Q2 2022 Earnings Call

Company Participants

- Dave Lesar, Chief Executive Officer
- Jacqueline Richert, Investor Relation & Treasurer
- Jason Wells, Chief Financial Officer

Other Participants

- Andrew Weisel, Analyst, Scotiabank
- David Arcaro, Analyst, Morgan Stanley
- Jeremy Tonet, Analyst, JPMorgan
- Julien Dumoulin Smith, Analyst, Bank of America
- Shar Pourreza, Analyst, Guggenheim Partners
- Steve Fleishman, Analyst, Wolfe Research

Presentation

Operator

Good morning and welcome to the CenterPoint Energy's Second Quarter 2022 Earnings Conference Call with senior management. During the company's prepared remarks, all participants will be in a listen-only mode. (Operator Instructions) I will now turn the call over to Jackie Richert, Vice President of Investor Relations and Treasurer. Mr. Richert?

Jacqueline Richert {BIO 22513026 <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 second 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 or 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'll be discussing certain non-GAAP measures on today's call. When providing guidance, we will 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 the non-GAAP measures used in providing guidance, please refer to our earnings news release and presentation, both of which can be found under the Investors section on our website. As a reminder, we will 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.

Dave Lesar {BIO 1519300 <GO>}

Thank you, Jackie. Good morning and thank you to everyone for joining us for our second quarter 2022 earnings call. It is now been a little over two years since I was appointed as the CEO of this great company and the exciting progress at CenterPoint continues with lots of opportunities still ahead of us.

Now that we're a pure play regulated utility, our quarterly updates will continue to be streamlined and focused on our regulated utility operations. In a minute I'll run through our latest highlights and headlines as we continue to build on our consistent track record of earnings delivery. But first a quick side note. As Texas has heated up this summer, we have gotten a number of questions from shareholders that indicate there may be a level of confusion to some shareholders about how we participate in the Texas electric market. I thought it might be helpful to remind everyone about our role. As most of you know the Texas ERCOT market is fully deregulated with respect to the generation and the retailing of electric power in Texas. And CenterPoint does not participate in either of the Texas generation or retail market. The Texas ERCOT market is regulated for the transmission and distribution of power, which is the market that CenterPoint operates in. Therefore CenterPoint only transmits power from third-party generators and delivers it to our territories third-party retail energy providers because of this we take no electric generation cost risk and no retail pricing risk in our business in Texas. Think of as much as a regulated toll road that charges by the vehicle. As temperatures rise, we have more traffic in the form of electricity driving on a regulated toll road. In addition, our Houston area transmission and distribution system makes up only about 2.5% of the geographic footprint of Texas, but transmits and delivers about 25% of the total ERCOT summer peak electric load. So we have a very dense power grid in our territory. Because of that CenterPoint imports up to 60% of its electric needs throughout our transmission lines, which connect to generation supply from locations elsewhere in the state, all of this is why investing in resiliency and reliability is so critical. I hope this helps those of you that are just becoming familiar with our story.

So now let's turn to our headlines. We have now delivered nine straight quarters of operational execution under this current management team. We are halfway through 2022 and have increased confidence around our business performance. That increased confidence specifically around Houston Electric's performance led us to raise our non-GAAP EPS guidance for the year to $1.37 to $1.39. This means that at the new midpoint, we now expect to grow our earnings 9% this year over the prior year. This is also our fifth earnings guidance increase under this new management team, which at the same time is laser-focused on taking the steps necessary to keep our bills affordable for customers. This increase to our full year guidance will provide the new and higher starting point for our future earnings guidance growth. In other words, it is from this higher $1.37 to $1.39 base that we now intend to grow our non-GAAP EPS 8% annually for 2023 and 2024. And beyond that we intend to grow at a mid-to high-end of our 6% to 8% growth range through 2030. We believe that this will be an industry-leading growth rate. And Jason will get into more of these details shortly.

Commensurate with our earnings guidance increase, we also announced a $0.01 increase to our second quarter dividend. This quarterly increase is consistent with our objective of growing dividends in line with earnings. We are also on track to meet our current capital investment plan for the year. Having invested over $2 billion in the first six months of 2022, which is nearly 50% of our 2022 investment plan. We are also tracking very well against our 5-year and 10-year spending plans that support the safety, resiliency and growth across our system to benefit our customers. As mentioned in recent earnings calls, we are working to develop the details around incremental customer-driven capital opportunities to support a Houston area regional master energy plan. This includes our Resilient Now initiative with the City of Houston. We plan to provide an update to our capital investment plan on the third quarter call. We also recently completed the final steps of our Vectren integration. The integrated structure results in a more efficient debt structure, which will help us reach our goal of reducing parent level debt to approximately 20%. So check-in another box on our strategic commitment to strengthen our balance sheet and credit metrics for the benefit of our customers and our shareholders. Jason will discuss it in more detail in his section.

Our Indiana generation transition plan is also tracking on course, including the recent commission approval of the natural gas peak heating facility. We have also filed for another tranche of solar generation, which Jason will discuss. As a reminder, our generation transition plan to cleaner fuels aligns with our peer leading 2035 Scope 1 and 2 net zero emissions goals. I'm also pleased to say today that despite the well-known challenges around solar power, our recently signed agreements will bring us to over 800 MegaWatts of owned or contracted solar. So those are our latest headlines. We strive to continue our track record that we've established over the past two plus years of executing on this world-class investment thesis.

Turning now to our earnings guidance update. As stated, we raised our non-GAAP EPS guidance this morning to $1.37 to $1.39. This represents a 9% growth rate at the mid-point when compared to the 2021 non-GAAP utility EPS of $1.27. And despite the current inflationary environment, we are continuing to see favorable tailwinds such as the combined 1% to 2% organic growth and warmer weather, which led us to raising our guidance this quarter. An example of the continued organic growth in the Houston area can be seen and it's greater than 6% year-over-year jobs growth, which added over 191,000 new jobs in the last year alone. Even as the Houston area temperatures recently peaked at 105 degrees and continued to be persistently high, our grid has held up well with limited disruptions for our customers. These limited disruptions are largely related to the typical high intensity afternoon rain and wind storms that are common in Houston during our summer heat waves. Related to these peak heating events, we have also seen a modest uptick this year in customer transformer related outages that have occurred across the industry. However, our operations have responded well. We had virtually all of our customers restored in less than two hours and we continue to expect to meet or exceed the reliability standards set by the Texas Public Utility Commission. During these recent record weather events, we only utilized commercial load management one time and while we didn't need mobile generation during this recent weather event, we have approximately 500 MegaWatt of capacity deployed across our system and we'll be prepared to utilize it for the benefit of our customers should the conditions call for it.

I am pleased with the performance of our system, but more importantly with the performance of our employees, who managed all of our grids for CenterPoint. Now, of course, we still have several weeks of summer in front of us with more extreme temperatures forecasted and we will remain vigilant.

Now let's move to capital investments. Our five-year capital investment plan of $19.3 billion has been increased twice since our September 2021 analyst day. Our 10-year plan is still currently expected to be $40 billion plus in investments to support the safety, resiliency and growth across our system to benefit our customers. This leads to our industry-leading projected rate base growth of 9% CAGR over the 10-year plan. We are making good stride in our strategic conversations with our customers to explore their views for further grid and infrastructure hardening and modernization, residential weatherization and investments around renewable energy infrastructure. This has included workshops with industrial customers, the City of Houston and other surrounding cities. Now, I don't want to front run these conversations this quarter, but we should be in place to better describe the potential additional capital investments related to these customer-driven infrastructure discussions in our third quarter call. We expect that this will include investment updates for the Greater Houston regional master energy plan, which includes the Resilient Now initiative jointly launched with the City of Houston earlier this year. As we invest to meet our customers' interests, we continue to remain focused on the affordability of our capital spend. We believe we have done a really good job in this area. For example from 2013 to 2022 our average Houston Electric charge has only increased by an average of about 1% per year. Focus on that fact for a second. That 1% translates to only a $5 increase in the average monthly charge over the last 10 years. That's the beauty of having strong and continuous organic growth and charges rolling off the Bill. The Houston area has averaged over 2% annual customer growths for the last 30 years. To further benefit customer charges in 2024, our final Houston Electric's securitization charge will roll off the customer's bill, which will provide an additional 5% reduction to the current average residential charge. This is on top of the 3% current average residential securitization charge that rolled off just this month. These changes combined with an organically growing customer base O&M discipline across our footprint work to help to reduce the customer impact the capital investment program across our system and we will seek to keep executing on these kinds of opportunities to help keep bills affordable for our customers. As I mentioned in the highlights our Indiana coal generation transition plan is also tracking nicely against the filed IRP and we have some potential bill mitigants such as a recently filed securitization. Jason will cover regulatory items in more detail in just a few minutes.

So in summary, before I turn the call over to Jason, with all of the recent strategic actions behind us, we are focused on our pure play regulated utility footprint with a projected 2022 rate base that is approximately 62% electric, which is within the range to some of our premium utility peers. We believe we are one of the most tangible growth stories in the industry. Our capital investments are not contingent on big bets. They are focused on meeting the needs of our customers across our system due to both organic growth and our continued investment in current system safety, reliability and resiliency needs. We expect that this will likely lead to incremental capital above our $40 billion plus included in our current 10-year plan. We anticipate to provide a more detailed update of this additional investment opportunity on our third quarter call. We raised our 2022 non-GAAP EPS guidance to $1.37 to $1.39, a 9% growth over 2021. And from that increased number project to grow at 8% annually in 2023 and 2024 and at the mid to high-end of 6% to 8% annually thereafter through 2030, an industry-leading growth rate. And we have peer leading 2035 Net Zero goals on our Scope 1 and 2 emissions. And for those of you that continue to track it, we still expect to reduce O&M expenses by 1% to 2% per year on average over the 10-year plan and we still have no plan to issue any equity to meet our current capital spending plans. As I stated in my opening remarks, we are excited about the nine straight quarters of execution and I want to thank all of the great employees here at CenterPoint that are delivering on those results to you each and every day.

Lastly, we remain focused on achieving our value proposition, which is sustainable, resilient and affordable rates for our customers, sustainable earnings growth for our shareholders and a sustainable positive impact on the environment for our communities.

With that let me turn the call over to Jason.

Jason Wells {BIO 19168211 <GO>}

Thank you, Dave, and thank you to all of you for joining us this morning for our second quarter call. I'll start by covering the financial results for the quarter as shown on Slide 6. On a GAAP EPS basis, we reported $0.28 for the second quarter of 2022. Our GAAP EPS results included a portion of the tax on the gain on sale of our Arkansas and Oklahoma gas LDCs, which we are required to recognize over the course of the full year. On a non-GAAP basis, we reported $0.31 for the second quarter of 2022 compared to $0.28 for the second quarter of 2021. Usage for this quarter was a favorable variance of $0.03 when compared to the same quarter of 2021, largely driven by the hot weather we've been experiencing in the Greater Houston area.

Growth in rate recovery contributed another $0.02 largely driven by continued organic customer growth and peak cost rate recovery in our Houston Electric territory. These favorable drivers were partially offset by higher interest expenses of $0.02, $0.01 of which was related to absorbing cost previously allocated to our Midstream segment in 2021.

The last thing I'll mention on the drivers is a tax benefit related to a lower state effective tax rate identified during the VUHI restructuring at the end of this quarter. This translated to a benefit of $0.02, which largely offset the $0.03 one-time benefit for Louisiana NOL [ph] tax benefits recognized in 2021.

As Dave mentioned, we are raising our full-year 2022 guidance range to $1.37 to $1.39 of non-GAAP EPS, which reflects 9% growth over the comparable $1.27 and non-GAAP EPS results for 2021 when using the midpoint of this new range. On the O&M side for the balance of the year and for the benefit of our customers and similar to what we did in 2021, we see the opportunity to pull forward certain O&M work from 2023 and reinvest it back into the business in the latter quarters of 2022. Some of this reinvestment will include accelerating additional vegetation management work into 2022. I want to emphasize that we still expect to achieve our average annual 1% to 2% O&M reductions over the 10-year plan. Beyond 2022 and from our new and higher $1.37 to $1.39 baseline, we continued to expect to grow non-GAAP EPS 8% each year for 2023 and 2024 and at the mid to high point of 6% to 8% annually through 2030. Our focus continues to be on delivering strong industry leading growth each and every year.

Turning to capital investments on Slide 7. We are tracking nicely against our current investment plan having spent just over $2 billion in the first six months of this year, which is nearly 50% of our full-year program. These programs are focused on continuing to invest in safety, resiliency, reliability, growth and clean enablement of our service. To echo Dave's earlier remarks, we are well on our way to developing incremental customer-driven opportunities above our existing plan, including for the Greater Houston area regional master energy plan. We expect to provide a comprehensive update on our third quarter earnings call.

We announced earlier this year that our Minnesota gas utility is now among the first gas utilities to add green hydrogen to its distribution system. We appreciate the state support of these kinds of innovative solutions that reduce carbon emissions in advance a clean energy future. And we look forward to working with the commission and other stakeholders as we get closer to filing our first plan under the Natural Gas Innovation Act next year.

Turning to our generation related investments. We've received a few positive outcomes from the Indiana Commission recently, including the IURC's approval of our 460 megawatt natural gas peaking facility. This facility will help provide stability to our customers' energy needs in times of intermittent renewable generation and is targeted to be operational in 2025. The cleaner generation footprint compared to coal generation aligns with our current net zero goals. Beyond this, we recently filed our approval of 130 mega watts of owned solar generation. These projects will bring our total owned and contracted solar to over 800 mega watts, which is tracking well against our integrated resource plan call for approximately 700 to 1000 mega watts of solar and approximately 300 mega watts of wind. We anticipate filing for the remaining balance of generation needs later this year, which will include a project to be owned by our Indiana Electric utility.

We will begin the planning process for our next Integrated Resource Plan soon after earnings and anticipate filing that plan in mid-2023. This upcoming IRP will provide guidance on our remaining coal fired assets. As a foundation for this IRP, we recently conducted an All Source Request for Proposal, where we received nearly 100 proposals from several dozen participants, including wind, solar and battery storage that will help inform our IRP process. We look forward to working with stakeholders through this process to develop a constructive outcome for our customers.

Moving to a broader regulatory update on Slide 8, we have securitization efforts going on in a couple of jurisdictions. We anticipate receiving securitization proceeds in the coming months in Texas related to incremental natural gas costs also related to Winter Storm Uri, which will securitize approximately $1.1 billion of these costs. With that we will have recovered over 80% of incremental gas costs incurred during winter storm Uri. In addition to the Texas securitization, we recently filed for securitization in Indiana of approximately $360 million of costs related to the retirement of two coal facilities. This is a first filing of its kind in Indiana. The securitization supports the generation transition capital investment plans and should result in a decrease for the benefit of our customers of the associated retirement costs of these assets by up to $60 million when compared to the traditional rate-making. 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.

Beyond the securitizations, we will begin recovering the $78 million in Texas related to the traditional distribution capital portion of the DCRF filing in September. Based on the Texas Public Utility Commission order, we filed an amendment for the mobile generation related portion of the DCRF filing and have a hearing scheduled in October. As noted on our last call, there is often more regulatory scrutiny to get a new capital item into the existing mechanism. We look forward to working constructively with stakeholders to resolve that rate application in the coming months. And we continue to believe these are valuable tools to help meet the needs of our customers in the event they are called upon. Outside of those updates, I'll remind everybody on the regulatory side we have limited regulatory risk near term with no major rate cases to be filed until the latter part of 2023.

Turning to the VUHI transaction on Slide 9. We're excited to complete the VUHI restructuring this past quarter, which has been about four years in the making. We were able to transfer our Indiana Gas Company and Vectren Electric delivery of Ohio subsidiaries into CERC, which now holds almost all of our natural gas utility businesses.

Along with the restructuring, we were able to pay off approximately $700 million of additional parent level debt that will now be more efficiently financed at CERC operating company instead of relying on inter-company borrowings. The greater scale and stronger credit profile of CERC should benefit our customers through lower future financing costs on an ongoing basis resulting in an anticipated customer savings over the long term. Through the restructuring process we were able to remove certain restrictive covenants previously contained in the VUHI private placement notes that restricted the amount of securitization bonds that Indiana Electric could issue, which I discussed earlier.

Additionally, in the future we anticipate financing Indiana Electric on a standalone basis through first mortgage bonds further reducing inter-company borrowings from the parent. These actions also aligned with our goal to have parent level debt at approximately 20% of total debt outstanding, which will help mitigate the impact of a rising interest rate environment. This restructuring is another example of delivering value for both our customers and our investors.

Lastly to cover some credit related topics. In addition to improving parent level debt balance, our FFO to debt as of the second quarter was approximately 16%, exceeding our long-term objective of 14% to 15% aligning with Moody's methodology. We believe that these improvements in the balance sheet coupled with our efficient recycling of capital puts us in a position of being able to offer industry leading growth without the need for external equity. I'll briefly mention that we plan to renew our shelf registration in the near future as the existing 2019 registration statement is expiring. We have not issued any new shares under that program in a few quarters and have no intentions of doing so in the future, but we believe it is good practice to keep a shelf registration outstanding. Those are my updates for the quarter. As we continue to express we take our commitment to be good stewards of your investment very seriously and realize our obligation to optimize stakeholder value.

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

Dave Lesar {BIO 1519300 <GO>}

Thank you, Jason. As you've heard from us today, we have nine straight quarters of meeting or exceeding expectations. We are a pure play regulated utility and firmly on the pathway to premium with incremental growth opportunities driven by our customers' demands.

Jacqueline Richert {BIO 22513026 <GO>}

Thank you, Dave. We'll now turn the call over to Q&A.

Questions And Answers

Operator

(Operator Instructions) Our first question comes from Shar Pourreza with Guggenheim Partners. Your line is open.

Q - Shar Pourreza

Hey. Good morning guys.

A - Dave Lesar {BIO 1519300 <GO>}

Good morning, Shar.

Q - Shar Pourreza

Dave, sort of the guidance raise today for '22 as you call out is now kind of implying 9% growth in '22, does that kind of imply a stronger trajectory for future years despite you just reiterating 8% in the near term? I mean, you obviously showing some confidence in the raise despite sort of the broader backdrop and appending GRC filing potentially at the end of '23. So what's driving it. And then any placeholders there with your internal planning assumptions for resiliency now in there.

A - Dave Lesar {BIO 1519300 <GO>}

Now, I think, yeah, first of all, we wouldn't express the confidence that we have in continuing to grow our earnings if we didn't believe in it. So I think that needs to be your first take away. Second is we do have a lot of tailwinds in the business right now. I think the great thing for us is that almost all of them are customer-driven tailwinds. We clearly have the organic growth that we highlighted, the jobs growth 2%, residential growth quarter-over-quarter, certainly weather is helping us at this point in time and helping us really because the margin we are getting from that will allow them to pull O&M forward from '23 to benefit our customers in '22. And then clearly, we continue to have the 1% to 2% long-term O&M reduction. The increased capital is clearly showing up in earnings and we'll continue to show up in earnings. So as I said, if we weren't really confident in where we were going, we would say that. I mean maybe the benefit I get as CEO is focusing on the tailwinds. There are some headwinds out there and maybe Jason can hit on those.

A - Jason Wells {BIO 19168211 <GO>}

Sure. Thanks, Dave. Thanks for the question, Shar. I know the industry has been talking a lot about rising interest rates and pension expense. I think we're in an enviable position on both of those from an interest expense standpoint. We're really one of the few utilities that significantly paying down parent company debt and floating rate debt. In over the last six months, we paid off $1.1 billion of parent company debt with a weighted average coupon of 3.4%. And as I indicated in the prepared remarks, we're prepared to pay down $1 billion of floating rate debt as soon as the Texas securitization proceeds are received here in the second half of the year. And from a pension expense, we're really fortunate to work in constructive regulatory jurisdictions. We get to defer about two-thirds of our pension expense. So we're in a good spot. And maybe not necessarily headwind, what I do want to remind folks of is the fact that we increased capital already $500 million this year. And so that provides further tailwinds to address anything that comes up and sort of central to your question, Shar, the guidance raise and resulting increase in subsequent years is before the addition of the resiliency now capital. We will provide a comprehensive update as it relates to that incremental capital on the Q3 call.

A - Dave Lesar {BIO 1519300 <GO>}

Yeah. I think that -- the key point that Jason just said, we're not going to front run our Q3 conversation on incremental capital. So the increased guidance were given is -- we gave you today is essentially from the capital that we've already communicated to you in the past.

Q - Shar Pourreza

Got it. So the incremental capital to be incremental to your guidance. Got it. So that -- then we'll look forward to that in the third quarter. And then just -- Dave, just looking at sort of that interest rate backdrop, I guess, does that kind of prompt any potential reconsideration of the M&A outlook as we think about the value of potentially monetizing more LDC asset? Any change here versus your prior thoughts? It sounded like from your prepared remarks you may be comfortable with sort of that electric gas business mix as you comp closely with other premium names now. So just curious how you're thinking about it just given the change in the Capital Markets? Thanks.

A - Dave Lesar {BIO 1519300 <GO>}

Well, I think, as Jason alluded to, we've got plenty of cash flow at this point in time. And if you recall what we've said almost from day one or I've said from day one, I mean our Northstar is no further issuance of equity to dilute our shareholder base out. So that's sort of the stake in the ground. As Jason said in his prepared remarks, we've got certainly a lot of cash flow from the prior LDC sales, the Enable sale. We've got some upcoming securitizations as we refine sort of the tax exposure on some of the transactions. We're finding additional capital there. So at the end of the day, we're going to wait until Q3 and we'll give a comprehensive update to not only the incremental capital that may come out of our resilient now and master energy plan, but how we intend to finance all that without additional equity issuances. So just sort of hold that thought.

Q - Shar Pourreza

Okay. Perfect. Congrats guys on the results. Appreciate it.

A - Dave Lesar {BIO 1519300 <GO>}

Thanks.

Operator

Our next question comes from Steve Fleishman with Wolfe Research. Your line is open.

A - Dave Lesar {BIO 1519300 <GO>}

Hey, Steve.

Q - Steve Fleishman {BIO 1512318 <GO>}

Yeah, thanks. Hey, good morning. Great update. Just curious, I know it's very recent, but the -- curious on how you think the company is positioned on the corporate minimum tax that's part of the proposed inflation act from last week?

A - Dave Lesar {BIO 1519300 <GO>}

Yeah. I'll let Jason take that one.

A - Jason Wells {BIO 19168211 <GO>}

Hey, good morning, Steve, and I appreciate the question. Maybe before turning directly to the minimum tax, I do think the real opportunity here is the opportunity for incremental margin associated with transportation electrification. As we highlighted on our Analyst Day, every electric vehicle that's connected to our grid is about $80 of margin a year. So we are excited about the continued support of electrification. And then in addition, the extension of the tax credits will help us more efficiently execute our coal transition up in Indiana. So we think those are definitely tailwinds for the company. As it relates to the minimum tax, it's going to likely be a very modest headwind for the company that we will be able to efficiently overcome. We've been historically cash taxpayer. And as you cut through kind of all the one-time transactions as we've been executing on our strategic reset and the timing of the unrecovered natural gas costs, we generally paid federal cash taxes at an effective rate of about 10%. So we see the introduction of a minimum tax that will likely be reduced from the credits that will be generated from the coal transition in Indiana as a modest headwind, but again I would emphasize, this is something that we will be able to efficiently overcome. And I think that candidly that we're in a much better position than many of our peers, who haven't been paying federal cash taxes over the years.

Q - Steve Fleishman {BIO 1512318 <GO>}

Great. Thank you. And one other question just, we've had a little bit of a tougher market environment in terms of capital markets. And I know you just said that you don't really -- you have a lot of cash available. But in the event you were to pursue another gas LDC sales, do you feel like that the market is still there to sell a strong price somewhere in the ballpark of last time?

A - Dave Lesar {BIO 1519300 <GO>}

We do Steve. We continue to get a significant amount of inbound from the market and clearly rising interest rates are having what I would say sort of a modest impact. But what I think is more than offsetting that is I think comfort and a much higher terminal value for gas LDCs. I think a confluence of events, whether it'd be Winter Storm Uri or the war in Ukraine has kind of led to sort of better comfort for a long-term diversity in energy supply. And so as we get kind of inbound interest we're seeing again much more comfort with a much higher terminal value for gas LDCs particularly mid-continent where we're fortunate to operate ours. But I just want to sort of emphasize what Dave already mentioned. We've had a number of incremental improvements to our cash flow forecast since our last update at Analyst Day. Couple of things that I'll quickly point out is we were really conservative as it related to the tax basis for the gas LDC sales. So we've lowered taxes there than we expected. And a theme of continued to optimize our tax position, we were able to minimize some of the taxes on the sale of the energy transfer common units. We've got about $100 million more of incremental proceeds from the securitization up in Indiana. And so what I would say all in all, we have a significant amount of positive cash flow developments that will help us efficiently fund our capital update that we plan to provide on the Q3 call.

Operator

Our next question comes from Jeremy Tonet with JPMorgan. Your line is open.

Q - Jeremy Tonet {BIO 15946844 <GO>}

Hi, good morning.

A - Dave Lesar {BIO 1519300 <GO>}

Good morning.

Q - Jeremy Tonet {BIO 15946844 <GO>}

Just wanted to come back to the DC package if could -- just wondering on the tax credit side, is there anything particular there that's catching your interest that you're closely watching that could present more opportunities for CenterPoint.

A - Dave Lesar {BIO 1519300 <GO>}

I think for us the core benefit of the extension of the tax credits in and of themselves some of our peers are talking about transferability, we're not necessarily in a position to really take advantage of that just given the fact that we have a fairly modest coal transition program. We're talking about effectively one gigawatt of generation up in Indiana. So we'll utilize those credits to kind of optimize our current tax position. And so I think the key benefit is just the extension of the tax credits. We'll look at the opportunity maybe a lot of production tax credits for solar, but ultimately what's going to govern is sort of what's the most efficient way for us to complete the coal transition for our customers up in Indiana.

Q - Jeremy Tonet {BIO 15946844 <GO>}

Okay. Got it. So maybe this doesn't impact generation replacement in Indiana it depending on how things fallout here, but just wondering if there's any more details on that side specifically that you might be able to provide.

A - Dave Lesar {BIO 1519300 <GO>}

Well, I think as we've talked about, I think we're well on our way to transitioning and retirement of two of the three coal units up in Indiana. I think what the extension of the tax credits is they put us in a better position with this third and final coal facility that will be addressing in our integrated resource plan that we will file in early '23. But I just think with the certainty around the extension of the tax credits, we're just going to be in a much better place to efficiently execute on the retirement of that third and final coal facility.

Q - Jeremy Tonet {BIO 15946844 <GO>}

Got it. Just a real quick last one. As far as the capital update, I know you're not going to front run it here for 3Q, but should we be thinking this is largely Houston-focused or could there be other elements of size?

A - Dave Lesar {BIO 1519300 <GO>}

We're not going to front run the conversation. Sorry.

Q - Jeremy Tonet {BIO 15946844 <GO>}

Got it. Thank you very much. Happy going.

A - Dave Lesar {BIO 1519300 <GO>}

Thanks.

Operator

And our next question comes from Andrew Weisel with Scotiabank. Your line is open.

A - Dave Lesar {BIO 1519300 <GO>}

Good Morning, Andrew.

Q - Andrew Weisel {BIO 15194095 <GO>}

Thank you. Good morning, everyone. Good morning. First, just a couple of questions on the summer heat waves and how you're managing that. I think you said you only use the commercial load management once. Can you remind us the relative sizes of the voluntary demand response program versus force load shedding? And can you specifically comment on the role that crypto currency miners played in terms of curtailing demand. And if you view that to be a real and reliable lever to pull going forward.

A - Dave Lesar {BIO 1519300 <GO>}

Good morning, Andrew. Thanks for the question. Our official load management program was roughly call it 125 mega watts and that was the official sort of use of the commercial loan management program. That was one of the day where we curtailed load on a very minor basis using a reduction in voltage. But just to get again to give that to size, it's roughly about 125 mega watts versus our peak demand of call it 19.5 gigs. So kind of a fraction of the overall demand on our system. As it relates to Crypto Mining, what I would say is I think parties are still trying to kind of understand how effective of a lever that is. We're not seeing directly as much mining in the Greater Houston area. As we've talked about historically we represent about 2.5% of the geography of Texas, but a quarter of the energy demand. And so we're sort of short power requiring a significant import from out of state. As a result, that and land is more expensive here. As a result of that, we're seeing crypto mining more located kind of in the Texas Panhandle closer to the generation sources. Some of that is really flexible and I think has been a lever that ERCOT has used. Some of that is behind the meter and is maybe a little less visible to ERCOT. So I think there's opportunity around embracing sort of economic development of crypto mining for the state. It's one that will require continued focus to make sure that we can balance demand and supply as we see some of these peak events. Yeah. It is fair to say that it is on the radar screen of the PUC because the last time we visited with a number of the PUC Commissioners, which was just a few weeks ago, it was really top of mind at that point in time, but as Jason has said there, everybody is trying to get a handle on how much of it really is behind the meter right now and how much of it is addressable if the state continues to get tight on power.

Q - Andrew Weisel {BIO 15194095 <GO>}

Okay. Great. And then maybe more broadly after being tested so intensely through July, how do you feel about the condition of the grid? Has it kept up with the strong economic and population growth in recent years? I'm talking about the wire specifically, not the supply piece, which is beyond your control. And then can you just remind us how much of the $40 billion plan relates to Houston reliability or resiliency before the update in a few months?

A - Dave Lesar {BIO 1519300 <GO>}

Yeah, Jason, do you want to take that?

A - Jason Wells {BIO 19168211 <GO>}

Yeah, I think is the grid itself -- so the transmission and distribution system held up remarkably well. We build our system here in the Greater Houston area to withstand these peak sort of heat events that we experienced. And as we said, our system stood up well. Our focus is on making sure because adequacy of this energy supply, but very proud about how our system held up, how our crews responded when we had some outages from storm-related events that Dave mentioned in his prepared remarks. Of the $40 billion CapEx program that we outlined in 10-year CapEx plan for the entire company, about $22 billion of that relates to Houston Electric. And what I would say currently about $8 billion of that $22 billion is really sort of resiliency spend. Think about $11 billion of that is really sort of growth enablement connecting new customers, increasing capacity of their system. The rest is sort of capital that's used to kind of support the overall business. And so as we think about our broader capital update and ensuring that our system remains resilient in the face of more extreme temperatures, more extreme weather events, we likely will see increase in that resiliency component. But again we'll provide a comprehensive update on the Q3 call.

Q - Andrew Weisel {BIO 15194095 <GO>}

Very good. Then one more if I may. Jason, I think you said you're starting -- you're thinking about pulling forward expenses from future years into 2022. Has that already started? I think you mentioned pre-trimming, how does the hot summer weather impact your ability both physically and in terms of affordability in the context of inflation? And then how are you thinking about the timing of O&M is relative to the Houston Electric rate case you intend to file in 15 or 18 months or so?

A - Dave Lesar {BIO 1519300 <GO>}

Yeah. Let me handle sort of the front end and then I'll let Jason handle the latter part of the question. I think to put it in context, if you remember back to our discussions last year where we did reduce our O&M 1% year-over-year, even though we brought forward $20 million plus of O&M from '22 into '21, basically to attack things like vegetation management and opportunities like that. And we really are sort of in a rinse and repeat year here in '22 taking advantage of the margin that the hotter weather has provided us to pull some O&M forward from '23 to '22 to address the very exact issues that we've talked about, more vegetation management and really spending that money for the benefit of our customers, while still being able to reduce O&M 1% to 2% over the 10-year average that we have. So again, it really is the benefit of the fantastic market that we have in Houston. I know you probably get tired of me harping on it, but the beauty of organic growth and the ability to invest ahead of that growth is just a luxury that other utilities don't have that we have here in Houston. And so every decision we make is made through the lens of how can we benefit our customers sooner rather than later. And that's the decisions that we're making.

Q - Andrew Weisel {BIO 15194095 <GO>}

Great. Thank you very much.

Operator

Our next question comes from David Arcaro with Morgan Stanley. Your line is open.

Q - David Arcaro {BIO 20757284 <GO>}

Hey, good morning. Thanks so much for taking my questions.

A - Jason Wells {BIO 19168211 <GO>}

Good morning, Dave.

A - Dave Lesar {BIO 1519300 <GO>}

Hi, Dave.

Q - David Arcaro {BIO 20757284 <GO>}

I'm wondering if you could talk to load growth for a minute just what you're seeing in terms of weather normal load growth and specifically on the industrial growth side of things. I am also curious if you're seeing just any indications or early indications of any softness in the industrial low levels?

A - Dave Lesar {BIO 1519300 <GO>}

No, I think the -- the industrial load growth continues to expand. I think if you just look at who our customer base is down and or basically if you take so the port facility in Houston through refinery, grow through the petrochem complex and the amount of final investment decisions that have been made over the last few years, expanding capacity in basically the whole petrochem complex. So we see that as a continued growth engine for us. And I think the short answer is I don't think we're seeing any indication of any slowdown in industrial demand on our system at this point in time.

A - Jason Wells {BIO 19168211 <GO>}

I would add, from a residential standpoint, we're continuing to see just north of 2% increase in new customers. On a weather adjusted basis, what I think is really interesting is at least through the first five months of the year so through May, we saw usage on a weather adjusted basis outpacing customer growth. We didn't see that as much in June, but June was as we've talked about sort of a record month with weather. But I come back to the sort of usage trend that we're monitoring to see how this unfolds. There could be what I'll call maybe a new normal in terms of residential usage with more of a work from home model as we see customers spending a couple of days working from home, while also at the same time businesses are welcoming the employees back, we may see on a longer-term basis a trend with a slightly higher usage on a weather-adjusted basis than we're seeing in terms of just new customer connections. So base business remained strong as David continued to highlight in terms of new customer connects weather it's been great, but we're also seeing a modest uptick in usage.

A - Dave Lesar {BIO 1519300 <GO>}

Yeah. And I would say the other thing that we're looking at as another potential tailwind and Jason hit on it a little bit earlier. As we said in our last Analyst Day, Houston is one of the least penetrated EV markets of a major city in the US and with the Inflation Reduction Act, basically being very supportive of the electrification of the vehicle fleet. We see a big potential for the City of Houston and the need for us to continue to enhance the grid just to handle the needs that are going to come out of there. Jason mentioned $80 per margin, per car, per year from an electric vehicle. I think another way to think about it is the stat that we gave at our last Analyst Day where it could be another 1% organic growth driver on top of the 2% organic growth we have at this point in time, which really would be sort of extraordinary baseline growth in your organization all point into why for the benefit of our customers. We would have to continue to upgrade the resiliency and hardening of the grid. So it's a really good place to be right now.

Q - David Arcaro {BIO 20757284 <GO>}

Got it. That's really helpful color. It sounds like continued strong fundamentals on that basis. And then I was wondering if you could just talk to any transmission growth opportunities that emerge, such a power market in Texas recently this season? Wondering if any transmission related solutions have popped up, whether it's congestion related around the city of Houston and whether that could be an element of the CapEx upside -- their CapEx update that we see.

A - Jason Wells {BIO 19168211 <GO>}

Yeah. I think we're continuing to work on a number of transmission opportunities. As I highlighted it kind of we're short anywhere between sort of 40% and 60% of kind of power (inaudible) in the Greater Houston area just kind of given our profile. So there is a strong focus on increasing the number of import transmission lines sort of available to bring power in kind of reducing congestion. I think it was really in customers' interest, the state passed and put into law last year the opportunity to build new transmission from an economic dimension standpoint. So on an economic basis, reducing kind of the congestion charges, we're working with ERCOT and the PUCT to develop those projects. And there may be some incremental transmission updates that we provide as part of the Q3 update, which will be a comprehensive capital update at that time. So continues to be an area where we think that there is incremental investment opportunity and we will say sort of quantifying that update until we will provide a comprehensive CapEx increase on the Q3 call.

A - Dave Lesar {BIO 1519300 <GO>}

Yeah, I think if you look at what came out of the change in Texas law at the end of the last session so that move from reliability based, economic based transmission lines, we're waiting and I know that PUC is focused on getting their regulations that hopefully here by the end of the year in and around how they're going to approach the deciding and putting in of new transmission lines. So as Jason said, we're excited about it. We think that we can make the case for economic transmission lines. We've just got to wait for that process to get itself completed.

Q - David Arcaro {BIO 20757284 <GO>}

Okay. Great. That makes sense. Thanks so much.

Operator

Our next question comes from Julien Dumoulin Smith with Bank of America. Your line is open.

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

Hey, good morning team. Thanks for the time.

A - Dave Lesar {BIO 1519300 <GO>}

Hey, Julien.

A - Jason Wells {BIO 19168211 <GO>}

Good morning, Julien.

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

My pleasure. Just first off on the solar update, just can you give us a little bit of a sense of the timeline for those projects now. And the CapEx that was moved around and pulled forward to offset the impact of delays previously, does this kind of imply a higher step up in '24 and '25 than previously expected? Or how should we think about the latitude created and or exactly where sort of the status of solar projects are today as best you see them.

A - Jason Wells {BIO 19168211 <GO>}

Yeah, thanks for the question, Julien. I think we are seeing a lot more comfort from the developers that we're working with in terms of panel supply. Our original 10-year plan assumed our first solar project coming online at the end of '23. That may move into '24. But I think as I said, overall, we're starting to see a lot more comfort with panel supply. So I think that we will largely be on sort of schedule for the build out and ownership of the solar component of the plan. As you pointed out, we -- on a net basis over the first five years of 10-year planning, increased our capital expenditures $400 million last quarter. That gives us the opportunity to overcome any potential delay if that for solar project shifts from '23 to '24. As we get back on schedule to your point that up $200 million and becomes incremental earnings power for the company. So we'll give sort of broader update on that as well as the incremental capital from resiliency now and other opportunities on the Q3 call. But think about this as just a stronger sort of set of tailwinds for the company as we move forward.

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

Got it. All right. This is just a slight shift in earnings still. Alright. Excellent. Let me come back to your O&M commentary, I just want to make sure I understand this because you guys have been had you put forward on this 1% to 2% for a while here but, what's the gross level Ii you could speak of it this way of inflation that you're seeing out there? And how much of an incremental spike are you having to put up here to offset that impact? I just wanted -- I guess that you guys nicely package it into saying we reiterate our commitment on the reductions. I just wanted to understand how much of an inflationary pressure you are otherwise having attract against here to maintain that commitment and obviously cognizant here of the pull forward into '22 here to de-risk '23 as well.

A - Dave Lesar {BIO 1519300 <GO>}

Yeah. Thanks Julien for the question. We're not immune to inflation, but I think we're relatively well positioned. We're seeing the impact of inflation more on the capital side, more on sort of materials that we are necessarily on labor. As it relates to sort of a broader kind of labor costs, our crews and our contractors that we use relates to sort of a broader kind of labor costs. Our crews and our contractors that we use all sort of follow our union agreements. These are multi-year agreements that have stated annual increases in labor costs. And so we have set those -- those have been sort of in place. And I think what that does is that provides certainty to our workforce in years where maybe inflation is lower, our workforce is getting a benefit in terms of a stated increase and in years where maybe inflation runs a little higher. Our customers are getting the benefit of kind of a stable overall cost to labor. So for that reason we're not necessarily seeing the cost impact of inflation on O&M quite as much as one may think. And so at the end of the day, it really is kind of a little bit more pressure on supplies on the capital standpoint.

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

Interesting. And so just as equivalent you have third quarter update here. Would you expect there also sort of cascade for that inflationary impact on your core plan in addition to some of these other factors you talked about before? Or are you thinking about just simply shifting out projects in order to keep your sort of critical core plan in fact, if you will, just given those inflationary pressures on capital?

A - Dave Lesar {BIO 1519300 <GO>}

Yeah, I know it's a good question and I want to provide context. As we look at kind of a $19.3 billion five-year plan of $40 billion CapEx plan over 10 years, the incremental inflationary pressure is not that significant. It's not going to be one of the growth drivers. We are focused on executing our projects, right. It's important to modernize our gas system, improve the reliability of our electric system. So it's about executing work sort of test directly answer to your question then. Yes, it will be a comprehensive capital update inclusive of new project work for resiliency now, inclusive of the potential for some inflation, but I wouldn't necessarily do. Thank you.

A - Jacqueline Richert {BIO 22513026 <GO>}

Operator. We're going to --

A - Dave Lesar {BIO 1519300 <GO>}

Of any CapEx increase.

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

Understood. Excellent. See you guys soon. Be well.

A - Dave Lesar {BIO 1519300 <GO>}

Thank you.

A - Jacqueline Richert {BIO 22513026 <GO>}

Operator, we're going to thank everyone for joining our second quarter call. Now that we are just passed the hour here, so we're going to disconnect. But thank you everyone for joining in on the second quarter call.

Operator

This concludes CenterPoint Energy's Second Quarter Earnings Conference Call. Thank you for your participation. You may now disconnect.