Q3 2021 Earnings Call

Company Participants

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

Other Participants

- Anthony Crowdell, Analyst, Mizuho Securities
- Durgesh Chopra, Analyst, Evercore ISI
- Insoo Kim, Analyst, Goldman Sachs
- Julien Dumoulin-Smith, Analyst, Bank of America
- Shar Pourreza, Analyst, Guggenheim Partners
- Stephen Byrd, Analyst, Morgan Stanley

Presentation

Operator

Good morning and welcome to CenterPoint Energy's Third Quarter 2021 Earnings Conference Call with Senior Management. During the company's prepared remarks, all participants will be in a listen-only mode. There will be a question-and-answer session after management's remarks. (Operator Instructions)

I will now turn the call over to Phil Holder, Senior Vice President of Strategic Planning and Investor Relations.

Philip Holder {BIO 22115119 <GO>}

Good morning, everyone. Welcome to CenterPoint's earnings conference call. Dave Lesar, our CEO; Jason Wells, our CFO, will discuss the company's third quarter 2021 results. Management will discuss certain topics that will contain projections and other forward-looking information and statements that are based on management's beliefs, assumptions, and information currently available to management. These forward-looking statements are subject to risks or uncertainties. Actual results could differ materially based upon various factors as noted in our Form 10-Q, on our SEC filings, and our earnings materials. We undertake no obligation to revise or update publicly any forward-looking statements.

We will also discuss non-GAAP EPS, referred to as utility EPS, earnings guidance, and our utility earnings growth target. In providing these financial performance metrics and guidance, we use a non-GAAP measure of adjusted diluted earnings per share. For information on our guidance methodology in the reconciliation of 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 would like to turn the discussion over to Dave.

David J. Lesar {BIO 1519300 <GO>}

Thank you, Phil. Good morning, and thank you to everyone joining us for our third quarter 2021 earnings call. Because we recently hosted our Analyst Day, we will keep our prepared remarks brief today. As you know, we laid out our first ever 10-year plan back at our Analyst Day. We expressed that and are reiterating today that we are a management team who can execute. We believe we will continue to demonstrate that for you.

This marks my sixth quarter with CenterPoint and Jason's fifth. I'd like to first start by laying out how we are building a consistent track record of delivery. First, if you recall, the CenterPoint value proposition we laid out at our recent Analyst Day, focused on our efforts to achieve 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. I believe we are continuing down the path of achieving this value proposition.

Each quarter, under the new CenterPoint leadership, we have met or exceeded quarterly utility EPS and dividend expectations. We have increased our annual utility EPS guidance for both 2020 and 2021. And, as I will discuss shortly, today we are increasing our 2021 utility EPS guidance once again. Our 2021 through 2024 annual utility EPS growth rates of 8% are top decile among our peers. And we also expect to achieve at the mid to high end of our 6% to 8% utility EPS guidance range each year from 2025 to 2030. I am confident in our team's ability to achieve that growth.

Last year, we had a $13 billion five-year capital plan. We increased that to $16 billion in our 2020 Analyst Day. In this year, we increased it yet again to $18 billion plus. We introduced our first ever 10-year capital plan. CenterPoint remains ripe with opportunities across our footprint to expand and harden our system to benefit customers and shareholders. Our current 10-year plan contains no external equity issuances. We will fund the equity portion of our capital needs through internally-generated operating cash flows and our already announced strategic transactions. We're also executing on our plan to become a pure play regulated utility as we approach the closing of the Enable ET merger expected by the end of this year and then our subsequent sell down of our midstream stake.

With the recent settlement agreement among the parties in Arkansas, we are also moving towards the completion of our LDC asset sale. The remaining steps include the Oklahoma approval, which is anticipated to be received in November and the all-party settlement in Arkansas is expected to be approved by mid-December. And with our newest announcement around our industry-leading ESG targets, we are on the path to executing on our goals to be net zero on direct emissions by 2035. We continue to believe that this is an achievable path delivering for customers, regulators, investors, and the environment.

In the third quarter of 2020, I said that I will not be satisfied until we are recognized as a premium utility. And the theme of our Analyst Day was again establishing a path toward a premium. I believe we are making tremendous strides down that path. Before I get into the headlines for this quarter, I want to thank all of the crews for their hard work to restore power after Hurricane Nicholas down here in the Texas Gulf Coast. The storm had winds of up to 90 miles an hour, leaving 470,000 of our Houston Electric customers without power. Within three days, we had 95% of the power restored for those customers. And within five days, the whole system was back online.

Now, for this quarter's headlines. Our year-to-date financial progress has been strong. We are reporting a Utility EPS beat and are raising our full-year outlook this quarter. For the third time this year, we are increasing our 2021 Utility EPS guidance, this time to $1.26 to $1.28 for the full year. And for the first nine months, we've already achieved nearly 80% of that full-year goal. More importantly, we are still targeting an 8% annual growth rate for 2022 to 2024. So this raises our guidance for 2022 Utility EPS to $1.36 to $1.38. For the third quarter of 2021, we reported $0.25 of Utility EPS, which compares to $0.29 in the third quarter of 2020. In the third quarter of this year, we had a one-time impact to earnings of $0.04 per share related to our most recent Board implemented governance changes. Jason will get into more detail on the variances shortly.

Capital investments. As I mentioned earlier, we have increased our five-year capital plans to $18 billion plus over the next five years and $40 billion plus over the next 10 years. This is nearly a 40% increase in our five-year capital investment plan since the third quarter of 2020. This includes new opportunities that stem from the latest legislative session in Texas. One of those opportunities was the ability to lease and put into rate base mobile generation units. We move quickly on this opportunity and procured five 5-megawatt and three 30-megawatt mobile generation units, some of which we were able to deploy during Hurricane Nicholas as backup while crews worked to repair our system.

And recently, during an ERCOT forecasted Texas wide load shutting event, the Texas PUC asked us to make sure our units were ready to support customers. We were the first utility in the state to act on this legislative opportunity and had them in place to utilize them in the way the law intended. We look forward to mobilize quickly on the other tools provided to us by the Texas legislature to improve the resiliency of the electric grid and help reduce the risk of prolonged outages. We already have an outstanding RFP for additional mobile generation, which could bring our total up to 500 megawatts and hope to have this procured in the coming months.

We believe that with the deployment of these additional tools, we will be able to mitigate some of the impacts of future extreme weather events on our customers. Due to recent weather events in both Louisiana and Texas, we're running slightly behind on our capital spending plans on a year-to-date basis. These weather events pulled away many of our contract crews, so they could provide mutual assistance to our fellow utilities, especially in Louisiana. Therefore, while deployed elsewhere, they could not work on our capital projects, but we have a catch-up plan in place and anticipate making the shortfall off. In anticipation of continued labor shortages and as we ramp up our capital plans in the coming years, we have now moved to procure additional contractor resources from multiple suppliers. We believe that this will help to support continuity in crews on a long-term basis, reduce the impact of any labor disruptions in executing our $40 billion plus capital spend over the next 10 years.

O&M. Turning to O&M, we remain committed to our continuous improvement cost management efforts and our target of 1% to 2% average annual reductions. We've already realized the benefit of some of these improvements this year. We stated in the second quarter that we could accelerate approximately $20 million of recurring O&M work forward from 2022 into this year if we had the available resources. So far, we've achieved approximately 20% of this goal year-to-date and remain confident around our team's ability to continue to execute towards this goal for the balance of the year. This allows us the luxury of reducing near-term run rate O&M costs, which helps to mitigate rate pressures while maintaining continued focus on reliability and safety of our service for customers, all while sustaining growth for our shareholders.

Organic growth. In addition to O&M continuous improvement efforts, we are fortunate to operate in growing jurisdictions. This combination plays a key role in keeping our growth plans affordable for our customers. As we discussed during our Analyst Day, Houston is the fourth largest city in the U.S. and the only one of those four that's growing. Houston's organic growth has been multi-decades long. That organic growth rate continued for yet another quarter. We're also seeing strong growth in many of our other jurisdictions as well. On a year-over-year basis, we saw about 2% customer growth for electric and 1% for natural gas due September. Again, this organic growth is a luxury most other utilities just do not have.

Now let me shift gears and give a brief regulatory update. A recent highlight in Indiana happened just this past week. As part of our long-term electric generation transition plan, we received the CPCN approval from the Indiana Utility Regulatory Commission for the first tranche of solar generation, 75% of which we expect to own and 25% through a PPA. This approval shows the commission's alignment and support of our 2020 IRP, which bridges our coal generation into a mix of lower-carbon and renewable sources.

We anticipate the CPCN decisions for our gas CT plant in the second or third quarter of 2022 and the incremental solar PPA in the 3rd quarter of 2022. As outlined in our IRP, we are targeting to own approximately 50% of our Total Solar Generation portfolio. Our continued build-out of renewables is a key driver in achieving our net zero direct emissions goal by 2035. Shifting to gas cost recovery from the February winter storm. We continue to make progress. And as we previously mentioned, we have mechanisms in place or begun recovery in all jurisdictions.

We anticipate the CPCN decisions for our gas CT plant in the second or third quarter of 2022 and the incremental solar PPA in the third quarter of 2022. As outlined in our IRP, we are targeting to own approximately 50% of our total solar generation portfolio. Our continued build-out of renewables is a key driver in achieving our net zero direct emissions goal by 2035.

Shifting to gas cost recovery from the February winter storm. We continue to make progress. And as we previously mentioned, we have mechanisms in place or begun recovery in all jurisdictions. We are happy to report that just this past week, we reached a settlement and the prudence proceedings supporting securitization of 100% of gas costs in Texas, including all related carrying costs. We look forward to the commission approval of the agreement. We anticipated financing order for the securitization bonds by the end of the year. With this timeline, we anticipate receiving the proceeds sometime mid next year.

In Minnesota, we started a recovery as of September and are working with stakeholders on ways to reduce the impact on our customers. We filed a rate case earlier this week and also proposed an alternative rate stabilization plan to address the unique set of circumstances customers are experiencing. The full rate case request $67.1 million per year, while the rate stabilization plan request $39.7 million per year and an extended recovery period for winter storm costs. The proposed rate stabilization plan would resolve the rate case and limit the bill impact on customers.

In part by recovery in the winter storm costs over a 63-month period, we're asking the PUC to review and approve the stabilization plan by the end of this year, which would allow rates to take effect on January 1st. To summarize, we are working with stakeholders to align our focus on safety and related investments while minimizing the burden to our customers. Largely as a result of mechanisms in our Houston Electric in the Indiana South gas jurisdictions, we have recently received approval for $40 million of increased incremental annual revenue. As discussed in our Analyst Day, we anticipate approximately 80% of our 10-year capital plans to be recovered through interim mechanisms, which demonstrates the constructive jurisdictions in which we operate.

In Texas, our PUC is now appointed a fourth commissioner. Jason and I have now had the opportunity to meet all four commissioners and are very encouraged by the dialogue and expertise that all of these commissioners bring to the PUC. We look forward to continued engagement with the commissions in all of our jurisdictions.

So those are the headlines for the quarter. I remain excited about what's to come for CenterPoint. We have a growing track record of execution and believe it more than demonstrates what we can do in the near future and the unique value proposition that CenterPoint offers to you. With that, let me turn the call over to Jason.

Jason P. Wells {BIO 19168211 <GO>}

Thank you, Dave. And thank you to all of you for joining us this morning for our third quarter earnings call. This marks my one-year of earnings calls with CenterPoint and the story keeps getting better. To re-emphasize Dave's message, we're focused on establishing a track record of consistent execution and I fully believe the best is yet to come here at CenterPoint. I'll start this morning with the earnings for the third quarter of 2021.

On a GAAP EPS basis, we reported $0.32 for the third quarter of 2021 compared to $0.13 for the third quarter of 2020. Looking at Slide 5, we reported $0.33 of non-GAAP EPS for the third quarter of 2021 compared to $0.34 for the third quarter of 2020. Our Utility EPS was $0.25 for the third quarter of 2021, while Midstream Investments contributed another $0.08. Favorable growth in rate recovery, lower interest expense, and reversal of the net impacts from COVID last year, each contributed $0.01 of favorability. These amounts were offset by $0.04 related to our onetime Board implemented governance changes recorded this quarter and another $0.03 of unfavorable variance attributable to weather and usage. For context, we experienced 73 fewer cooling degree days in Houston for the third quarter of 2021 compared to the third quarter of 2020. We estimate that each cooling degree day above normal has approximately a $70,000 a day impact in our Houston Electric business.

Turning to Slide 6, for the first nine months, we've achieved nearly 80% of our full-year 2021 utility EPS guidance, which we are now raising to $1.26 to $1.28. And as Dave said, we are also raising our utility EPS guidance for 2022 to $1.36 to $1.38, which is an 8% increase from our new 2021 estimates. Looking beyond that, we are focused on delivering 8% annual Utility EPS growth through 2024 and at the mid to high-end of our 6% to 8% annual Utility EPS range over the remainder of our 10-year plan, strong growth each year and every year, no CAGRs for earnings.

The last thing I'll mention for this quarter is the share count. Our preferred Series B shares converted into 36 million common shares as of September 1st, further reducing the number of share classes outstanding. We expect the conversion will have no impact on earnings as the increase in shares is effectively offset by the termination of our Series B dividends. Going forward, I want to reiterate we have no external equity included in our current growth plans and only expect our share count to modestly increase from dividend reinvestment or incentive plans.

Now, I want to offer some color on the capital plans supporting our rate base and Utility EPS growth. We've spent approximately $2.3 billion year-to-date on capital investments. As Dave mentioned, we had some slight delays due to recent weather events and are focused on making that up over the coming months. We outlined on our Analyst Day the three buckets that we are investing in, safety, reliability, and growth in enabling clean investments that are included in our $40 billion plus 10-year capital investment plan. This investment profile should benefit our shareholders, our customers, and the environment.

We see those opportunities weighted nearly 60% towards investments in our electric business throughout the plan. While we are slightly behind the capital plan on a year-to-date basis, we are in the midst of ramping up to a sustained increase in our capital investments and we're restructuring contract crews in a way that helps support our labor needs to execute this level of investment. We're confident we will make up the shortfall by early 2022.

Moving to the financing updates. Our current liquidity remains strong at $1.8 billion, including available borrowings under our short-term credit facilities and unrestricted cash. Our long-term FFO to debt objective remains between 14% and 15% aligning with Moody's methodology and it's consistent with the expectations of the rating agencies. As mentioned during the Analyst Day, it's our intention to stay within this range throughout the course of our long-term plan. Lastly, as we near the end of the calendar year, we're getting incrementally closer to the expected closing of the strategic transactions we've announced. We recently filed a settlement in Arkansas that represents an agreement amongst all parties. We anticipate that Arkansas Commission will issue its final approval by mid-December. In Oklahoma, a hearing was held on November 3rd and we expect a final order soon.

Finally, as Energy Transfer expressed on their earnings call earlier this week, the Enable and Energy Transfer merger is also expected to close before year-end. Once that transaction closes, we will remain absolutely focused on reducing and then eliminating our exposure to midstream through a disciplined approach. As said on our Analyst Day, we anticipate being fully exited from the midstream sector by the end of 2022. We will then be nearly a pure play regulated utility. As we continue to express, we take our commitment to be good stewards of your investment very seriously and realize our obligation to optimize the quarter value.

And with that, we look forward to more of these shorter earnings calls in the future. I'll turn the call back over to Dave.

David J. Lesar {BIO 1519300 <GO>}

Thank you, Jason. As you heard from us today and others from our full management team during the Analyst Day, the outlook for CenterPoint just keeps getting better. As I said, we now have six quarters of meeting or exceeding expectations, but we believe there is much more to come. We are demonstrating the pathway to premium and we hope that you will be on board with us as a shareholder when that happens.

Philip Holder {BIO 22115119 <GO>}

Thank you, Dave. We will now take a few questions, being mindful of today's earnings schedule and the upcoming EEI conference.

Questions And Answers

Operator

At this time, we will begin taking questions. (Operator Instructions) Our first question is from Anthony Crowdell with Mizuho. Please proceed with 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>}

Hopefully I contribute to the short earnings call, but just -- I think of the company maybe over the last year, it was maybe more of a transition story. And we got, I guess, three increases in guidance throughout the year, including today. I mean, how do we think about going forward if we're more now on steady-state and the guidance you gave is probably more set and we look to be in the middle of it or do we continue to get maybe increases in guidance? And I have one follow-up.

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

Yeah. Well, look, I hope you got a sense today of how confident we are in the business or the direction that the business is going at this point in time. And I think that we're starting to hit on all cylinders. So, I agree, we're in a transition, but I think in a transition to what we believe ought to be a premium utility. So, I think if you listened to what we said today and let me boil it down into pretty simple terms, whatever we do this year, we will do 8% more than next year. Whatever we do next year, we'll do 8% more of the year after that, and et cetera, as we outlined during our Analyst Day. But we've got a lot of tailwinds behind us right now and we really, really like where we are.

Q - Anthony Crowdell {BIO 6659246 <GO>}

Great. And just one follow-up. Dave, at the Analyst Day you gave us some great insight into, I guess, just commodity prices maybe from a previous job you held. Just thoughts on -- are you seeing any type of change in your view that you think maybe the commodity prices will end up coming down?

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

No, I think -- I assume you're referring to natural gas prices.

Q - Anthony Crowdell {BIO 6659246 <GO>}

Yes.

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

And I think that, if you look at the strip, it is starting to drift down. But I think more importantly, it's really -- the focus, if you look at gas prices on our business specifically, we've got organic growth to sort of absorb issues. We've got our ability on O&M. So, if your question really is, do we see an impact on certain customer rates, certainly it's going to be out there, but I think we've got some offsets that maybe other utilities don't have. Jason, if there's anything you want to add to that?

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

Sure, Dave. Thanks for the question, Anthony. As we outlined at Analyst Day, we continue to work within our defined gas procurement plans for each jurisdiction. And as of today, looking across all of our jurisdiction, we're roughly 60% hedged now that we're going into the upcoming winter season. And for almost all of those jurisdictions, we've locked in kind of a weighted average cost of gas of somewhere between sort of the mid-3s and high 3s, $3 per MMBTU in the majority of our jurisdictions.

And so, feel well-positioned for this upcoming winter season. Obviously, we continue to look at what we can do across the business to ease the burden on our customers and I think one example of that was the creative alternative rate stabilization plan that we just recently filed in Minnesota. So, we'll continue to look for ways to minimize the bill impact, but I feel like we're well prepared coming into this upcoming winter season.

Q - Anthony Crowdell {BIO 6659246 <GO>}

Great. Thanks for taking my question. I will see you guys at EEI and, Dave, sorry about the Astros.

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

Yeah. Well, better luck next year, right?

Operator

Our next question is from Shar Pourreza with Guggenheim Partners. Please proceed with your question.

Q - Shar Pourreza

Hey, good morning, guys.

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

Good morning.

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

Good morning.

Q - Shar Pourreza

Just on with the current CapEx plan, you're obviously more levered to electric side of the business and the IRP in Indiana presents some additional upside beyond the five years for electric investment. Dave, do you have sort of a target mix for electric versus gas contribution? What's the timeline to achieve it especially as we're thinking about potentially further gas optimization funding, which seems to be a very sizable electric decarbonization plan?

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

Yeah, I think that if you set a step back and take a look at 50,000 -- the sort of 50,000 foot level, the stand and direction and strategy the company is to bias us toward the electric side of our business. Part of it is that coal transition certainly helps that because of the capital that it is going to absorb. And as we've said at our Analyst Day and we've said in some of our prior calls, we don't need equity to execute this 10-year plan, but if other opportunities did come up, we know the inherent value of the remaining gas LDCs. And I could look to them as a source of liquidity, but I think bottom line is we're biased toward electric and that is the way we will continue to drift. I'm not going to put a prediction out there as to what that ratio will be over time, but directionally, that's where we're headed.

Q - Shar Pourreza

Got it. And then just lastly, obviously, a little bit behind on the CapEx as you highlighted in the prepared remarks, but still kind of targeting that $18 billion plus. Just I guess what are some of the governing factors to increasing the upside or bringing that $1 billion into the base plan that we discussed during the Analyst Day?

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

Well, I think it's a couple of things. One is just getting sort of final resolution and clarity around the new tools in the tool box with respect to the Texas legislative process. We highlighted today the temporary generation, for instance, that we've moved very, very quickly on. Those kinds of things would absorb some of that additional billion-dollar in sort of contingent capital that we laid out on our Analyst Day. And the other just -- the other issue is going to be just findings sufficient crews and labor and parts and inventory and those kinds of things out there to accelerate it.

So, I think the message we tried to leave at Analyst Day is we have $18 billion plus to spend in the next five years, $40 billion plus to spend in the next 10 years. And we will spend that capital as fast as we can reasonably do so as long as it's consistent with certain rate pressures that we will have and to spend it efficiently. So again, we've got the wind at our back on many, many things and our capital spend opportunities is certainly one of those.

Q - Shar Pourreza

Great. Thanks, and thank you for that. We'll see you guys soon. Appreciate it.

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

Okay, thanks.

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

Thanks.

Operator

Our next question is from Insoo Kim from Goldman Sachs. Please proceed with your question.

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

Good morning, Insoo.

Q - Insoo Kim {BIO 19660313 <GO>}

Good morning, Dave. Just first question going back to Shar's question on the CapEx and a potential -- or I guess a delayed currently. I understand the reasoning for the year-to-date delay and how you're going to make that up, just when you look out currently at the current environment, does structurally are you seeing any concerns or challenges to get the current CapEx plan executed over the next couple of years, whether it is the labor shortages or just from a -- maybe from a cost standpoint, labor costs or other items that could potentially be a headwind?

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

I mean -- look, I mean, just like pretty much every other company and management team in the U.S. were dealing with supply chain issues, upward pressure on labor costs, but I don't think that we have seen it to such an extent that we are going to say that we can't meet the capital plan. We have every intention and we have every confidence we're going to meet the capital plan. We tried to give a little color to it with respect to that on the call today. We have moved aggressively to tie up more construction crews. We have expanded our vendor base in and around that area. One of the tools that we got in the new legislative processes, the ability to put long lead time items into inventory and into rate base.

So, we're looking at all of those. I think the sort of small slip and capital spend this year really was unrelated to any of that. It really was related to the storms that really pounded into Louisiana. And as all utilities do, we help each other when those situations arise. And we released a number of our crews that we're focused on capital, build for us to help the people in Louisiana get back on their feet. Those crews are now coming back. And as Jason said, we've got a short-term plan in place to catch up on that capital spend. But our longer-term view of tying up crews and making sure we have the long lead time items ordered give us a great deal of confidence that the capital plan we have is and it's going to be achievable.

Q - Insoo Kim {BIO 19660313 <GO>}

Understood. And just quickly, this -- the other question I had was, as we think about the closing of the Midstream transaction, remind me, is there -- I know you've already priced up contingent sale of a portion of it, but is there a limit on how much you can sell in terms of the units at any given time?

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

I'll let my very good CFO, Jason, answer that question.

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

Insoo, thanks for the question. No, there is no direct limit. And we had talked about previously the need to register those units. Energy Transfer has already undertaken that effort. So we are free to execute contingent for -- up until the close as we have done once the deal is closed. To the extent that we want to execute a marketed offering, we have to obviously coordinate with Energy Transfer. We have full flexibility to do that after the close of the transaction. And then similarly, we will have the ability to dribble the share. So, I think we're moving to a place of full control, no limitation on the number of units.

Q - Insoo Kim {BIO 19660313 <GO>}

Got it. Thank you and see you soon.

Operator

Our next question is from Julien Dumoulin-Smith with Bank of America. Please proceed with your question.

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

Hey, good morning team. Sorry about the Astros there. I wanted to send my condolences as well here.

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

I'd tell you I didn't think this turn into burial of the Astros, but I appreciate the sentiments. There's always next year, remember that.

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

We know they're close to your heart. There we go indeed. Listen, just wondering what's driving the confidence still on the timeline for the ET deal here. Just -- I know you mentioned it here again, you mentioned at the Analyst Day, but maybe remind us where that process stands specifically with respect to FTC until they continue to put out their own headlines?

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

Hey, good morning, Julien. It's Jason here. Look, as we've said at Analyst Day, Energy Transfer Enable obviously taking the lead with this in the conversations with the FTC. We're clearly a very interested party and everything that we've observed just gives us confidence that this deal will get close here in the fourth quarter. So, I don't think it's probably more of a direct question for Energy Transfer, for how those conversations are going by the day. But as I said, as we observe the progress, we continue to remain confident of a close here in Q4.

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

Got it. All right, fair enough. And then on this alternate stabilization plan, can you talk a little bit more about the mechanics? Obviously, it's early here, but is there been any feedback so far with the proposal? Obviously, these are somewhat sensitive subject, so I'll let you respond accordingly.

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

Thanks, Julien. It's a really unique situation obviously in Minnesota with the incremental gas costs from winter storm Yuri, the fact that we've got a regular rate case scheduled there. And so while we filed a typical rate case, we thought it was prudent to bring for what we've deemed in great stabilization plan. And I think we -- what it tries to do is build off of what was just a recent settlement of the last rate case filed in Minnesota, so keeping similar terms on depreciation rates, cost of capital allows us to recover the capital that we will be spending over the next couple of years to improve the safety of our gas systems. It differs a little bit of the amortization of some regulatory assets for things like COVID-related costs and some of the incremental O&M that we had anticipated. But we think it puts us in a really good position to continue to improve system safety with our capital investment plans while recognizing the rate impact and trying to moderate that for our customers that are in Minnesota. And so early days in terms of the conversations with stakeholders, but we hope that it is seeing as constructive solution in the backdrop of what is a unique situation there in Minnesota.

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

Got it. And last one, just super quick there. I heard you guys comment on the backup gen in Texas. But any updates on differences in Texas Transmission. Obviously the PCT [ph] seem to be moving fairly swiftly still here. Curious if there's anything to be said on that front as a function of reforms?

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

Yeah, I think maybe just to tease you a little bit. Yes, we're having some dialogue with them on additional transmission lines, but it's really too early to talk about any specifics on it.

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

Okay. Alright, fair enough. I suspect it as much. Bye. Best of luck. Speak soon.

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

Thanks.

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

Thanks.

Operator

Our next question is from Durgesh Chopra with Evercore ISI. Please proceed with your question.

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

Good morning.

Q - Durgesh Chopra {BIO 20053859 <GO>}

Hey, good morning, Jason. Just one for me. Just on the Indiana solar program, David, in your commentary, you mentioned 75/25 mix, 75 rate base, 25 PPA'd. Is that sort of what you're targeting going forward in your plans? And just curious as to how you got there in terms of the 75/25 mix.

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

I'll let Jason answer that.

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

Good morning, Durgesh. It's -- overall, as we look at this first sort of part of our coal transition plan, we're targeting a 50/50 allocation that is 50% owned renewables, 50% contracted through PPAs for the renewable portion for the first tranche of the coal transition. We had filed originally, as you pointed out and as Dave mentioned in his prepared remarks, an initial tranche of solar that was 75% owned, 25% PPA. We then subsequently filed in the third quarter this year for a 100% PPA solar projects. And so again, as you look through kind of each of these individual filings, we're targeting a 50-50 owned, contract target mix for renewables.

Q - Durgesh Chopra {BIO 20053859 <GO>}

Got it. Thank you very much.

Operator

Our last question is from Stephen Byrd from Morgan Stanley. Please proceed with your question.

Q - Stephen Byrd {BIO 15172739 <GO>}

Hey, good morning.

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

Good morning.

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

Good morning.

Q - Stephen Byrd {BIO 15172739 <GO>}

Just had one kind of a broad question just on draft federal legislation. And as you look at that, I know that's subject to change and who knows what the final version will look like. But I was thinking in particular about, I guess two elements. One will be a tax policy and impacts in terms of cash flow, customer bills, et cetera. And then the other was just broad support for clean energy, whether that might change or enhance some of your resource plans and movement towards clean energy or accelerate some of your plans. So just curious what you're thinking there?

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

I'll -- let me take the first crack at it and I'll have Jason can talk about the potential tax impact. But you're absolutely right. It's definitely a moving target right now and haven't been through many of these efforts that wind [ph] our way through Washington, I learned a long time ago. You really -- you got to just sort of watch the process happen, but you don't want to do anything sort of concrete until it is set along and then you can react to it. I think directionally from -- if you look at sort of the renewables and the ESG aspects of it, it's certainly supportive of the direction that we're going, but based on what we see right now, I don't see it accelerating or decelerating anything that we've got on plans. We have, as you know, set up an industry leading goal out there of net direct emissions to 0 by 2035. And I think that's a good plan. We're going to stick with it. That's the direction we're headed. We get some incremental help with what comes out at D.C., we'll take advantage of it. But it isn't going to bump us off course from the direction we're headed right now. Jason, do you want to talk about the tax aspect?

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

Yes, sure. Thanks for the question, Stephen. From a tax standpoint, we are a federal cash tax payer. Right now, as you kind of cut through sort of our financials, there's a lot of sort of one-time items as we've executed on this transition to a pure play regulated utility and we will continue to see that. As you kind of cut through that for us, we are -- our effective tax rate from a cash tax standpoint is somewhere between 8% to 10%. So clearly a minimum tax of 15% would put a little bit of impact or headwind on the financing plan.

We don't think it's certainly something that we can overcome. We don't think it's an impediment to the CapEx plan that we outlined and still feel like we can continue to maintain a strong balance sheet as we outline and deliver on our $40 billion capital investment plan. So early days, we'll follow it, probably not as big impact to us as maybe some of our peers, just given the fact that we have been a federal cash taxpayer, but obviously something we will continue to monitor.

Q - Stephen Byrd {BIO 15172739 <GO>}

That's great. Thank you very much.

A - Philip Holder {BIO 22115119 <GO>}

Again, thank you everyone for joining us today and for your interest in CenterPoint. We look forward to seeing you all at EEI.

Operator

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