Q2 2017 Earnings Call

Company Participants

- David Mordy, Director-Investor Relations
- Joseph J. Vortherms, Senior Vice President-Energy Services
- Scott M. Prochazka, President, Chief Executive Officer & Director
- William D. Rogers, Chief Financial Officer & Executive Vice President

Other Participants

- Ali Agha, Analyst, SunTrust Robinson Humphrey, Inc.
- Andrew Stuart Levi, Analyst, Avon Capital/Millennium Partners
- Charles Fishman, Analyst, Morningstar, Inc. (Research)
- Christopher James Turnure, Analyst, JPMorgan Securities LLC
- Insoo Kim, Analyst, RBC Capital Markets LLC
- Kamal B. Patel, Analyst, Wells Fargo Securities LLC
- Neel Mitra, Analyst, Tudor, Pickering, Holt & Co. Securities, Inc.
- Paul Patterson, Analyst, Glenrock Associates LLC
- Shahriar Pourreza, Analyst, Guggenheim Securities LLC
- Steve Fleishman, Analyst, Wolfe Research LLC

MANAGEMENT DISCUSSION SECTION

Operator

Good morning. And welcome to CenterPoint Energy's Second Quarter 2017 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.

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

David Mordy {BIO 20391499 <GO>}

Thank you, Natalia. Good morning, everyone. Welcome to our second quarter 2017 earnings conference call. Scott Prochazka, our President and CEO; and Bill Rogers, Executive Vice President and CFO, will discuss our second quarter 2017 results and provide highlights on other key areas.

Also with us this morning are Tracy Bridge, Executive Vice President and President of our Electric Division; Scott Doyle, Senior Vice President of Natural Gas Distribution; and Joe

Vortherms, Senior Vice President of Energy Services. Tracy, Scott and Joe will be available during the Q&A portion of our call.

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

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

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

We will also discuss our guidance for 2017. The guidance range considers Utility Operations, performance to date and certain significant variables that may impact earnings such as weather, regulatory and judicial proceedings, throughput, commodity prices, effective tax rates and financing activities.

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

Before Scott begins, I would like to mention that this call is being recorded. Information on how to access the replay can be found on our website. And now, I would like to turn the call over to Scott.

Scott M. Prochazka {BIO 17360314 <GO>}

Thank you, David. And good morning, ladies and gentlemen. Thank you for joining us today. And thank you for your interest in CenterPoint Energy.

I will begin on slide 4. This morning, we reported second quarter 2017 net income of $135 million or $0.31 per diluted share, compared to a net loss of $2 million or a loss of $0.01 per diluted share in the same quarter of last year.

On a guidance basis, second quarter 2017 adjusted earnings were $125 million or $0.29 per diluted share, compared with adjusted earnings of $73 million or $0.17 per diluted share in the same quarter of last year. This increase is a result of rate relief, customer growth, Midstream Investments performance and lower interest expense. These improvements were partially offset by higher depreciation and amortization expense and lower equity return.

Additionally, this quarter included positive impacts for the gas distribution business for the Texas Gulf rate order, which Bill will expand on later. All of our business segments performed well this quarter. Despite a mild winter, we are well ahead of same period last year. Our business segments continue to implement their strategies, which focus on safely addressing the growing needs of our customers, while enhancing financial performance.

Houston Electric, highlighted on slide 5, delivered in the second quarter of 2017 core operating income of $144 million, compared to $135 million in the same quarter of last year. We continue to see strong growth in our electric service territory. We added more than 46,000 residential metered customers since the second quarter of 2016, reflecting 2.2% growth. We believe this level of growth will continue through this year and our five-year plan period. Additionally, total Electric throughput across all customer classes is up 2.5% since the second quarter of 2016, suggesting ongoing strength in our commercial and industrial customer classes as well.

On May 23 in Sealy, Texas on the west side of Houston metropolitan area was impacted by a rare microburst weather event. This area experienced wind speeds of up to 100 miles an hour, damaging nearly 250 distribution poles and nine transmission structures. Our crews worked around the clock over the following two days to safely restore power to the residents and commercial customers who were impacted by the storm. I'm proud of the work our employees do to respond to events like this and to serve our communities.

In July, the Public Utility Commission approved Houston Electric's settlement agreement for an incremental annual increase of $42 million through the Distribution Cost Recovery Factor, or DCRF. Rates will go into effect on September 1. Further, with respect to DCRF, the Texas legislature recently removed the four filing limit, which means Houston Electric will be eligible to file DCRF each year, provided the business is earning below its authorized rate of return. For a complete overview of Houston Electric's year-to-date regulatory developments, please see slide 19.

Turning now to slide 6, Natural Gas Distribution operating income in the second quarter of 2017 was $37 million, compared to $20 million in the same quarter last year. We continue to see solid customer growth of approximately 1% in this business with the addition of more than 32,000 customers since the second quarter of 2016.

On the regulatory front, the Railroad Commission approved the Texas Gulf rate case settlement in May. The order includes an annual increase of $16.5 million. Yesterday in Minnesota, we filed a rate case proposing an annual increase of $56.5 million for growth and ongoing infrastructure replacement, including our Minneapolis Belt Line project. Interim rates are expected to go into effect on October 1.

In Arkansas, we reached a unanimous settlement for $7.6 million on our first formula rate plan filing, subject to approval by the Arkansas Public Service Commission. For a complete overview of Natural Gas Distribution's year-to-date regulatory developments, please see slides 20 and 21.

Before I move on to discuss our Energy Services business, I want to take this opportunity to thank local emergency officials and first responders for their response to yesterday's incident in Minneapolis. We are cooperating with investigating authorities and are providing information and assistance to them as part of the investigation. Our thoughts continue to be with those who have been impacted. Once the authorities have completed their investigation and we are able to share additional information, we will do so.

Turning to slide 7, Energy Services operating income was $10 million in the second quarter of 2017 compared to $7 million in the same quarter last year, excluding a mark-to-market gain of $6 million and a loss of $7 million respectively. We benefited from increased customer count and throughput, primarily related to the acquisition of Atmos Energy Marketing, or AEM. We continue to anticipate solid performance from Energy Services with projected operating income of $45 million to $55 million in 2017. As anticipated, the AEM acquisition has been modestly accretive year-to-date.

Slide 8 shows some of the highlights from Enable's second quarter earnings call on August 1. Midstream Investments contributed $0.09 per diluted share in the second quarter of 2017 compared to $0.03 per diluted share in the same period last year. Enable performed well this quarter. Daily volumes of gas gathered and processed were higher than the same quarter last year. There has been a 38% increase in active rigs in the Enable footprint since April of this year. They have secured over 50,000 new dedicated acres since January 1. We continue to believe Enable is well-positioned for success.

Turning to slide 9, we are reiterating our $1.25 to $1.33 EPS guidance for the year and continue to anticipate 2018 EPS growing at the upper end of our 4% to 6% range.

The status of our Midstream Investments ownership review is covered on slide 10. Although we were hopeful of providing closure by this earnings call, the sale process remains ongoing. Multiple parties are completing their due diligence, and we will not comment on the status of those activities, nor can we represent that any of these parties will make a binding offer.

Given that the process remains ongoing, we issued another right of first offer to OGE in July, per the terms of our partnership agreement. We did, however, recently determine that we will no longer pursue a spin option. We concluded that with a reasonable level of debt at SpinCo, we would not maintain the desired credit metrics for CenterPoint.

Finally, if we are unsuccessful with an outright sale of our Enable investment, we will look for opportunities to constructively sell our units in the public market as conditions allow. Bill will provide additional detail later in the call regarding our considerations.

Let me conclude by reiterating how pleased I am with the performance of all four business segments this quarter. These are strong results, and we are well on our way towards meeting our 2017 financial objectives.

I will now turn the call over to Bill.

William D. Rogers {BIO 15746544 <GO>}

Thank you, Scott. I will provide a quarter-to-quarter operating income walk for our Electric T&D and Natural Gas Distribution segments, followed by EPS drivers for Utility Operations, and then our consolidated business on a guidance basis.

Beginning on slide 12, Houston Electric performed well during the second quarter. Rate relief translated into an $11 million favorable variance for the quarter, 2% customer growth translated into a $9 million positive variance.

Our Electric T&D segment remained disciplined on O&M expenses this quarter, with a focus to keep annual O&M growth under 2%. Excluding certain expenses that have revenue offsets, O&M increased by only $4 million. Depreciation and other taxes accounted for an unfavorable variance of $4 million.

As we have previously disclosed, we expect equity return to be lower in 2017 relative to 2016. Our decline this quarter relative to second quarter 2016 was $7 million. In order to have a view of our growth in core operating income, we exclude the change in equity return. Houston Electric's core operating income increased from $118 million to $134 million, a $16 million improvement on a period-to-period basis. Investors can find our forecast for equity return income in the year-end slide deck posted to our Investor Relations website on February 28.

Turning to slide 13. Natural Gas Distribution also performed well for the quarter. Operating income for the second quarter was $37 million, compared to $20 million for the same period last year. The business benefited $6 million from rate relief, $1 million from customer growth and $8 million in favorable usage, primarily due to the timing of a decoupling normalization adjustments. In prior years, this normalization adjustment was recognized in the third or fourth quarter. These benefits were partially offset by a $7 million increase in depreciation and amortization and other taxes.

Also included in the quarter are adjustments related to the Texas Gulf rate order. We had a $16 million benefit due to the recording of a regulatory asset, and a corresponding reduction in expense to recover prior-period post-retirement expenses. These post-retirement expenses will be recovered in future rates.

We also had a negative $6 million depreciation adjustment for vehicle fleet overhead that was expensed in O&M as a result of the depreciation study approved by the rate order. In order to have a view of our core operating income, we remove these expense adjustments recorded with the Texas Gulf case order. Therefore, we view the operating income as improving from $20 million to $27 million on a period-to-period basis. The primary driver of this improvement was rate relief.

Our quarter-to-quarter EPS basis walk begins on slide 14. We start with $0.14 of Utility Operations EPS, and add $0.05 of improvement from core operating income, excluding equity return. As a reminder, the improvement in core operating income includes the adjustments to expense related to the Texas Gulf rate order.

Next, we add $0.02 of improvement from lower interest expense, and a partial quarter increase in distribution income from the Enable preferred investment. The decline in equity return resulted in a $0.01 decrease per share on a quarter-to-quarter basis. In summary, Utility Operations guidance EPS increased from $0.14 to $0.20 on a quarter-to-quarter basis.

Our consolidated guidance EPS comparison is on slide 15. With the Utility Operations increase of $0.06 and the Midstream Investments increase of $0.06, consolidated EPS improved from $0.17 in the second quarter of 2016 to $0.29 in the second quarter of 2017. We continue to anticipate strong performance for the remainder of 2017, driven by Utility customer growth, rate relief, Energy Services growth, interest expense savings, and the improved performance of our Midstream segment.

On slide 16, we provide an overview of our anticipated financing plans and effective tax rate. We continue to expect $1.5 billion in capital investment in 2017. Cash generation and credit metrics remain consistent with year-end 2016 actuals. Therefore, we are reducing anticipated net incremental borrowing needs in 2017 to between $200 million and $400 million, inclusive of the approximate $150 million funding for our purchase of AEM in the first quarter. As previously discussed, we are not forecasting a need for equity in either 2017 or 2018.

With respect to tax expense, our second quarter 2017 effective tax rate was 36%, similar to the first quarter. We continue to anticipate a full year 2017 tax rate of 36%.

In addition to our earnings release and 10-Q filings for all of our registrants filed this morning, we would like to remind you of other news releases or disclosures of interest. First, our Board of Directors declared a dividend of $0.2675 per share on July 27, payable on September 8, 2017. Second, as Enable stated on their call, we anticipate that the financial tests required for conversion of all subordinated units will be satisfied by August 30. Therefore, all subordinated units are expected to convert to common units on that date on a one-for-one basis.

With respect to our Midstream ownership, as Scott shared in his comments, we have determined that we will no longer pursue a spin option and we continue discussions for a sale of our interest.

Let me provide some detail on our path if an outright sale of our Enable stake is not viable. We continue to support Enable's investment, credit quality and distribution objectives. We also support Enable's efforts to reduce commodity exposure, primarily via contract design.

Additionally, we will consider selling units in the public markets. We are very aware of capital market's limitations such as average daily volume. Therefore, we will be patient and sell units opportunistically under the right capital markets conditions. Any sales would be in accordance with the partnership agreement.

We have not established, nor do we intend to communicate, an objective on the target price, timing, or amount of unit sales. We are only communicating that we would look for the opportunity to reduce the size of our Midstream Investment should market conditions allow and in the event an outright sale is not viable.

Finally, on slide 17 we summarize year-to-date performance. This strong year-to-date performance of $0.66 per share on a guidance basis sets us up well to achieve our full year 2017 financial objectives.

We will update our earnings guidance as appropriate accounting for, but not limited to, weather impacts on volume sales, the Midstream segment's contribution to earnings including mark-to-market accounting, rate relief and changes in operating and maintenance expenses.

With that, I will now turn the call back over to David.

David Mordy {BIO 20391499 <GO>}

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

Q&A

Operator

At this time, we will begin taking questions. Thank you. And your first question comes from the line of Neel Mitra with Tudor, Pickering.

Q - Neel Mitra {BIO 16431920 <GO>}

Hi. Good morning.

A - Scott M. Prochazka {BIO 17360314 <GO>}

Good morning, Neel.

Q - Neel Mitra {BIO 16431920 <GO>}

Regarding the Enable update, is the right way to look at the updates going forward is that – the Enable portion of the business is something that you don't want to own longer term, and you'll pursue ways to, kind of, lower that stake in your overall portfolio, but not to expect a absolute decision as to whether you're going to keep it or not?

A - Scott M. Prochazka {BIO 17360314 <GO>}

I think, Neel, the way to think about this is as we've expressed from the beginning we would like to reduce our exposure to oil and gas sector with our investment in Midstream. So, if we're not able to affect an outright sale, as Bill suggested, we would look for opportunities to lighten our ownership via public sale. But we're also very much aware of the need to be cognizant of market conditions when we attempt to do that. So, I think that's – maybe a long-winded answer, but I think the way you described it is perhaps accurate.

Q - Neel Mitra {BIO 16431920 <GO>}

Okay. And then just with the outright sale process. How do you look at the tax leakage associated with that?

A - Scott M. Prochazka {BIO 17360314 <GO>}

Well, the viable sale processes that are there are ones that don't involve a cash transaction and therefore would not involve an immediate tax liability.

Q - Neel Mitra {BIO 16431920 <GO>}

Okay. Great. And just really quickly, Houston Electric is doing very well for you. Wanted to just try to think about rate base growth versus sales growth. When you think about the capital spending that's involved there, is it mostly due to keeping up with the sales growth or are there reliability needs that need to be addressed as well, and kind or rough percentage of what's driving the rate base growth, sales growth or just reliability in need for new equipment?

A - Scott M. Prochazka {BIO 17360314 <GO>}

Yeah, Neel. There is a mix of investment for those categories you described. I would estimate, I don't have the numbers in front of me, that the largest category is centered around growth investment, perhaps around 60% of our capital is growth oriented. The remainder would be geared towards maintenance and reliability spend.

Q - Neel Mitra {BIO 16431920 <GO>}

Okay. Thank you very much.

A - Scott M. Prochazka {BIO 17360314 <GO>}

Yep.

Operator

Your next question is from the line of Insoo Kim with RBC Capital Markets.

Q - Insoo Kim {BIO 19660313 <GO>}

Hey, good morning, everyone.

A - Scott M. Prochazka {BIO 17360314 <GO>}

Good morning, Insoo.

Q - Insoo Kim {BIO 19660313 <GO>}

Hey, Scott. Just going back to the Enable options, per the partnerships agreements, I understand the 5% limit that would trigger the road curve (23:14), but is there a limit to how many or what percentage you guys can sell, either via an open market or an Exchange in a given year?

A - William D. Rogers {BIO 15746544 <GO>}

Insoo, good morning. This is Bill. The 5% limit would be to a single owner. There is not a limit with respect to what we might sell in the capital markets. Having stated that, we are well aware of the practical limitations, I think, which center around the actual float and average daily trading volume of Enable.

Q - Insoo Kim {BIO 19660313 <GO>}

Got it. But in terms of the partnership agreement, there is no written language of amending any. It would just be subject to the market conditions that you guys mentioned?

A - William D. Rogers {BIO 15746544 <GO>}

Yes.

Q - Insoo Kim {BIO 19660313 <GO>}

Okay. And then just maybe another technical question on – if you were to do a non-cash unit exchange with a third-party for a sale, what happens to the current negative tax basis that you guys have in Enable?

A - William D. Rogers {BIO 15746544 <GO>}

Insoo, it's Bill again. That negative tax basis stays. And whenever we would sell those securities, we would recognize a capital gain.

Q - Insoo Kim {BIO 19660313 <GO>}

Okay. Got it. And then, maybe turning to the CEHE, with the legislative change in Texas, do you foresee the chances of you filing a rate case in the foreseeable future is like pretty low?

A - Scott M. Prochazka {BIO 17360314 <GO>}

Well, in our last disclosed estimate of filings we did not have a full-blown rate case in our – in that plan. The removal of the four-time limit on DCRF would potentially allow us to defer a rate case even further. Keep in mind that DCRF is only usable if our total ROE is below our authorized ROE.

Q - Insoo Kim {BIO 19660313 <GO>}

Understood. Thank you very much.

A - Scott M. Prochazka {BIO 17360314 <GO>}

Yes.

Operator

Your next question is from the line of Shar Pourreza with Guggenheim Partners.

Q - Shahriar Pourreza {BIO 15145095 <GO>}

Good morning, guys.

A - Scott M. Prochazka {BIO 17360314 <GO>}

Good morning, Shar.

Q - Shahriar Pourreza {BIO 15145095 <GO>}

So, thanks for the additional color on Enable. Let me get your refreshed thoughts here. In a scenario where you are – there's not an outright sale and you're divesting a small percentage on an annual basis, can you just remind us how you're thinking about other ways to potentially dilute your ownership in Enable, maybe looking at non-organic growth opportunities and tapping what seems to be an underutilized balance sheet, which I guess is a bit of a surprise for the rest of the sector? So how are you, sort of thinking about M&A and maybe potentially diluting Enable's exposure?

A - Scott M. Prochazka {BIO 17360314 <GO>}

Well, certainly our objective of having our Midstream exposure on a percentage basis being lower could be accomplished through continued utility growth. Our emphasis continues to be around organic growth for our utility. You know we – when we invest organically we know the returns that we will get on those investments. It would be nice to find an opportunity or to be able to accelerate our utility growth. But we have to compare the returns of other investments against the returns we can get investing in our organic growth opportunities.

Bill, did you want to add to that?

A - William D. Rogers {BIO 15746544 <GO>}

Sure. Thanks, Scott. Shar, I'll just remind investors that we did revise our five-year CapEx higher in the 2016 Form 10-K. And with the growth that we continue to see, I think that CapEx investment is biased to go higher yet. The strength of our balance sheet and our credit metrics allows us to make those investments without having to consider common equity in the near term.

Q - Shahriar Pourreza {BIO 15145095 <GO>}

That's helpful. Okay. Got it. So, the organic opportunities far away (27:47) you having a look at the M&A market. Thanks. Appreciate it.

A - Scott M. Prochazka {BIO 17360314 <GO>}

Yes.

Operator

Your next question is from the line of Chris Turnure with JPMorgan.

Q - Christopher James Turnure {BIO 17426636 <GO>}

Good morning. To continue on the conversation regarding Enable, can you just kind of give us a little bit of background and remind us of the exact trigger of when you need to go to OGE with the right of first offer? You've done this, I think, a couple times now? You said that you recently kind of refreshed that with them last month?

A - Scott M. Prochazka {BIO 17360314 <GO>}

Sure, I'll ask Bill to do that.

A - William D. Rogers {BIO 15746544 <GO>}

Good morning, Chris. See, if we intend to have discussions with third parties to sell more than 5%, then, under the partnership agreements, OG&E (sic) [OGE] has the right of first offer. Given that we have been having discussions and continue to have those discussions, the time period lapsed, and therefore we needed to provide OG&E (sic) [OGE] with another right of first offer.

Q - Christopher James Turnure {BIO 17426636 <GO>}

Okay. Then how did the time period lapse, exactly?

A - William D. Rogers {BIO 15746544 <GO>}

Yes. There is a time limit by which we would have to conclude the process and to close. And that time limit is 120 days after we respond to OG&E (sic) [OGE], should OG&E (sic) [OGE] give us an offer. And OG&E (sic) [OGE] has 30 days to respond to our right of first offer notice, and we have 30 days to respond to that.

Q - Christopher James Turnure {BIO 17426636 <GO>}

Okay. So, as you've been going through the process over the past year and a half or so now, we can assume that cycled through a couple times. And each time, you've not been able to get it done, obviously, by the finish line there, okay.

And then, switching gears to the Energy Services business, it seems like, since you closed the transaction with Atmos early this year, you're generally pleased with the results, and you say that it kind of remains accretive. Can you just speak in a little bit more detail to the kind of business market conditions there, and the outlook going forward?

A - Scott M. Prochazka {BIO 17360314 <GO>}

Yes. I'm going to ask Joe to make a comment on this one. He's sitting at the table here with us.

A - Joseph J. Vortherms {BIO 20096801 <GO>}

Hi, Chris. Yes, it just gave us the opportunity to broaden our geographic scope, which is one. And it lessens the overall impacts of economic conditions and weather conditions across the country. And two, the integration has been going well and it allows us to look for further organic optimization of the businesses as we combine them, so with Continuum and with Atmos and legacy CES, it's put us in a good position to grow from a organic perspective, just based off of the size we've accumulated with the acquisitions.

Q - Christopher James Turnure {BIO 17426636 <GO>}

Okay. And just the overall commodity and volume environment out there remains supportive and kind of in line with your expectations from six or nine months ago?

A - Joseph J. Vortherms {BIO 20096801 <GO>}

It has. With the gas prices and the gas availability out there, the market looks good.

Q - Christopher James Turnure {BIO 17426636 <GO>}

Okay. Great. Thank you.

A - Scott M. Prochazka {BIO 17360314 <GO>}

Thank you.

Operator

Your next question is from the line of Kamal Patel with Wells Fargo.

Q - Kamal B. Patel {BIO 5937987 <GO>}

Good morning, gentlemen. A few...

A - Scott M. Prochazka {BIO 17360314 <GO>}

Good morning.

Q - Kamal B. Patel {BIO 5937987 <GO>}

...questions on Enable. Regarding the spin, I'm of the understanding that the risk profile of CenterPoint would have improved. So I'm not understanding the inability to maintain desired credit metrics. Could you kind of clarify that?

A - Scott M. Prochazka {BIO 17360314 <GO>}

Go ahead.

A - William D. Rogers {BIO 15746544 <GO>}

Kamal, good morning. It's Bill.

Q - Kamal B. Patel {BIO 5937987 <GO>}

Hi.

A - William D. Rogers {BIO 15746544 <GO>}

Yes, you're correct in that the business risk profile would have improved without having the Midstream Investment as part of our business. Having said that, we think there is real advantage to our credit metrics, and we specifically look at FFO to debt. And we did not think that we could put the amount of debt on SpinCo for it to have a sustainable credit quality, as well as to meet our objectives of maintaining our credit metrics at CenterPoint.

Q - Kamal B. Patel {BIO 5937987 <GO>}

Okay. Regarding the potential sale opportunities, if you go down the path of selling via the public markets, would you go back to a potential block sale? Or would you just remain on the public market sale path?

A - William D. Rogers {BIO 15746544 <GO>}

We will not be commenting as to how we might do that. But there are various – either programs, or as you suggested, block sale opportunities. I think it very much depends upon the capital market considerations. And I know I've said it twice, but I'll say it again. We do recognize practical limitations that exist today as a result of average daily trading volume and float.

Q - Kamal B. Patel {BIO 5937987 <GO>}

Okay. And one last one. Back when you had the Cable business, you used the ZENS structure to offload the position in the Cable business. Is that something that could be evaluated for your Enable LP interest?

A - William D. Rogers {BIO 15746544 <GO>}

I don't think that would practically work with units.

Q - Kamal B. Patel {BIO 5937987 <GO>}

Okay. All right. Thanks for the time.

Operator

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

Q - Ali Agha {BIO 1509168 <GO>}

Thank you. Good morning.

A - Scott M. Prochazka {BIO 17360314 <GO>}

Good morning, Ali.

Q - Ali Agha {BIO 1509168 <GO>}

Good morning. First question, Scott, I just want to understand the sort of strategic thinking behind the sale for shares because it seems to me that all you're doing is essentially adding another layer in your ultimate goal of exiting that exposure. Is that fair? I mean, essentially what you may get is a more liquid share ownership that you could sell more easily. Or I'm just trying to understand what the sale for shares would accomplish, given where you want to go.

A - Scott M. Prochazka {BIO 17360314 <GO>}

So, Ali, our objective with this transaction was to have more visibility into the earnings associated with Midstream Investments, as well as the option to have more liquidity to change our ownership. So, your point is exactly right. The transition to another security, in part, would be to provide optionality for us to lighten our investment in Midstream over time.

Q - Ali Agha {BIO 1509168 <GO>}

Okay. And so presumably that potential buyer – is understanding of that fact, that there may be some pressure on their shares, if they do give you shares for their ownership exchange?

A - Scott M. Prochazka {BIO 17360314 <GO>}

Yes.

Q - Ali Agha {BIO 1509168 <GO>}

Okay. And also to clarify, Scott, the – and I think you said that, just to clarify, as far as selling the Enable units in the market is concerned, there is no official limit with the partnership agreement? I mean, theoretically you could sell all of it in one go if you wanted to. I understand the capital market issue, but there is no other limit to how much you can sell at any given time.

A - Scott M. Prochazka {BIO 17360314 <GO>}

That is correct for just straight capital markets transaction.

Q - Ali Agha {BIO 1509168 <GO>}

Right. And then second question, Bill, for you, if I look at what you've reported so far through the first half, and I look at the guidance range you have for the year, even at the high end of the guidance range, it's essentially is telling us that second half results would be flat with second half 2016. Is there any rationale or any reason why that would be the case?

A - William D. Rogers {BIO 15746544 <GO>}

Well, we never said it was flat with 2016, but what I said in the prepared remarks, Ali, was that we will update earnings guidance as appropriate, hope you'll appreciate we are in the middle of our big quarter for Houston Electric. So, volume sales related to weather do matter to our earnings. And we do recognize that oil and gas forward price has changed, and that could change the mark-to-market accounting that is at the Enable level.

Q - Ali Agha {BIO 1509168 <GO>}

Okay. But there is no structure – there was no one-time gains or anything last year's second half that would make up for a tougher comparison?

A - William D. Rogers {BIO 15746544 <GO>}

That's correct.

Q - Ali Agha {BIO 1509168 <GO>}

Okay. Thank you.

Operator

Your next question comes from the line of Steve Fleishman with Wolfe.

Q - Steve Fleishman {BIO 1512318 <GO>}

Yes. Hey. Good morning.

A - Scott M. Prochazka {BIO 17360314 <GO>}

Morning, Steve.

Q - Steve Fleishman {BIO 1512318 <GO>}

Good morning, Scott. I just – just curious that, you know, obviously beginning of the year you moved the date to this call, giving more time for this process, and then we have this happen again. And you could, I guess in theory, just say, hey, we're just going to go status quo, and obviously anytime somebody could make an offer to do something else. So maybe just give us some color, like why, kind of continue with this process as is, instead of just saying, hey, let's just go status quo and if something happens strategically then it happens?

A - Scott M. Prochazka {BIO 17360314 <GO>}

Well, Steve, the reality is that we are still in discussions with parties. Admittedly, there were some parties that came into conversation a little bit later in the process and that may be the driver for this not being concluded. But we are working towards a conclusion of the discussions that we are having. So, while we didn't get closure by this call, and I'm hesitant to provide another date for target, hopefully it will be in the near future when this is closed out.

Q - Steve Fleishman {BIO 1512318 <GO>}

Okay. Got it. That's helpful. And then secondly, just in terms of thinking about the credit thought process if you applied it to any type of sale for stock. It really wouldn't, in theory, it wouldn't really change your credit situation much because you'd still be effectively getting the Enable distributions through to CenterPoint from whatever entity you've invested in. And – so, you wouldn't have any of the credit issues that you would have with the spin at a high level, is that correct?

A - Scott M. Prochazka {BIO 17360314 <GO>}

That's correct, Steve.

Q - Steve Fleishman {BIO 1512318 <GO>}

Okay. Okay. Thank you.

A - Scott M. Prochazka {BIO 17360314 <GO>}

Thanks, Steve.

Operator

Your next question is from the line of Charles Fishman with Morningstar.

Q - Charles Fishman {BIO 4772353 <GO>}

Good morning. Just one question I had left, in thinking about this idea of a sale of units for some type of like-kind exchange, so you can time your tax liability a little – have a little more control over that. Is some of that due to the uncertainty with respect to tax reform?

A - Scott M. Prochazka {BIO 17360314 <GO>}

No, I would say it's not. When we started this process, we were talking about this option and that was before any discussion of tax reform. It is possible if tax reform were to occur there could be some benefit from it.

Q - Charles Fishman {BIO 4772353 <GO>}

Okay. That's all I had. Thank you.

A - Scott M. Prochazka {BIO 17360314 <GO>}

Yes.

Operator

. And your next question is from the line of Paul Patterson with Glenrock Associates.

Q - Paul Patterson {BIO 1821718 <GO>}

Hi. How are you?

A - Scott M. Prochazka {BIO 17360314 <GO>}

Good morning, Paul.

Q - Paul Patterson {BIO 1821718 <GO>}

Just a sort of follow up on Ali Agha's question, and some of the others in terms of this like-kind exchange. Is the only purpose for taxes? Or is there any other benefit that you would get from accounting or what have you in having a lower percentage of ownership in a larger entity than you have with Enable?

A - William D. Rogers {BIO 15746544 <GO>}

Paul, good morning. It's Bill. We currently account for our Enable investment as equity accounting under really – the real estate accounting rules. So, if we were to exchange those units for units or C Corp common of some other entity, at this time, we don't see a change in the accounting. What – and we would not expect to recognize any tax liability. The exchange would defer the tax liability until the time which we sold either units or C Corp common and that the exchange for the units would be under a plan of reorganization.

Q - Paul Patterson {BIO 1821718 <GO>}

Okay. And then with respect to – I mean, just with respect to the management of the tax liability, is this a big driver in this? Is that – I mean, as opposed to potentially selling your Enable's ownership for cash? Is that what we're talking – but is that one of the big drivers here that you guys are considering? Is that the big portion of the consideration here?

A - William D. Rogers {BIO 15746544 <GO>}

Well, we do have to think through that. And we have significant negative basis. So, in order for us to meet our objectives as Scott has outlined, we would need a very high sales price to first recognize that capital gains liability, and then drive the rest through to get back to our earnings per share.

Q - Paul Patterson {BIO 1821718 <GO>}

Okay. So, with that in consideration, when we're talking about capital markets opportunities and what have you, the idea of a secondary offering of selling security holders or what have you, it would seem that because of that management of the tax liability issue, you would be probably divesting if you were doing it to the capital markets. Your preference would be to not do a block sale or not do a large sale? It would seem to be that you would be, for lack of a better word, dribbling it out over a considerable period of time as you would with the like-kind exchange.

I mean is that the right way to sort of think about the likely outcome? I'm not trying to preclude you from any potential disposition. But does that make more – is that sort of the way we should think about it just in general?

A - William D. Rogers {BIO 15746544 <GO>}

I think with respect to sale in the public markets, the capital markets considerations are much more of a limiting factor than paying capital gains tax as we liquidate.

Q - Paul Patterson {BIO 1821718 <GO>}

Even like – so, but what about the idea of a secondary offering for instance? Like in other words, an underwritten kind of offering, or something of that sort of nature? I was thinking in those terms (43:34) yes, obviously if you were to selling in the open market like you've been saying, there'll be some restrictions there just because of the flow and what have you. But just in thinking in terms of the block sale or something of that sort of nature or marketed effort, that would sort of be precluded as well, would it not, because of the tax consideration?

A - William D. Rogers {BIO 15746544 <GO>}

Well, it would. But just practically, we own over 54% of the LP units of Enable. So, we have to think through how much any one block sale would be relative to that ownership.

Q - Paul Patterson {BIO 1821718 <GO>}

Okay. Thank you very much.

Operator

Your next question is from the line of Andy Levi with Avon Capital Advisors.

Q - Andrew Stuart Levi {BIO 17235317 <GO>}

Hi. How you guys doing?

A - Scott M. Prochazka {BIO 17360314 <GO>}

Good. Good morning, Andy.

Q - Andrew Stuart Levi {BIO 17235317 <GO>}

How long has the – just to your sale process been going on for Enable?

A - Scott M. Prochazka {BIO 17360314 <GO>}

We announced it about 18 months ago. But from a practical standpoint, it began a little less than a year ago. We had some challenges right after we announced with the commodity markets, and basically caused a delayed start, if you will. But I'd say it's been active since a little under a year.

Q - Andrew Stuart Levi {BIO 17235317 <GO>}

Again, I'm not talking about the strategic review. I'm just talking about the actual sales process, straight sales process for Enable, which is kind of where we're at right now. It's been about a year?

A - Scott M. Prochazka {BIO 17360314 <GO>}

Yes, it has.

Q - Andrew Stuart Levi {BIO 17235317 <GO>}

Okay. And, I'm just curious. I mean, obviously, you mentioned obviously the energy markets as well. And obviously, you know there's been number of times where OGE has been offered the right of first offer or whatever it's called, ROFO. But the point being is, why is it taking so long? Is it because it's a – not a minority stake, but obviously that there's another owner of Enable? Is that the problem? Or can you give us any color of why the process has taken so long?

A - Scott M. Prochazka {BIO 17360314 <GO>}

Admittedly, it's taking longer than we had expected. I think I'll began with, it took some time to get confidence in a forecast over multiple years that we could represent to potential buyers. Then – you just have to think back to the state of the E&P industry and the Midstream segment for the first half of last year. And then you're right, this has an added layer to it, in that any potential purchaser wants to get comfortable with their partner.

Q - Andrew Stuart Levi {BIO 17235317 <GO>}

So then, move to the like-kind exchange, I would assume that may be a similar issue. In a like-kind exchange, how does it work, just logistically, with OGE? I mean obviously, I guess they could participate in that like-kind exchange, tell me if I'm right or wrong, but also, as far as their first look at it, better way to put that.

A - Scott M. Prochazka {BIO 17360314 <GO>}

That's within the ROFO.

Q - Andrew Stuart Levi {BIO 17235317 <GO>}

That's within the...

A - Scott M. Prochazka {BIO 17360314 <GO>}

So if we're offering our interest for sale, OG&E (sic) [OGE] has a right of first offer.

Q - Andrew Stuart Levi {BIO 17235317 <GO>}

But in the like-kind exchange as well?

A - Scott M. Prochazka {BIO 17360314 <GO>}

Correct.

Q - Andrew Stuart Levi {BIO 17235317 <GO>}

Okay. And that's just based on a cash price, I guess.

A - Scott M. Prochazka {BIO 17360314 <GO>}

That's based on the fact they have a right of first offer...

Q - Andrew Stuart Levi {BIO 17235317 <GO>}

No, no, no, no I understand that, but I'm saying, as far as the like-kind exchange, obviously you would be offered shares in a new – another company, in exchange for your shares of Enable. But that would be based on a, I guess, a price, right? Obviously, so that's how OGE would determine whether they're kind of in the game or not (48:18).

A - Scott M. Prochazka {BIO 17360314 <GO>}

Right. Well, under a right of first offer, they make the offer first, if they elect to do that.

Q - Andrew Stuart Levi {BIO 17235317 <GO>}

Okay. Okay, so they – I guess I didn't realize that. I thought they were able to at least be able to review what the offers were, but I guess that's not the case.

A - Scott M. Prochazka {BIO 17360314 <GO>}

No, they have first offer rights.

Q - Andrew Stuart Levi {BIO 17235317 <GO>}

Right. Okay. But I was – something I had in my head that they were at least part of the process beyond that first offer. Okay. So basically, on a like-kind exchange, we'll find out about that fairly soon. Is that fair?

A - Scott M. Prochazka {BIO 17360314 <GO>}

Yes. We hope to move this to conclusion here pretty quick. Yes.

Q - Andrew Stuart Levi {BIO 17235317 <GO>}

Okay. Okay. Thank you very much.

A - Scott M. Prochazka {BIO 17360314 <GO>}

Yeah.

Operator

Your next question is from the line of Insoo Kim with RBC Capital Markets.

Q - Insoo Kim {BIO 19660313 <GO>}

Sorry for the follow up. Just one follow up on the Enable, I know that's been a – essentially off the table – but was the decision for that, you say it was credit metrics, but did the math that you guys work through, in terms of potentially paying down the debt and maybe re-equitizing CERC via equity offerings? Did that not make sense to you guys as – in terms of accretion or whatnot?

And then, the other part is, are you able to tell us whether you received a private letter ruling from the IRS that it would or would not be a largely tax-free thing?

A - Scott M. Prochazka {BIO 17360314 <GO>}

I'm not in a position to comment on the latter. Well, we're not in the position to talk about private letter rulings publicly. But, with respect to the way we looked at it into, it was the consolidated credit metrics of CenterPoint after a spin, and the amount of debt that we could reasonably place on SpinCo, so that SpinCo would have reasonable access to the debt capital markets.

Q - Insoo Kim {BIO 19660313 <GO>}

Got it. Okay. All right. I'll follow up with you guys offline. Thank you.

Operator

Your next question from the line of Paul Patterson with Glenrock Associates.

Q - Paul Patterson {BIO 1821718 <GO>}

Hi. Just a quick a follow-up. So, assuming that you guys do a like-kind exchange and there is no liquidity issue or very little one. What would then be, in terms of the disposition of those assets, which you think, because at that point assuming there is no liquidity issue, it's just a question of tax liability management, it would seem to me. How should we think then of the disposal of the new securities that you would own and would those be accounted for in operating earnings potentially?

A - Scott M. Prochazka {BIO 17360314 <GO>}

Well, I'll start, and maybe, Bill, can add to the latter part of the question. Thinking through that option, that far down is reaching way far ahead in terms of what may happen if the first assumption were to occur. We maintain our objective of trying to reduce the volatility of the investment proportion that we have in our Midstream space.

So, the timing for disposition, there are many factors that would go into that. One is the variability of the earning stream that we now have, and as you know, capital markets considerations. But there are many factors that would go into, and we have not at all described what our objectives would be relative to that investment.

Q - Paul Patterson {BIO 1821718 <GO>}

Okay. I thought I'd try. Thank you.

Operator

Your next question is from the line of Kamal Patel with Wells Fargo.

Q - Kamal B. Patel {BIO 5937987 <GO>}

Hi, sorry. One quick follow-up regarding the GP interest in Enable. Would you hold on to it until you sold down, or got out of your LP position, down to a reasonable level? Or to more of a smaller stake per se?

A - Scott M. Prochazka {BIO 17360314 <GO>}

Our expectation is the GP would go with the sale.

Q - Kamal B. Patel {BIO 5937987 <GO>}

Okay. Thanks.

Operator

Your next question is from the line of Neel Mitra with Tudor, Pickering.

Q - Neel Mitra {BIO 16431920 <GO>}

Thanks for the follow-up. Just another question on the like for kind exchange? If you were to exchange units with somebody else would that ultimately actually reduce the tax liability, or just manage your ability to basically pay that out over time when you sell the units?

A - Scott M. Prochazka {BIO 17360314 <GO>}

That would not change our tax liability.

Q - Neel Mitra {BIO 16431920 <GO>}

Okay. So, just be able to manage it over time.

A - Scott M. Prochazka {BIO 17360314 <GO>}

That's correct.

Q - Neel Mitra {BIO 16431920 <GO>}

Okay. Great. Thank you.

Operator

Your next question is from the line of Andy Levi with Avon Capital Advisors.

Q - Andrew Stuart Levi {BIO 17235317 <GO>}

I think I'm all set.

A - Scott M. Prochazka {BIO 17360314 <GO>}

Okay. Thanks, Andy.

A - William D. Rogers {BIO 15746544 <GO>}

Thanks, Andy.

Operator

Our last question is from the line of Andy Gupta (54:05) with HITE.

Hi. Thanks for taking my question. Just a clarification. In the sale option, is the only option you're considering taking units of shares? Or what if it's a cash offer?

A - Scott M. Prochazka {BIO 17360314 <GO>}

Cash offer would work, but it has to be at the right price to meet the other obligations.

Q - Operator

Understood. Okay. Thank you.

A - David Mordy {BIO 20391499 <GO>}

This concludes our second quarter 2017 earnings call. Thank you, everyone, for your interest in CenterPoint Energy. And have a wonderful day.

Operator

This concludes CenterPoint Energy's second quarter 2017 earnings conference call. Thank you for your participation.