCT for the Freeport Master Plan project in

September. The cost estimate which will be driven largely by the route selected is in the range of $482 million to $695 million.

The PUCT has requested that ERCOT to review this project, which we expect will be completed within the next three months. We anticipate a decision from the PUCT as early as the third quarter of 2019. For a full update of our current regulatory filings please see slide 24. Houston Electric is having a strong year and is performing in line with our expectations.

Turning to slide nine. Natural Gas Distribution operating income in the third quarter of 2018 was $3 million compared to $25 million in the third quarter of 2017. We continue to see solid customer growth with the addition of nearly 29,000 customers since the third quarter of last year. Increases in expense as compared to third quarter of 2017 are largely impacted by timing issues. Bill will provide additional color during his remarks. Overall, natural gas distribution is performing well and is on target to meet our expectations for 2018.

Energy Services operating loss was $10 million in the third quarter of 2018 compared to operating income of $5 million in the third quarter of 2017, excluding a mark-to-market gain of $1 million and $2 million respectively. Year-to-date Energy Services' core operating income is $51 million compared to $35 million for the first nine months of last year. We continue to see value from our acquisitions and are reiterating Energy Services core operating income target of $70 million to $80 million for 2018.

Midstream Investments contributed $0.14 per diluted share in the third quarter of 2018, compared to $0.10 per diluted share in the third quarter of 2017. On slide 10, we've captured some of the highlights from Enable's third quarter earnings call on November 7. Quarterly volumes of natural gas gathered and processed, natural gas liquids produced, and crude oil gathered were at all-time highs since Enable's formation in May of 2013.

Enable recently announced the Gulf Run pipeline that is backed by a precedent agreement with a cornerstone shipper for 1.1 billion cubic feet per day. In addition, they announced increased contractual agreements in the Williston Basin for a substantial expansion of crude and water gathering systems there, and an investment in oil gathering capabilities in the Anadarko basin that establishes a credible presence in that region. We are pleased with our Midstream Investments performance and with the 2019 guidance Enable provided on their most recent earnings call.

Turning to slide 11, we continue to forecast strong earnings growth relative to 2017. For year-to-date guidance EPS, we are $0.20 ahead of where we were at this time last year. We anticipate that utility rate relief and customer growth, contributions from Energy Services, and earnings from Enable will continue to drive our earnings growth. We are reiterating, our 2018 guidance EPS at the high end of our $1.50 to $1.60 range, excluding impacts associated with the pending merger with Vectren.

As I mentioned earlier, with our permanent financing complete and integration teams continuing to make progress, we expect to close the merger in the first quarter of 2019. We are excited about growing our regulated energy delivery businesses and the complementary nature of our combined competitive businesses. We recognize that customers drive our business and we are excited to serve a larger base of customers with a broader set of products.

Recently, CenterPoint was ranked first for the second straight year in the South region Gas Utility Residential Customer Satisfaction survey. With utility businesses in eight states, a competitive service footprint in nearly 40 states and more than 7 million customers, we have a unique opportunity to become a leading customer-centric, technology focused energy delivery company in the future.

I want to thank our employees for their dedication to our customers, while also working safely and efficiently, all of which has resulted in continued strong financial results.

I will now turn the call over to Bill to discuss our business segments and our earnings. Bill?

William Rogers {BIO 15746544 <GO>}

Thank you, Scott. I will start with quarter-to-quarter operating income walks for our Electric Transmission and Distribution, and Natural Gas Distribution segments. I will follow this with EPS drivers for utility operations and our consolidated business on a guidance basis. My intent is to help investors understand the elements that give us confidence in achieving the high end of our 2018 EPS guidance range, excluding impacts associated with the pending merger with Vectren.

We have adjusted our GAAP EPS for two items to determine guidance EPS. Those adjustments are mark-to-market impacts at our Energy Services business and the net of the mark-to-market assets and liabilities associated with our ZENS securities and related stocks. I will also exclude $15 million of pretax cost, plus $5 million of Series A preferred stock dividend requirement associated with the pending merger with Vectren. As we noted in earlier quarters, the adoption of accounting standard for compensation-retirement benefits resulted in an increased operating income for 2017 as it moved certain amounts below the operating income line.

Beginning with Houston Electric's operating income walk on slide 13, revenue decreased $22 million as a result of tax reform. When reviewing net income, this revenue impact is offset by lower federal income tax expense. Rate relief translated into a $30 million favorable revenue variance for the quarter, and customer growth provided another $9 million in positive revenue variance.

O&M had an unfavorable variance of $38 million. O&M increased primarily as a result of increases in vegetation management, preventive maintenance, support services, labor and benefits cost, and third-party claims, much of this is timing related. This is in part influenced by the impact of hurricane Harvey in the third quarter of 2017. We have been catching up on operating expenses that were deferred, as well as increasing our resiliency expenditures as a result of lessons learned from last year's hurricane.

Equity return related to the true-up of transition charges increased $4 million. Lastly, depreciation and taxes accounted for a $5 million unfavorable variance. Excluding equity return and impacts of the tax reform adjustment, Houston Electric's operating income decreased by $4 million on a quarter-to-quarter basis. Year-to-date, Houston Electric is performing in line with our expectations for 2018.

Turning to slide 14. Natural Gas Distribution operating income for the third quarter was $3 million versus $25 million for the same period last year. Revenue decreased $6 million as a result of tax reform. This was offset by lower-income tax expense on the net income line. Operating income included a $5 million positive variance from rate relief, a $2 million benefit from customer growth and a $6 million positive variance due to a decoupling normalization accrual recorded in third quarter of 2018.

On a quarter-to-quarter basis, O&M was higher by $25 million. This is largely due to increases in support services, contracts and services, labor and benefit costs, and other operations and maintenance expenses. We believe the quarter-to-quarter comparison of O&M is not informative as to annual trends. Some of the variance in the other column is timing related. In 2017, certain expenses or benefits were incurred in other quarters compared to the same quarters in 2018. Lastly, depreciation and taxes were a negative $4 million variance. Year-to-date, the Natural Gas Distribution segment is performing in line with our expectations.

Energy Services third quarter operating loss, excluding mark-to-market adjustments, was $10 million versus operating income of $5 million in the third quarter of 2017. Margin decreased due to reduced opportunities to optimize natural gas supply cost, which offset favorable margins from incremental sales volumes. Operations and maintenance expenses increased and were due primarily to higher legal, technology, and support services expenses. CES remains on track for a core operating income contribution of $70 million to $80 million in 2018.

Our quarter-to-quarter utility operations EPS walk on a guidance basis is on slide 15. We will start with $0.28 for the third quarter of 2017 and subtract $0.05 for the charge in core operating income, inclusive of Energy Services and excluding equity return. Interest expense was flat, excluding merger-related interest expense connected with our acquisition financing. Next, we had $0.01 of improvement from equity return, and $0.01 of improvement for other. Other includes the benefit of lower federal income tax rate. Other also includes a $0.02 tax charge in the Gas segment as a result of the internal spin of our Midstream segment. This brings us to $0.25 of utility operations EPS on a guidance basis, excluding $0.04 of merger-related impacts in third quarter of 2018.

Our consolidated guidance EPS comparison is on slide 16, starting with $0.38 for the third quarter of 2017 and ending with $0.39 for the third quarter of 2018. In short, we were down $0.03 quarter-over-quarter for utility operations. Midstream Investments, including a $0.02 unfavorable mark-to-market variance at a net $0.04 EPS gain.

Slide 17 shows the year-to-date consolidated EPS guidance comparison, starting with $1.04 for the first three quarters of 2017 and ending with $1.24 for the first three quarters of 2018, a 19% increase. The $0.13 improvement at utility operations is primarily due to the strong performance in our Electric Utility and Energy Services segments. Midstream Investments, including the negative $0.05 mark-to-market variance year-to-date delivered a $0.07 improvement year-to-date.

We will note that going forward, this segment will have interest expense associated with the debt at CenterPoint Energy Midstream. With $0.20 of total improvement year-to-date, we are well on our track to meet the high end of our 2018 EPS guidance range.

On slide 19, we cover our recent financings. Through a combination of common stock, preferred stock, mandatory convertible preferred stock, and senior notes, and an increase in available revolving credit in commercial paper capacity, we are now in a position financially to close the merger. All of the offerings required significant effort from our treasury group as well as legal, accounting and tax professionals. I would like to command the team on successfully completing all of these offerings.

On slide 20, we provide an update on CenterPoint Midstream spin. The internal spin of our equity investment in Enable out of CERC was completed in early September. Moody's and Fitch upgraded CERC's credit rating to Baa1 and BBB+ respectively, as a result of the spin. Associated with the spin, CenterPoint reduced the deferred tax asset and took a non-cash charge of $11 million in the tax expense line reducing net income by $0.02 per diluted share.

On slide 21, we provide the drivers of our potential 2020 EPS on a guidance basis. We do not anticipate issuing equity in 2019 and in 2020. As Scott mentioned, we anticipate our capital investments will increase 5% to 10% for the 2019 to 2023 plan relative to 2018 to 2022 plan. Our integration teams have targets in line with our anticipated $50 million to $100 million in pretax earnings from potential commercial opportunities and cost savings by 2020. We have positive momentum in our competitive businesses and we see that same momentum in Vectren's competitive business. Further, we are pleased with Enable's year-to-date performance in 2018, as well as their recently announced forecast for 2019. Therefore, we continue to anticipate potential 2020 guidance EPS in the range of $1.76 to $1.98.

Slide 22 lists some of the information we intend to update on our fourth quarter 2018 earnings call, in conjunction with filing our 2018 annual report on Form 10-K. These include our five-year capital plan, details on merger cost savings, an overview of our competitive business performance objectives, updates from Enable that would flow through to CenterPoint Energy Midstream, our anticipated effective tax rate and projected EPS expectations.

I will conclude by noting our recently declared dividend of $0.2775 per share of common stock. This is an approximate 4% increase relative to a year ago is consistent with our 4% annual increases in dividends over the last several years.

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

David Mordy {BIO 20391499 <GO>}

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

Questions And Answers

Operator

At this time, we will begin taking questions. (Operator Instructions) Your first question comes from the line of Julien Dumoulin-Smith with Bank of America Merrill Lynch. Julien, your line is open. I do apologize. Your next question comes from the line of -- Yes, Julien, your line is open.

Q - Anya {BIO 20680985 <GO>}

Hey, sorry about that. We are having an issue here. This is Anya [ph] on Julien's team. He is on mute at the moment. Can you hear me?

A - Scott Prochazka {BIO 17360314 <GO>}

Yes, we can hear you.

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

Sorry about that guys. Had a bit of a IT issue on our side (inaudible) Anyway, just wanted to follow-up you first on the CapEx question if you can. You talk about 5% to 10%, what is above and beyond some of the transmission spending you all have talked about in terms of the initial plan here?

A - Scott Prochazka {BIO 17360314 <GO>}

So Julien it's a -- the -- as you pointed out, the project we've already talked about, but it's a review of capital expenditure or capital plans with respect to what I would consider more normal business around maintenance and infrastructure replacement and growth. Those are the major themes that will impact the other elements of our capital plan in addition to the Freeport Master Plan.

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

Got it. Excellent. And then, also wanted to follow-up a little bit here on the Enable side of the business, obviously we are seeing some reinvigorated investment opportunities here. Does that shifted all your longer-term thinking about Enable and certainly there's been a variety of different elements including potentially greater cash flow contributions here?

A - Scott Prochazka {BIO 17360314 <GO>}

When you say reinvigorating, you're talking about the opportunities that Enable is seeing.

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

Yeah, it was the organic opportunities, the acquisitive opportunities and then ultimately how that translates back into cash flow, back into your pocket?

A - Scott Prochazka {BIO 17360314 <GO>}

Look, I would characterize this as we are very pleased to see what Enable is doing. Their recent performance and how they are looking into 2019 based on the performance of their core business as well as these growth opportunities. We -- as we mentioned earlier, we have no need to sell any units over the coming 24 month period. That said, I think that if there were opportunities to opportunistically sell units down the road, we may take those opportunities, but we are certainly very pleased to see that Enable is performing well and they are being presented with these growth opportunities.

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

Excellent. And then just one last quick clarification. You talked about a 1Q close. Would you expect to provide an update proforma as soon as you close or are we going to be holding out to like a fuller update with 4Q?

A - Scott Prochazka {BIO 17360314 <GO>}

Well, you know we have to close before we really get access to the information and begin that process. So what we anticipate is, there will be a reasonable period of time between close and when we have our fourth quarter call which will give us time to prepare what you described.

Operator

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

Q - Khanh Nguyen {BIO 20576303 <GO>}

This is actually Khanh on for Michael.

A - Scott Prochazka {BIO 17360314 <GO>}

Hello, good morning.

Q - Khanh Nguyen {BIO 20576303 <GO>}

Hi. Yeah, good morning. Thanks for taking the question. I just want to follow-up quickly on the Vectren merger. So far the integration exercise -- the planning exercise that you've had, anything that would point to where you are in that range of $50 million to $100 million or are you in the position to share that at this point?

A - Scott Prochazka {BIO 17360314 <GO>}

Yeah, we are not in a position to share other than say we are really in the middle of what I'll call the design phase, and given the targets that we have established for the team, our level of confidence in that range is -- perhaps is good or stronger than it was when we shared that target earlier. So what we are doing is, we are seeing their work in line with what our expectations are. We'll be in a much better position to describe in some greater detail what we think that looks like when we -- after we merged and we have a chance to share that with you.

Q - Khanh Nguyen {BIO 20576303 <GO>}

That's great. So quickly on that too. So what kind of business outlook for the VISCO and VESCO at Vectren that you embedded in your 2020 guidance on slide 21. And given their results in the third quarter, how is your updated view on that business?

A - Scott Prochazka {BIO 17360314 <GO>}

Yeah, we have not updated our view other than to believe that what we were using. As we initially described, our earnings potential in 2020 is still very appropriate. They just had their earnings call and shared their results and their performance was good and their backlog is good. So we continue to be very optimistic and believe that -- what we had in our -- the basis on which we built our estimates for 2020 so far is still very accurate.

Operator

Your next question comes from the line of Abe Azar with Deutsche Bank.

Q - Abe Azar {BIO 18846367 <GO>}

Good morning.

A - Scott Prochazka {BIO 17360314 <GO>}

Good morning.

Q - Abe Azar {BIO 18846367 <GO>}

So just following up on the 2020 range. Why is it still so wide given the execution of the financing and when might you update it or narrow it?

A - Scott Prochazka {BIO 17360314 <GO>}

Yeah, so we've obviously answered one of the variables on there, but we know as we are going through capital planning and we are thinking about other variables in there, we felt it is best to wait and do a single consolidated new view of 2020 after many of these other variables have been resolved. So you are right. We've taken one of the variables out, but there are other things that we want to be able to finalize before we revise or tighten that range.

Operator

Your next question comes from the line of Chris Turnure with JP Morgan.

Q - Christopher Turnure {BIO 17426636 <GO>}

Good morning, Scott and Bill. I have a question on the 2020 guidance slide as well. I think I heard your comments in your prepared remarks on some of the moving pieces within there and your answers to some of the previous questions. But could you maybe walk us through how you can maintain that range, how you can still have confidence there despite the higher equity layer embedded there versus your original estimate?

A - William Rogers {BIO 15746544 <GO>}

Chris, good morning, it's Bill. We shared with you on the slide and Scott shared with you in his remarks as well as mine, some of the impacts. You are correct and we've completed the equity financing in both of the acquisition and as we look forward to greater rate base investment. But we have yet to complete our capital planning and we have yet to complete our views of the synergies and commercial opportunities associated with the pending merger of Vectren which should be on the top lines of that slide. And that's what we'll need to update and tighten the potential 2020 EPS guidance which we will provide for you at our year-end call.

Operator

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

Q - Ali Agha {BIO 1509168 <GO>}

Thank you. Good morning.

A - Scott Prochazka {BIO 17360314 <GO>}

Good morning, Ali.

Q - Ali Agha {BIO 1509168 <GO>}

Good morning. I had two unrelated questions. But first off, with regards to Enable, from your commentary and the fact that you don't need as you said any proceeds for the next couple of years, is it fair to assume that your overall strategic thinking on Enable may have changed as well to the sense that, you are no longer a bit pushed to necessarily exit that business, but over time maybe if the opportunity is there could do that? That's question number one.

And question number two, could you also give us some -- as you look out longer term and as you are updating your CapEx. Can you just remind us, how you are thinking about the growth rate beyond 2020 as well? So two separate questions.

A - Scott Prochazka {BIO 17360314 <GO>}

Ali, I'll start with a latter question, because I think that I can answer that one fairly quick. We have, as you know, we have not provided any guidance with respect to growth rate beyond 2020, because we get to the end of the year and we merge and we can go through a more integrated planning process, we will be in a position to determine when we are better suited to provide thinking beyond 2020. So that's the answer I would give to the second question.

Your first question, I think was about Enable. And in there, you mentioned as our strategic interest in Enable changed. I would say no, it is not. We continue to believe that our objective here is to have less exposure to the Midstream segment. By virtue of this merger, we accomplished some of that. We have less percentage exposure to the Midstream segment. But we will continue to look for constructive opportunities to reduce our position over a longer period of time. We've said in the past that the considerations around monetization of that investment will be as market conditions allow and as we have the needs and the opportunity to redeploy that capital into other investments and those are going to be the drivers for us.

Operator

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

Q - Ashar Khan {BIO 19979997 <GO>}

Good morning. Can you just -- just for a little bit of -- can you just tell us exactly what assumptions have changed apart from the financing assumptions since the guidance was given for 2020?

A - Scott Prochazka {BIO 17360314 <GO>}

So at this point, we haven't changed any of the assumptions relative to that. We've just addressed or now know what the outcome of the financing is. We still have the Vectren forecast that we've been using all along, that's the information that we have. We do know that our forecast internally will change somewhat in part from the capital update that I described in my comments. So that would be a variable that would change.

Q - Ashar Khan {BIO 19979997 <GO>}

Okay. So that has not been input into that analysis yet, right? So --

A - Scott Prochazka {BIO 17360314 <GO>}

That is correct.

Q - Ashar Khan {BIO 19979997 <GO>}

Okay. Thank you so much. So kind of you.

A - Scott Prochazka {BIO 17360314 <GO>}

You're welcome.

Operator

Your next question comes from the line of Michael Lapides with Goldman Sachs.

Q - Michael Lapides {BIO 6317499 <GO>}

Hey, guys. Just listening to a lot of the questions. It seems as if there is not a lot of focus on what looks like to be a really fast-growing utility you have known in Houston. So just curious, can you talk to us about your views for first power demands growth, meaning how different that your three quarters into the year? Do you think your weather normalized demand view is in Houston relative to what it was maybe at the beginning of the year or at the end of last year this time when you gave guidance? That's question one.

Question two, what do you see and I don't mean over the next couple of years with big transmission project, but I'm trying to think longer term. What do you think the opportunity set is and the size and scale is for distribution investment in Houston relative to the historical last five-year run rate?

A - William Rogers {BIO 15746544 <GO>}

Michael, good morning, it's Bill. I'll start with demand and then Scott I think will pick up with CapEx and talk about that. So I would begin the comment that we have now worked through most of Harvey with respect to residential housing consideration and residential housing consideration is translating and the meters has accelerated in the 12-month period, and it's September 30th relative to the 12-month period ended June 30th. You'll see, if you compare those figures, it was 1.5% for end of September 30th and 1.2% end of June 30th. So we are seeing meter count pick up again.

We've had a normal weather year. We've had a modest decline, meaning less than 1% in use per customer in a normal weather year. And if you'll look at our sales volumes, depending on the period that you want to use, it will be somewhere total increase of 2% to 4%. So industrial and large commercials load continues to be there. That all looks good in the service territory if you've been reading about various economic data and facts on Texas. We continue to add employment at a much faster rate relative to the nation. People are moving here for jobs and our unemployment rate in Texas and in Houston is close to the country as a whole.

A - Scott Prochazka {BIO 17360314 <GO>}

Michael, I'll just add because I think Bill gave a lot of the building blocks that would suggest what's driving the capital investment opportunity, but we continue to see strong growth in residential and commercial and even in the industrial space. So much of the capital that we have planned in the Houston area is around growth, as well as investments will make around resiliency and around maintenance, that type of thing.

So we, as Bill gave you many of the indicators, we did see a little bit of a slowing in the residential meter account. We believe it was because of two things: one was a slight overbuild in high-rise residential and that wave came to a completion about a year ago in the industry. The environment of the community here is now absorbing those units, and the impact that we had from Harvey, a year ago, and we are seeing that start to tick back up. So you set those two things aside, all the other indicators suggest the area continues to grow at record pace and that's what drives a lot of our considerations about additional capital needs.

Q - Michael Lapides {BIO 6317499 <GO>}

Got it. Thank you guys. Much appreciated.

A - Scott Prochazka {BIO 17360314 <GO>}

Thank you, Michael.

Operator

Your next question is a follow-up question from the line of Abe Azar with Deutsche Bank.

Q - Abe Azar {BIO 18846367 <GO>}

Thank you. Can you convert the increase in Enable's guidance between 2018 and 2019 into the CNP earnings view? And then, also the -- you exclude the VVC deal close and the dividends, but do you make a change for the shares issued or is that a little bit of dilution this year?

A - Scott Prochazka {BIO 17360314 <GO>}

Abe. I'll have Bill answer that question. I think he's got the numbers in front of him.

A - William Rogers {BIO 15746544 <GO>}

Abe, Enable announced yesterday, their net income estimate of $435 million to $505 million for 2019. That would translate to us $0.42 to $0.48 per share on a share count of $504 million. And that would be before the interest expense burden at CenterPoint Energy Midstream, but would also include $49 million of basis different secretion.

A - Scott Prochazka {BIO 17360314 <GO>}

And what was the second part of your question, if you're still there.

Q - Abe Azar {BIO 18846367 <GO>}

I am here. You excluded the cost around the impacts of the merger this year. Did you also take out the dilution in your numbers or is that still in from the --

A - Scott Prochazka {BIO 17360314 <GO>}

In the 2018 numbers?

Q - Abe Azar {BIO 18846367 <GO>}

That's right.

A - Scott Prochazka {BIO 17360314 <GO>}

Yes, we are taking out the dilution as well as the other cost of capital.

Q - Abe Azar {BIO 18846367 <GO>}

Got it. Thank you.

Operator

Thank you, ladies and gentlemen. I'd now like to turn the call back over to David Mordy for any closing comments.

A - David Mordy {BIO 20391499 <GO>}

Thank you everyone for your interest in CenterPoint Energy today. This will conclude our third quarter 2018 earnings call. We look forward to seeing many of you at EEI. Have a great day.

Operator

This concludes CenterPoint Energy's third quarter 2018 Earnings Call. Thank you for your participation.