Q2 2023 Earnings Call

Company Participants

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

Other Participants

- Anthony Crowdell, Mizuho
- David Arcaro, Morgan Stanley
- Durgesh Chopra, Evercore ISI
- Jeremy Tonet, J.P. Morgan Securities
- Julien Dumoulin-Smith, Bank of America
- Shahriar Pourreza, Guggenheim Partners

Presentation

Operator

Good morning, and welcome to CenterPoint Energy's Second Quarter 2023 Earnings Conference Call with senior management. During the company's prepared remarks, all participants will be in a listen-only mode. There will be a question-and-answer session after management's remarks. (Operator Instructions) I will now turn the call over to Jackie Richert, Vice President of Corporate Planning, Investor Relations, and Treasurer. Mrs.Rickard?

Jackie Richert {BIO 22513026 <GO>}

Welcome to CenterPoint's Earnings Conference Call. 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 on various factors as noted in our Form 10-Q, other SEC filings, and our earnings materials. We undertake no obligation to revise or update publicly any forward-looking statement.

We will be discussing certain non-GAAP measures on today's call. When providing guidance, we use the non-GAAP EPS measure of diluted adjusted earnings per share on a consolidated basis referred to as non-GAAP EPS. For information on our guidance methodology and reconciliation of the non-GAAP measures used in providing guidance, please refer to our earnings news release and presentation on our website. We 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 it over to Dave.

David J. Lesar {BIO 1519300 <GO>}

Good morning, and thank you to everyone joining us for our second quarter 2023 earnings call. I'm excited to announce that this is our 13th consecutive quarter of meeting or exceeding expectations. Additionally, I am pleased to be joined on today's call by Chris Foster, the newest member of our management team. Chris has hit the ground running. I know most of you already knew what a high quality executive he is and have had the opportunity to catch up with him. We are happy to have him officially on board.

Since we have three speakers today instead of our usual two, I will limit my time to providing the main headlines for the quarter and let Jason and Chris tell the story.

Headline one, another great quarter is in the books at CenterPoint, as our entire team of nearly 9,000 employees continues to execute well on all fronts.

Headline two, overcoming headwinds, reaffirming 2023 guidance.

We announced second quarter non-GAAP EPS of $0.28 per share, overcoming the $0.08 per share headwinds from higher interest expense alone. Other headwinds came from inflationary pressures and generally milder weather throughout our service territories this quarter. Despite these headwinds, we are reaffirming our 2023 non-GAAP EPS guidance target range of $1.48 to $1.50 per share. This represents an 8% growth over last year's actual amount.

This follows non-GAAP EPS earnings growth of 9% in both 2021 and 2022. Headline 3, reaffirming industry leading long term growth for 2024 and beyond. We continue to target 8% non-GAAP EPS growth in 2024 and the mid-to-high end of 6% to 8% annually thereafter through 2030.

Headline 4, 2023 capital deployment is on track. We successfully deployed $1.2 billion of capital during the quarter, bringing our year-to-date total to approximately $2.3 billion. This is ahead of our anticipated plans for the year.

Headline 5, increasing our 2023 capital spend by over 11%. Let me walk you through the new capital plan. Our prior 10-year capital plan was $43 billion with an incremental $3 billion of additional capital spend identified, but not yet included in our formal plan. Today we are increasing our 2023 capital plan from $3.6 billion to $4 billion, an increase of over 11%.

We are now confident we can efficiently fund, execute, and recover this $400 million increase without any external equity issuance. With this, our formal capital plan through 2030 goes from $43 billion to $43.4 billion. As for the remaining $2.6 billion of capital identified, but not yet included in our $43.4 billion, we are now confident in our ability to identify opportunities well beyond this amount.

As we have stated in the past, we will continue to add these incremental amounts to our capital plan when we are confident we can efficiently fund, execute, and recover them. As we always do, we will continue to identify and execute on constructive opportunities for all of our stakeholders.

So to be clear, this is additional capital spending for 2023, not pulling future capital spending forward. These additional capital investments will support safety and resiliency for the benefit of customers in our Houston Electric business while balancing the impact on their bills.

Headline 6, O&M plan reductions remain on target. We continue on a path to reducing O&M costs by 1% to 2% per year on average over the current 10-year plan.

Headline 7, positive legislation outcomes from across our territories. There were a number of recent legislative outcomes in Texas and Indiana that should benefit our utility customers for years to come. To name just a few from Texas, we now have the ability to file for two DCRFs per year, the ability to recover prudent incentive compensation, and the ability to file a comprehensive resiliency-focused investment plan.

Headline 8, Houston growth continues. People and companies continue to flock to Houston, partly because of its affordable and reliable energy. In 2022, the Houston area was the second fastest growing metro area in the U.S. and amazingly, in 2022, over one-third of Houston's region population growth was from residents moving to Houston from outside the United States.

Headline 9, targeting Houston Electric customer charges at or below the 2% historical rate of inflation. While continuing to heavily invest in the fundamentals of safety, resiliency, and reliability, we will be aiming to keep Houston Electric customer charge increases at or below the 2% historical level of inflation over the longer term. This is a unique luxury among utilities.

Headline 10, we plan to be out of operating coal generation by the end of 2027. Using renewables and lower carbon power generation should provide a more affordable alternative for our customers. I want to thank our incredibly dedicated employees in both Houston and Southwestern Indiana who worked tirelessly to repair our system that was struck by a series of major storms earlier this month. Also, I want to take a moment to thank the Texas and Indiana legislatures and all stakeholders that supported our constructive legislative outcomes. We are grateful that the resiliency and the reliability of the grid continues to be a top priority for all of our stakeholders.

In summary, even in the midst of the economic and operational headwinds of higher interest rates, inflationary pressures, and unusual weather, we continue to deliver for both our customers and investors.

The second quarter of 2023 is just another example of our continued commitment to executing on what we believe is the most tangible long-term growth plan in the industry.

I'll now let Jason and Chris take it from here.

Jason P. Wells {BIO 19168211 <GO>}

Thank you, Dave. And thank you to all of you for joining us this morning for our second quarter call. Before I get into my updates for the quarter, I want to echo Dave's gratitude to all of our employees who withstood this extreme weather to quickly restore service in our greater Houston and Southwest Indiana communities. I couldn't be prouder of our team's response and commitment to the communities we have the privilege to serve.

Looking at the legislative summary on Slide 5, we are grateful for the customer-focused outcomes resulting from these recent legislative sessions. We understand our state legislatures have numerous issues to consider, and we are appreciative of the time that was spent on providing the electric and gas utility industries with additional tools to better serve our customers.

In Texas, one of the top stated goals of the latest legislative session was to improve electric grid reliability. And we certainly believe we made good progress on that front with the enactment of a number of bills. There are 3 that I want to highlight in particular.

First, Texas transmission and distribution utilities now have the ability to file a resiliency plan for transmission and distribution related cost recovery. This comprehensive electric resiliency plan will allow the TDUs to work with the Public Utility Commission of Texas to outline a multi-year investment plan to broadly harden our electric grid to better address the impacts of extreme weather.

Additionally, distribution investments under these new plans will be eligible for the deferral of certain carrying costs such as depreciation and interest expense helping minimize the regulatory lag in recovery. This bill is a great illustration of how our legislators and other stakeholders desire for increased grid resiliency in light of the recent demands on the electric grid and providing the TDUs to do so. Second, we now have the ability to file for recovery of distribution related capital investments twice per year under the Distribution Capital Recovery Trackers or DCRF mechanism. This change now provides parity with the recovery of transmission investments where we already are able to make two filings a year.

The ability to file two DCRFs a year will not only help to reduce regulatory lag on the recovery of our distribution investments, but will also help keep incremental bill increases smaller and smoother for our customers. Lastly, we will now be able to recover certain incentive compensation for the employees that serve our customers in the Houston Electric service territory. This will us continue to attract top talent to better serve our customers.

These bills, as well as other related bills that were enacted, were an overwhelmingly positive outcome for customers and for CenterPoint, and I want to also express appreciation to all stakeholders involved in achieving this. We will continue to work with stakeholders to achieve customer-focused outcomes while advancing the resiliency, reliability, and safety of the grid that helps power the economic success of the greater Houston area.

Outside of Texas, I want to thank the Indiana legislature for its time and attention in providing Indiana Utilities for more opportunities to advocate for their customers. One such piece of legislation that I want to highlight in this regard is one that allows a utility the right of first refusal to building transmission lines that connect to a respective utility system. We believe this allows a utility to operate in the best interest of its customers, a win for those that we serve in Southwestern Indiana.

In addition to a busy legislative calendar, we had a number of regulatory updates as shown on Slide 6. Starting with Minnesota Gas, we filed for the approval of 25 proposed projects under the Natural Gas Innovation Act, or NGIA, with an estimated cost of a little over $100 million for the first five years of those projects. These projects include things like renewable natural gas and green hydrogen, as well as pioneering technologies such as a networked geothermal district energy system and end-use carbon capture.

These proposed projects are designed with the goal of helping to advance a cleaner energy future in Minnesota. We continue to be appreciative of the constructive environment in Minnesota, which allows us the opportunity to invest in projects that assist our customers to achieve their emission reduction targets. Now, moving to Indiana Electric, we continue to make good progress related to our 2020 Integrated Resource Plan, or IRP. During the quarter, we received several approvals from the Indiana Utility Regulatory Commission, including approval for our 200-megawatt wind project and the re-approval of three of our solar projects.

Additionally, earlier this month, the gas pipeline that will serve the new gas CT plant, which was approved last year, was fully authorized to proceed by the FERC. Related to our 2020 IRP, we now have received approval and in many instances, re-approval for nearly all of the filings. These filings constitute over 1 gigawatt of renewable generation that we anticipate placing in service or begin contracting within the next few years, and the 460-megawatt gas CT, which is expected to provide an additional generation source on days when the wind might not be blowing and the sun might not be shining.

We also issued securitization bonds of approximately $340 million related to the retirement of the A.B. Brown coal facility. This was a very constructive transaction for our customers and has already started providing customer benefits in the form of a credit on their bills. With many of the individual projects related to our 2020 IRP underway, we can now turn our attention to the 2023 IRP we submitted in the second quarter. This IRP addresses our proposed retirement of our third and final coal facility and places us firmly on a path to fully exiting coal generation we operate by the end of 2027 while offering our customers a cleaner, more reliable, balanced portfolio of solar, wind, and gas generation at a cost that is expected to be substantially less than maintaining our existing coal generation fleet.

This new filing proposes converting our last coal plant to gas as well as adding 200 megawatts of wind and 200 megawatts of solar by 2030. In its entirety, this IRP is anticipated to save customers nearly $80 million compared to the continued use of coal over the next 20 years. This filing is the culmination of months of hard work and collaboration throughout our organization to arrive at what we believe is a thoughtful and customer-centric approach to the generation transition in Southwest Indiana.

Moving on to the regulatory calendar shown on Slide 7. As many of you know we have a number of rate case filings on the horizon. I want to provide a brief update regarding the timing of those filings. Beginning with Texas Gas, we have slightly changed the expected timing of our filing. Previously, we had communicated that we would file this summer. However, we will delay this filing for a few months, likely filing in November of this year. We continue to anticipate filing for a relatively flat revenue requirement despite the delay and look forward to working with all stakeholders to reach a constructive outcome.

Additionally, we will likely push the timing of our Houston Electric filing to Q1 of 2024, instead of the previously communicated fourth quarter of this year. We will continue to use our TCOS and DCRF mechanisms until that time. Similarly, we also anticipate filing a relatively flat revenue requirement supported by our O&M discipline and growth throughout our Texas service territory.

With respect to the Minnesota and Indiana Electric filings, we remain on track with our previously communicated timelines of filing both cases towards the end of the fourth quarter this year.

Before I turn it over to Chris for the financial updates, I want to take a moment to touch on just how impressed I've been with the initiative and innovation of our leaders to reduce O&M while at the same time incrementally and positively impacting our customers' experience. One such incremental example can be found in our gas business.

Earlier this year, we completed a review focused on finding continuous improvement opportunities in our LEAP management activities. This review resulted in identifying several million dollars in opportunities that will benefit customers in the future by reducing bill increases, but also freeing up crews to get to service calls faster. It is examples like this that continue to reinforce our confidence in delivering 1% to 2% annual average O&M reductions despite inflationary headwinds.

Those are my updates for the quarter. I remain excited about our continued execution for the benefit of our customers and our investors. We continue to focus on making customer-focused investments and working with stakeholders to support legislative and regulatory outcomes that benefit customers throughout our various service territories.

Now with that, I'll turn it over to Chris for the financial updates.

Christopher A. Foster {BIO 19186909 <GO>}

Thanks, Jason, and thanks to all of you for joining our 2023 second quarter call and my first earnings call as CFO of this great company. Although I only recently joined the CenterPoint team, I can certainly say that I've enjoyed meeting more of my co-workers, digging into the long-term plan, and representing the company to the investor community, while also getting my family settled here with me as a new set of Houston residents. And I'm really pleased to see the recent outcomes the team has achieved, knowing we still have a number of long-term opportunities that are still very much in front of us.

Today I'll cover three areas of focus. First, our earnings progress, then a financing update, including our Energy Systems Group transaction and further reduction of floating rate debt, and finally, as Dave introduced, a positive revision to our capital plan. Now, let's start with the financial results on Slide 8. As mentioned, we are reaffirming our full year 2023 guidance range of $1.48 to $1.50 of non-GAAP earnings per share, which reflects 8% growth over full year 2022 non-GAAP EPS of $1.38 when using the midpoint.

On a GAAP EPS basis, we reported $0.17 for the second quarter of 2023. Our non-GAAP EPS results for the first quarter remove the results of our now divested, non-regulated business, Energy Systems Group. On a non-GAAP basis, we reported $0.28 for the second quarter of 2023 compared to $0.31 in the second quarter of 2022. Combined with the first quarter, we have now achieved 52% of our full-year guidance at the midpoint. Growth and rate recovery contributed $0.07, largely driven by continued recoveries through our electric DCRF capital tracker filed last year and our electric transmission tracker, or TCOS, in our Houston electric territory, which went into rates last November.

In addition, we continue to see strong organic growth in the Houston area, extending the long-term trend of 1% to 2% average annual growth. O&M was flat for the second quarter and $0.02 favorable year-to-date when compared to the first half of 2022, as we continued to find ways to operate more efficiently to target O&M reduction by 1% to 2% per year on average, while remaining focused on meeting our customers' needs. These favorable drivers were offset by an $0.08 increase in interest expense. The continued rising interest rate expense on short-term borrowings was the primary driver for this unfavorability when compared to the second quarter of last year.

However, we continue to make progress in reducing our short-term floating rate debt exposure, which I will discuss in more detail shortly. We believe our plan has sufficient conservatism built in to help us overcome these ongoing pressures. Weather and usage were $0.02 unfavorable when compared to the same quarter of 2022, primarily driven by a combination of sustained record-breaking temperatures during Q2 of 2022, when compared year-over-year to the milder April and May weather in both our Houston and Indiana electric territories this year. However, this trend did change in Houston in mid-June.

Next, to cover some financing and credit-related topics on Slide 9. As of the end of the second quarter, aligning with Moody's methodology, our FFO to debt was 13.9% as reported. We remain focused on the balance sheet as we target 14% to 15% through 2030. Essentially, we are targeting around 150 basis points of cushion from our downgrade threshold of 13%. And we will continue to explore opportunities to strengthen the balance sheet in this rising rate environment.

Another area in which we've been executing well is in the reduction of our exposure to floating rate debt. In the first quarter, we reduced floating rate debt by nearly $2 billion through the receipt of Winter Storm Uri proceeds and refinancing floating rate debt to fixed-term issuances at the operating companies. We carried this momentum into the second quarter as we reduced floating rate debt by an additional $200 million to approximately 14% of total debt outstanding. That's nearly a 50% year-to-date reduction relative to where we ended 2022. The primary drivers of this reduction were the receipt of the approximately $340 million in securitization proceeds related to the retirement of A.B. Brown, the proceeds of the previously mentioned Energy Systems Group, along with a collection of elevated gas costs incurred in the latter part of 2022.

As a reminder, we are carrying approximately $400 million of debt at the parent which was issued to fund our higher equity layer at Houston Electric and Texas Gas as we head into rate cases. And as we get to the other side of the rate cases, we will either begin recovering at this higher equity content or delever.

From the moment I arrived here at CenterPoint, one of my primary areas of focus as we work through our industry-leading growth plan is maintaining the strength of the balance sheet, especially in the current interest rate environment. I look forward to working with the team here not only to execute one of the most tangible long-term growth plans in the industry, but also maintaining a strong balance sheet.

Coming back to the divestiture of Energy Systems Group, we divested one of our few remaining non-regulated businesses, Energy Systems Group, or ESG, and closed the transaction within Q2. ESG is an energy services business that implements efficiency solutions through infrastructure and other solutions. It was acquired in the Vectren acquisition in 2019 and was part of its non-regulated portfolio. However, as we've sharpened our focus on our regulated utility businesses, it made sense to find a more natural owner for this business.

As a result of this divestiture, today non-regulated businesses account for less than 5% of our earnings. We're grateful to the employees for their tremendous work and believe they'll have further success under their new owners. We received after-tax proceeds of $121 million from the sale of ESG. The combination of these proceeds, as well as those received from the Indiana securitization, will help to reduce near-term floating-rate debt exposure, as well as provide incremental financing flexibility to help fund our capital plan, including the additional $400 million capital investments we anticipate making this year.

Let me now focus a bit on our CapEx enhancements on Slide 10. For the benefit of our customers and communities, we invested $1.2 billion this quarter and $2.3 billion year-to-date across our various service territories. This represents 64% of our beginning-of-the-year target of $3.6 billion for 2023. We are updating our 2023 capital target from $3.6 billion to $4 billion. This results in an increase to $43.4 billion for our 10-year capital plan target that goes through 2030. This capital increase is a result of having greater visibility operationally to resource additional work and improvements to financing and recoveries.

As it relates to the remainder of the balance of the $2.6 billion in incremental capital opportunities that we have not yet incorporated into the plan as Dave said, we are now confident in our ability to identify opportunities well beyond this amount. We have communicated that we will include incremental amounts when we can operationally execute, efficiently fund, and efficiently recover.

We have also stated that the previous $43 billion capital plan we set forth through 2030 does not require external equity funding.

The remainder of the incremental amounts beyond today's increase will require some additional financing that is not currently contemplated or reflected in our plan. As we continue to evaluate when to fold in the remaining $2.6 billion and beyond, we will also target the optimal way to finance such investments.

Our focus on delivering work affordably has not changed, and we will seek to continue to prudently deploy this capital while being mindful of customer charges. We continue to target our customer charges at Houston Electric to be equal to or less than the historical inflation rate of 2%. We believe we are able to achieve this through Houston's tremendous organic growth, securitization charges rolling off the bill later next year, and our plan to reduce O&M 1% to 2% per year on average.

I'd like to reiterate the earlier point that while these incremental investments undoubtedly add to the earnings power of the company, this management team will continue to be conservative as it relates to updates to earnings guidance. We are focused on delivering industry-leading, sustainable earnings growth year-over-year through 2030. As stated, looking beyond 2023 and from the reaffirmed 2023 non-GAAP EPS guidance of $1.48 to $1.50, we continue to expect to grow non-GAAP EPS 8% in 2024 and at the mid to high end of 6% to 8% annually thereafter through 2030.

Those are my updates for the quarter. And before turning it back over to Dave, I want to say again how excited I am sitting in my new seat here at CenterPoint. I felt so welcomed by the excellent management team here. I believe that even with some of the headwinds our sector is facing, our tailwinds exceed the headwinds, and we have a tremendous amount of opportunity in front of us. I'll now turn the call back over to Dave.

David J. Lesar {BIO 1519300 <GO>}

As you heard from us today, we now have 13 straight quarters of meeting or exceeding expectations. We are a pure play, regulated, premium utility, and on a course to continue execution of our current plan with incremental growth opportunities to support our customers beyond that.

Jackie Richert {BIO 22513026 <GO>}

Thank you, Dave. Operator, we'll now turn it back to Q&A.

Questions And Answers

Operator

(Question And Answer)

At this time, we will begin taking questions. (Operator Instructions) Thank you. Our first question comes from Jeremy Tonet with J.P. Morgan Securities. Your line is now open.

Q - Jeremy Tonet {BIO 15946844 <GO>}

Hi. Good morning.

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

Good morning, Jeremy. How are you?

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

Good morning.

Q - Jeremy Tonet {BIO 15946844 <GO>}

Good. Thank you. Just diving in a little bit more on the CapEx increase here. With the $400 million CapEx increase in Texas legislation benefits, how do these items position you on EPS basis relative to your current guidance? And can you walk us through the timing and magnitude of these benefits? And are there any hurdles to formalizing in the growth outlook here?

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

Yes, let me give you maybe a 50,000-foot view of how we see the sort of recent legislative outcomes, and then Jason can go into more of the details. But clearly, point one would be it was a very successful legislative session that is going to clearly benefit our customers and our other stakeholders and of course shareholders over time.

I think it's important, though, to understand that these laws will basically get layered in over different time frames, and Jason can add a little color on that. But I think the real point is the one that Chris sort of ended his comments with. This is just really another tailwind for CenterPoint going forward. So, we really like the outcome. We think it's going to be great for everybody. But Jason, maybe you can give a little more color in and around the timing and potential impact.

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

Thanks, Dave, and thanks for the question, Jeremy. Clearly this incremental capital we folded in the plan, the successful legislative session, just continue to further strengthen what we believe is already the industry's most tangible long-term growth plan. Maybe to more specifically answer some of your questions. The bills that I highlighted in my prepared remarks take a significant step in terms of reducing regulatory lag and helping us earn closer to our allowed return when using kind of our year-end rate base.

The benefit of the two DCRFs per year will somewhat be a function of the capital spend, but that benefit when you couple it with a recovery of incentive comp should be roughly $0.05 to

$0.07 per year. And the earnings benefit for the resiliency bill will obviously be shaped through the rulemaking proceeding and our eventual filing, but I think a good rule of thumb is it should have at least one penny benefit for every $300 million of CapEx eligible for that resiliency definition.

And so in terms of kind of when we should feel the impact and timing of those benefits, As we mentioned in the prepared remarks, we will likely file a second DCRF this year. So that will, on a full year basis, begin impacting earnings in 2024. The remainder of the earnings benefits from these recent legislations will likely follow our rate case. So think about those sort of flowing into our plan more in 2025 and beyond. And so at the end of the day, this continues to be yet kind of another tailwind that just further strengthens an already great plan.

Q - Jeremy Tonet {BIO 15946844 <GO>}

Got it. That's great to hear there. And maybe just looking at the regulatory calendar more broadly here, some of the rate case timing has shifted. And just wondering if you could speak more to the regulatory calendar over the next 18 months and really how you see these cases setting up the business for the period thereafter.

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

Yes, no, thanks, Jeremy. It's going to be a busy period of rate case regulatory activity. Let me just quickly run through those, as we talked about in prepared comments. We've shifted the timing of our Texas Gas rate case to likely November this year. Right about that same time, we'll be filing our Minnesota rate case and Indiana Electric rate case as well, and then we'll likely follow that with the Houston Electric rate case.

Probably sometime late first quarter next year, and so obviously there's a number of rate cases that we'll have in front of us. I want to continue to reemphasize, though, given the great work the company has done managing O&M, I anticipate, particularly in the Texas Gas and the Houston Electric rate case, filing a relatively flat revenue requirement increase, which I think will be a constructive signal for resolution of those cases.

On the Minnesota Gas case, that's a case we file every two years, and really just sort of reflects the capital that we intend to spend to modernize our gas system up in Minnesota. And then Indiana Electric, much of the capital that will be subject to that case has already been reviewed as part of some of our regular ongoing files with respect to our grid modernization program as well as our generation transition plan.

So while it's a very busy upcoming regulatory calendar, we continue to feel like we're putting our best foot forward for our customers and our shareholders.

Q - Jeremy Tonet {BIO 15946844 <GO>}

Got it. That's very helpful. Thanks. And the last one, if I could here. With the recent Indiana IRP filing, just wondering how has stakeholder engagement trended into the formal launch here? Is there any notable early highlights on this front?

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

I'm really proud of the team's efforts with respect to engaging our stakeholders up in Southwestern Indiana. I think that there was a lot of good feedback on the depth of the conversations, on the alternatives that were considered. And so I feel like we're putting a plan that has probably the opportunity for the broadest possible support going forward to close that coal, third and final coal facility.

Again, I just want to reemphasize, the plan we're putting forward is the least cost option to continue to serve our customers up in Southwestern Indiana with a reliable and cleaner energy supply mix. And I think that will come through as we work our way, not only through the IRP, but then ultimately the filings for each of those projects.

Q - Jeremy Tonet {BIO 15946844 <GO>}

Very helpful. I'll leave it there. Thank you.

Operator

Thank you. Our next question is from Anthony Crowdell with Mizuho.

Q - Anthony Crowdell {BIO 6659246 <GO>}

Hey, good morning. If I could hit up Dave and maybe a follow-up with Chris. Dave, I just want to, tough loss last night against the crosstown rival there, a quarter was better than a game. But just, I guess, on Jeremy's question, but moving more towards 2023, just the headwinds and tailwinds that you're seeing for just 2023, I mean, you're coming in first half of the year at, I guess, like $0.58, leaning above the midpoint of where guidance would be just first half of the year. What are the tailwinds that get to maybe slightly above or just maybe address what are the tailwinds are headwinds for the remainder of 2023?

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

Yes, how about let me let Chris answer his first question as a center point CFO on that one, because he's the one who every day has to track the headwinds and the tailwinds. But I would just say, as I think a number of us have reiterated, we believe that the tailwinds are greater than the headwinds on us right now, but I'll let Chris tell you why.

A - Christopher A. Foster {BIO 19186909 <GO>}

Yes, thanks, Dave. And Anthony, thanks for the question. And as you heard me in the prepared remarks, we are beyond the halfway point here. We are beyond halfway through our EPS guidance. And there's a couple of different things I want to point out for you.

First is just emphasizing that as you look at the back half of the year, we've got another roughly $220 million in additional revenues from the 2022 distribution investments and our assumption around the mobile generation filing. And so those are either just updated or we anticipate those will be recovered later this year. So those are good tailwinds because really they're just weighted toward the back half of the year.

Weather's been more of a mixed bag for us, definitely been trending nicely of late. And the impact of the milder winter we had across our jurisdictions in Q1 has been a bit offset from the hotter summer thus far, which has specifically been the case here in Houston. And as Houston remains hot, the weather impacts we're seeing are kind of normalizing some of what we're seeing for the balance of the year. And I should say we're generally conservative when we're incorporating weather impacts into our plan in the first place.

It's no surprise on the headwind side that they're really interest rate driven. As you can imagine, we've been actively working those since last year. And so we continue to assume high rates as we go through the remainder of the year. And we're taking active steps. You've probably seen to move and improve our position, one of those is the move to fund SIGCO on a standalone basis. And there we were reducing its reliance on roughly $450 million of intercompany debt for the parent, right?

So that allows us to take advantage of the relative lower cost of debt thanks to its higher rating. So we collectively put these together. We like where we are at this stage of the year.

Q - Anthony Crowdell {BIO 6659246 <GO>}

And then just to follow up on Slide 9, you kind of addressed it on the prepared remarks on the, I guess, credit ratings. We see a decline from, 4Q '22 15.4%, to 13.9%. I think maybe that trends back to 14% to 15%. But just what's the thought between the potential for maybe upgrade to Baa1 versus, a fatter cushion at a Baa2 rating?

A - Christopher A. Foster {BIO 19186909 <GO>}

Sure. So, let me just start with the 13.9% that we're talking about this morning is, is in line with our plan. And so, we had consistently anticipated this quarter really was going to be the trough for a couple of reasons. First is on the debt side. We've got an incremental of roughly $1 billion, of debt in line that's directly in line with feeding our capital plans. And we were front-loading -- excuse me, we were front-loading funding at the start of the year.

Then as you look at the cash flow side, as we've previously mentioned, the annual revenue requirement increases of roughly $400 million -- $430 million this year are anticipated. So over $200 million of that is going to become effective from September onward toward the back end of the year. So if you combine these with higher weather receipts, we see it being additive to the balance of the year's operating cash flows. On the, I do also have to say on the qualitative side, if we're making progress on some of these legislative and then regulatory implementation outcomes, we do see some benefit there over time as we're spending time with the rating agencies.

Q - Anthony Crowdell {BIO 6659246 <GO>}

Great, thank you so much.

Operator

Thank you. Our next question is from Shar Pourreza with Guggenheim Partners.

Q - Shahriar Pourreza {BIO 15145095 <GO>}

Hey, guys, good morning.

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

Good morning, Shar.

A - Christopher A. Foster {BIO 19186909 <GO>}

Good morning.

Q - Shahriar Pourreza {BIO 15145095 <GO>}

Good morning. I guess, Dave, just first off, can you just touch a little bit on what you meant in your prepared remarks? I'm going to paraphrase a little bit here that you now see opportunities well above the $2.6 billion CapEx that remains out by the plan. I guess, can you define kind of what you mean by well above and the source of the opportunity? So what states are you seeing those? And do you anticipate some of that $400 million increase in '23 to be recurring CapEx in the later years as we're thinking about kind of the run rate?

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

Yes, good question. Let me have Jason answer that one.

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

Yes, thanks, Shar, for the question. We've indicated since our very first Analyst Day that we think that there are a significant number of capital investments that we can make in our customers' interest. And Dave's expression of capital investments beyond the $2.6 billion that we've kind of identified but not yet incorporated in the plan continue to reflect that confidence. It really kind of runs the gamut across our gas and electric business. We'll start first with sort of resiliency, we incorporated a significant uplift around particularly enhancing grid resiliency here at Houston Electric last year, but I think that there's some potential for more to be done there.

I think when we look at the electric transmission side, I think here in the state of Texas, I think all stakeholders will support the fact that there is more transmission needed to help alleviate congestion and help support the continued economic growth of the greater Houston area. So there's the potential for electric transmission upside.

I think there are also opportunities on the gas side, particularly kind of given the continued growth of our gas systems, potentially incremental gas transmission related projects as we kind of enhance capacity to serve kind of our growing market. So those are just a handful of the opportunities. I think for us, there is an abundant -- abundance of opportunities like CapEx and our focus will continue to be as we've emphasized, on evaluating whether or not we can efficiently execute it for our customers, that we can efficiently finance it for our shareholders, and that we can efficiently recover it in rates.

And I think we've, as a management team, earned a track record of folding capital into the plan as soon as we see, line of sight on all three of those dimensions. Case in point today, we're increasing, our annual guidance here for 2023 by 11%, as it relates to what that $400 million increase could do going forward, I do think it puts us in a position to more consistently execute at this higher level of capital moving forward. We're just continuing to evaluate our ability to finance it efficiently and recover it timely, particularly given the fact that we're entering a pretty heavy rate case period, where during that time frame, we don't have access to some of these capital trackers that we've been discussing.

Q - Shahriar Pourreza {BIO 15145095 <GO>}

Okay. So, Jason, lastly, and you bring up a good point, I'm getting a lot of questions this morning on the efficient financing angle of it, right? And obviously, you guys still mentioned no equity in plan. You guys are kind of at the lower end of that target range as we're thinking about credit metrics. I guess, what do you mean by efficient financing? Is there any kind of balance sheet repair embedded in the current plan, internal or external? And where does sort of incremental regulated asset sales kind of fit in the mix there? Thank you very much.

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

Yes. Let me just be very direct. There's no balance sheet repair in the plan. I do think that this focus kind of on our set of credit metrics is, I don't know, I'll say respectfully a bit misplaced. I would rather continue to maintain a healthy cushion between our actual metrics and our downgrade threshold. That remains our commitment, targeting, as we've previously discussed, around 150 basis points.

Some of peer companies that are often cited for having better credit metrics, while they may have a higher targeted set of credit metrics, they also have a higher downgrade threshold and so they have less cushion. What we're focused on is maintaining this healthy cushion between where we're running the company and our downgrade threshold. So, our focus has been on de-levering this year. Chris highlighted a number of different opportunities where we've also turned out variable rate debt as we're in a period of transition this year with a number of strategic transactions. We'll continue to look at opportunities to do that.

And again, I just want to emphasize what Chris said about our credit metrics at the end of the second quarter. The end of the second quarter is the period of time, just the way our capital recovery mechanisms work, where we have sort of the tightest set of credit metrics. Our -- the revenues we get from our capital trackers are definitely backend loaded, and so you will undoubtedly see an improvement in those metrics as we start to collect on the capital that we deployed in 2022 here in the back half of 2023.

Q - Shahriar Pourreza {BIO 15145095 <GO>}

Got it. Okay, perfect. Thank you guys, I appreciate it. Mr.Foster, congrats on your first CenterPoint earnings call. Thanks, guys.

A - Christopher A. Foster {BIO 19186909 <GO>}

I appreciate it, Shar. Thanks.

Operator

Thank you. Our next question is from Julien Dumoulin-Smith of Bank of America.

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

Hey, good morning, team. Thank you very much for the time. Hope you guys are doing well. So just wanted to follow up here on the last set of questions, including Shar's. Just talking about the, if you want to call it the new norm here, I wanted to clarify a little bit, as you think about this elevated level of spending, more likely post the next rate case, right? Given the recovery dynamics in '24, I just want to clarify in setting expectations following the last comment. And then to that end, how do you think about the associated financing considerations or opportunities in '25 when, post this rate case, if you could address that a little bit? How do you think about, balancing both sides of that equation here in the '25? And I've got to follow up.

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

Yes, that's a great question for Chris to answer.

A - Christopher A. Foster {BIO 19186909 <GO>}

Sure, Julien, you're right in terms of the thinking about the rate case timeframe. If you just step back and look at it, the kind of last case among the ones that Jason referenced earlier would be the Houston Electric case. So we'd be filing that anticipating, Q1 of 2024 anticipates somewhere around a year to get it resolved.

So that timing would put us somewhere in kind of Q1 of 2025, where we'd be on the other side of really the critical mass of all these cases that are in front of us. And so that put us probably at that stage to be in a position to give everybody a more robust update with respect to really the plan through 2030 and with the potential for extending earnings guidance targets really beyond that, as we'll have greater visibility at that stage.

In terms of financing, I have to say, I mean, Jason mentioned our emphasis really on maintaining the cushion as it relates to FFO to debt. You should also just keep in mind that we're consistently looking at really the debt stack that we have at present state and efficiently financing that, but also we are also evaluating opportunities like the DOE loan program as well, right, at this stage, looking to pull in other opportunities to create financing that is actually cheaper for our customers. So a lot of opportunity there in front of us.

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

Excellent. Thanks for clarifying to clarify that. And then coming back to this resiliency filing, I mean, it would seem like a lot of your capital that is non growth would potentially be eligible for this resiliency filing. Can you talk a little bit about the extent of that eligibility here? As you think about it, and also how that resiliency filing could filter into A, your any potential further CapEx revisions and B, into the rate case itself. I know they might be somewhat in parallel here if you will.

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

Yes. Thanks for the question, Julien. Ultimately, this is going to be defined by the rulemaking proceeding. That's going to be in front of the commission. Now, those rules should be established by the end of '23 and then ultimately our filing.

But let me just kind of try to put some high level thoughts around this. I think clearly some of the investments related to create hardening our grant, right? Potential undergrounding a distribution lines, shorter spans, composite poles, et cetera. That all fits sort of squarely in the definition of resiliency. I think there's also clearly work that can be incorporated through bench management. I think what we need to work with the commission on is maybe some other aspects, including kind of IT-related spending can help from an analytical standpoint and or reduce concern around kind of IT kind of resource availability for weather-related events.

And so, I think conservatively you could probably say there's at least $0.5 billion to $1 billion a year of capital at CE that could qualify for that resiliency definition. Ultimately, again, it's going to be shaped by the rulemaking proceeding in our filing, but probably somewhere in that zip code.

I think what's important, I think you highlighted it, Julien. The way the mechanisms work here in Texas, the company is eligible for recovering or effectively keeping the growth and revenues associated with, customer account increases. And so about half our capital at CE relates to connecting new customers. So if you think about, that supports a higher level of revenues, there's really very limited regulatory lag on that growth related capital, where we've historically seen our regulatory lag is on our resiliency related investments, having to kind of wait for the capital trackers to come in. By being able to defer the carrying costs of those investments, depreciation, interest, et cetera. Between the time we put that capital into service, and before we start to recover it in rates, we're all but effectively beginning to eliminate regulatory lag at CE and so I just want to underscore just how important, this bill was to continuing to improve our ability to earn, at or allowed return at Houston Electric. And so hopefully that kind of starts to begin to shape a little bit of that resiliency filing, but more to come as the PCT works through the rulemaking and we ultimately file first quarter next year.

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

Got it. All right, guys. Thank you very much. Good luck, speak soon.

Operator

Thank you. Our next question is from David Arcaro with Morgan Stanley. Your line is now open.

Q - David Arcaro {BIO 20757284 <GO>}

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

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

Good morning, David.

Q - David Arcaro {BIO 20757284 <GO>}

Good morning. We've -- let's see we've seen some indications of gas utilities on the market in terms of M&A potential. I was just wondering your latest thoughts on the mix of businesses balance sheet and how that could weave into funding needs over time?

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

Yes, thanks David for the question. We love our business mix, we strategically as part of kind of the reset several years ago, said we'd have a slight bias towards sort of the growth in the electric business here in Houston. But our split of roughly call it 60% electric 40% gas is I think a very good split.

That being said, as it kind of gets back to sort of your broader question, as we've indicated on previous responses to questions here. We don't have a need for equity to fund our plan, we don't have a need for asset sales. We continue, though, to receive a significant amount of inbound interest on all of our assets. Obviously, there's a number of processes sort of underway across the country, I think continues to reflect that there's a high demand for at least high quality utility related assets.

And so we don't have any need to sell any of assets. We're happy with our profile, but we'll always continue to have an eye towards optimizing our plan for the benefit of our customers and our shareholders.

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

Yes, I guess -- this is Dave. I guess the way I think about it, I think you should think about it is, we are in such a great position right now with the assets we have. We can just sit back and play offense. We don't have to play defense at this point in time, which really gives us an opportunity to be very opportunistic with our business as we go forward. So I think that to me is the bottom line, is we really have preserved almost all our optionality on any direction we want to go.

And as Jason said, the inbound inquiries we get on essentially every piece of our business continue to be there every day. So we really like where we are, but we really don't have to do anything other than execute, I think, which is the greatest plan that's out there in the utility space.

Q - David Arcaro {BIO 20757284 <GO>}

Okay. Thank you. That's helpful. And then I was wondering if you could just give thoughts on the Indiana Electric rate case coming up later this year in terms of that filing. I was just wondering if you'd expect there to be big items or revenue requirement specifics or would this be a fairly standard kind of growth-driven rate case that you'd expect to file?

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

Yes. Thanks, David. I appreciate the question. I mean, I think largely it'll be a rate case where we have signaled and actually previewed with the commission and stakeholders many of the elements. I think there are a number of constructive mechanisms up in Indiana. For instance, our grid-related investments on our transmission distribution system. We make a separate filing in advance. We then execute upon it and report.

And so this will be sort of a true-up of the execution of a plan that we've already filed and reviewed several times with the commission. Similarly, on the Generation Transition Plan, not only have we filed an IRP, but then we filed for the individual project approvals. So much of the kind of element of that case will already be previewed between the -- with all the key stakeholders. That being said, rates continue to be a focus in Southwestern Indiana, and I would anticipate that will be part of the conversation there as we file the case.

Q - David Arcaro {BIO 20757284 <GO>}

Okay, great. Makes sense. Thanks so much.

A - Jackie Richert {BIO 22513026 <GO>}

Operator, given the proximity to the end of the hour, I think we have time for one more.

Operator

Our last question comes from Durgesh Chopra with Evercore ISI.

Q - Durgesh Chopra {BIO 20053859 <GO>}

Hey, guys. Thanks for squeezing me in here. Just one question for me. You obviously a lot of good markets here you mentioned no equity for the planned $43 billion -- you mentioned that you may need some equity as we go beyond that. Just any sort of color you can provide on timing, historically like Q3 last year you provided a big CapEx update. Just any color on timing when we could see the big CapEx update and potentially a new financing plan. Is it after you go through the rate cases? Any color would be appreciated there. Thank you.

A - Christopher A. Foster {BIO 19186909 <GO>}

Hi, Durgesh. Thanks for the question. In short, yes, we've got a really important set of cases that are right here in front of us. Jason mentioned how well we're positioned going into them, given the affordability profile for our customers, but that really is going to be where the short-term emphasis is. So I really would kind of direct you toward the backend that I referenced where we're going to be in a really good position at that stage with the clarity provided through all those cases to be able to revisit some of those targets and give you a better feel for how we'll finance them.

But I have to say, as you heard this morning, it's really, we're going to consistently look at this as we go, right? As we find opportunities to efficiently execute, to fund them and recover the revenues, we're going to consistently see if there's opportunity to pull in some of the capital that was referenced earlier. So hopefully that helps give you some color.

Q - Durgesh Chopra {BIO 20053859 <GO>}

It does. Thanks, Chris. And congrats on your first CenterPoint earnings call. Thanks. Thanks, guys.

A - Christopher A. Foster {BIO 19186909 <GO>}

Thank you.

A - Jackie Richert {BIO 22513026 <GO>}

Great. Operator, with that, I think that's going to conclude our call here for the second quarter of 2023. Thanks, everyone, for dialing in.

Operator

This concludes CenterPoint Energy's second quarter earnings conference call. Thank you for participating.