Q1 2018 Earnings Call

Company Participants

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

Other Participants

- Ali Agha, Analyst, SunTrust
- Charles Fishman, Analyst, Morningstar Research
- Greg Gordon, Analyst, Evercore ISI
- Insoo Kim, Analyst, RBC Capital Markets
- John Edwards, Analyst, Credit Suisse
- Jonathan Arnold, Analyst, Deutsche Bank
- Josephine Moore, Analyst, Bank of America Merrill Lynch
- Larry Liou, Analyst, J.P. Morgan
- Lasan Johong, Analyst, Auvila Research Consulting
- Steve Fleishman, Analyst, Wolfe Research

Presentation

Operator

Good morning, and welcome to CenterPoint Energy's First Quarter 2018 Earnings Conference Call with senior management. During the company's prepared remarks, all participants will be in a listen-only mode. There will be a question-and-answer session after management's remarks. (Operator Instructions)

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

David Mordy {BIO 20391499 <GO>}

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

In conjunction with our call, we will be using slides, which can be found under the Investors section on our website, centerpointenergy.com.

For a reconciliation of the non-GAAP measures used in providing earnings guidance in today's call, please refer to our earnings news release and our slides. They have been posted on our website, as has our Form 10-Q.

Please note that we may announce material information using SEC filings, news releases, public conference calls, webcasts and post 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 that will contain projections and forward-looking information that are based on management's beliefs, assumptions and information currently available to management. These forward-looking statements are subject to risks or uncertainties. Actual results could differ materially based up on factors including weather variations, regulatory actions, economic conditions and growth, commodity prices, changes in our service territories and other risk factors noted in our SEC filings.

We will also discuss our guidance for 2018. The guidance 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 losses from the change in value of the Zero-Premium Exchangeable Subordinated Notes or ZEN securities and the related stocks, or the timing effects of mark-to-market accounting in the company's energy services business. The guidance range also considers such factors as Enable's most recent public forecast and effective tax rates.

During today's call and in the accompanying slides, we will refer to Public Law Number 115-97, initially introduced as the Tax Cuts and Jobs Act as TCJA or simply Tax Reform.

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

Scott Prochazka {BIO 17360314 <GO>}

Thank you, David; and good morning, ladies and gentlemen. Thank you for joining us today, and thank you for your interest in CenterPoint Energy. I will begin on slide five. This morning we've reported first quarter 2018 net income of $165 million or $0.38 per diluted share compared with net income of $192 million or $0.44 per diluted share in the same quarter of last year.

On a guidance basis, first quarter 2018 adjusted earnings were $241 million or $0.55 per diluted share compared with adjusted earnings of $160 million or $0.30 -- $0.37 per diluted share in the same quarter of last year. Increases were associated with the lower federal income tax rate related to tax reform, improved energy services performance, equity return, primarily due to the annual true-up of transition charges, usage primarily due to a return to more normal weather, rate relief and customer growth. These benefits were partially offset by higher operations and maintenance expense and depreciation and amortization.

Utility Operations and Midstream Investments both had a strong quarter. Simply put, our performance exceeded expectations this quarter and puts us on a track to achieve the high-end of our $1.50 to $1.60 diluted EPS guidance range. Our business segments continue to implement their strategies, which are focused on safely addressing the growing needs of our customers, while enhancing financial performance.

Now I will cover business highlights, starting with Houston Electric on slide six. Electric transmission and distribution core operating income in the first quarter of 2018 was $99 million compared to $66 million in the same quarter of last year. We continue to see strong growth in our electric service territory, adding almost 40,000 meter customers since the first quarter of 2017. Throughput increased 4.7% in the first quarter of 2018 compared to the first quarter of 2017. We also completed and energized the Brazos Valley Connection in March. It was both ahead of schedule by two months and at a capital cost within the estimated range in the Utility Commission's original order.

On the regulatory front, in February, we filed a revision to our transmission investment recovery filing, also known as TCOS, which was previously approved in November of 2017. We made this filing per our letter to the PUC to address certain impacts of tax reform. We also made a distribution in recovery filing often refer to as DCRF in April to address certain impacts of tax reform and begin the recovery of distribution capital investment incurred since our last filing. For a complete overview of Houston Electric's year-to-date regulatory developments, please see slide 24.

Turning to slide seven, natural gas distribution operating income in the first quarter of 2018 was $156 million compared to $168 million in the same quarter last year. We continue to see solid customer growth with the addition of more than 31,000 customers, since the first quarter of 2017. Later in the call, Bill will explain how this performance represents a year-over-year improvement.

In March, we've reached a unanimous settlement agreement on our Minnesota rate case. The settlement makes decoupling a permanent part of the tariff. It also addresses the impacts of tax reform. This settlement has been ruled on by the Administrative Law Judge and is now pending approval by the Minnesota PUC.

We've made several other regulatory filings across our territories. These include an Arkansas formula rate plan, or FRP, an Oklahoma-based -- performance-based rate change, or PVRC, and GRIP filings in our Beaumont/East Texas and Texas Gulf divisions. For a complete overview of natural gas distributions year-to-date regulatory developments, please see slide 25.

Turning to slide eight, Energy Services operating income was 54 million in the first quarter of 2018, compared to $20 million in the same quarter last year, excluding a mark-to-market loss of $80 million and a gain of $15 million, respectively. Successful integration of recent acquisitions has resulted in commercial opportunities and improved financial performance at Energy Services. As a result, we are increasing our operating income guidance for energy services to $70 million to $80 million for 2018.

On slide nine, we've captured some of the highlights from Enable's first quarter earnings call on May 2nd. Midstream Investments contributed $0.12 per diluted share in the first quarter of 2018 compared to $0.10 per diluted share in the same period last year. Enable performed well this quarter. Quarterly volumes of gas gathered, processed and transport in intrastate were all at their highest level since Enable's formation in May of 2013. Enable stated on their first quarter call, they do not anticipate issuing equity in 2018. Further, they increased their net income guidance for the year. For these reasons, we continue to believe Enable is well positioned for success.

Given the strong results Enable released on Wednesday, including their updated 2018 forecast, we believe they're undervalued. As promised during our Investor Call last week, we want to further discuss our recently announced merger agreement with Vectren.

Let me begin with a brief review of our merged companies operating areas covered on slide 10. Upon closing, we will have regulated utility operations in eight states serving more than 7 million customers. Additionally, we plan to invest in excess of $2 billion in capital each year through 2022. And finally including the unregulated businesses, we will have a combined footprint covering nearly 40 states.

Slide 11 outlines the key strategic drivers for the merger. This strategic transaction will continue to advance us towards our vision of being the nation's leader in delivering energy, service and value. First, the merged company will have expanded capabilities with respect to operating and customer facing technologies. Our experience with smart meters, data management, intelligent grid, power alert service, and advanced leak detection complement Vectren's experience with energy efficiency, renewable energy and infrastructure services. These combined learnings can be effectively applied across the combined larger customer base.

Second, we will pursue additional growth opportunities as the merged company will have more customers who can access a wider mix of products and services. Further, the combined company will realize additional earnings by investing regulated capital to meet the needs of the 7 plus million customer base.

Third, the resulting company will be larger, approaching $30 billion in enterprise value with more geographic and business line diversity. Size and scale also supports realizing operating efficiencies and the potential for more cost effective financing through a lower cost of capital.

As seen on slide 12, our earnings mix will change with the combined company. We expect the proportion of earnings from utility operations will increase and the relative contribution of Midstream Investments will decrease. In addition to enhanced visibility created by this change and earnings mix, Vectren's infrastructure business, also known as VISCO, is driven primarily by long-term infrastructure replacement plans within the gas utility sector. The combination of these elements provides us greater visibility and confidence in long-term earnings.

Let me close by providing commentary on our earnings trajectory on slide 13. First quarter 2018 was a strong quarter and, as stated earlier, we are updating our 2018 EPS guidance to the high-end of our $1.50 to $1.60 range. This represents over 15% growth from our 2017 guidance EPS. We want to reiterate our year-over-year 2019 and 2020 EPS growth guidance of 5% to 7%. Bill will provide specific insight into earnings potential as a result of the merger. The 2018 and 2019 guidance ranges are both exclusive of any one-time costs associated with the Vectren merger.

I'm also excited about the years beyond 2020. We expect to have strong fundamentals that will continue to drive earnings growth. We do not anticipate revisions to the capital plans of Vectren or CenterPoint, so the combined company expects to have strong rate base growth. We operate in states with constructive regulatory jurisdictions that include efficient capital recovery mechanisms. We are excited by the growth potential across the unregulated businesses and the increase in proportional earnings driven by regulated utility fundamentals. For example, VISCO is positioned to take advantage of industry-wide natural gas distribution capital spend as evidenced by their near record backlog of $765 million mentioned on Vectren's first quarter call.

In summary, we had a great quarter, guided towards the top-end of our 2018 earnings guidance range and are excited about CenterPoint's post-merger future. I would like to thank our employees whose commitment and contributions are driving our success. Our continued focus on customers, reliability, safety, communities and financial performance will serve us well as we advance our businesses and work to realize the strategic value associated with our merger.

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

William Rogers {BIO 15746544 <GO>}

Thank you, Scott. I will start with quarter-to-quarter operating income box for our Electric T&D and Natural Gas Distribution segments, followed by EPS drivers for utility operations, and our consolidated business on a guidance basis. My intent is to help investors understand the elements which give us confidence in achieving the high-end of our 2018 guidance range. Before I begin, I will note that the adoption of the accounting standard for compensation and retirement benefits resulted in restating our operating income for 2017, as it is moved certain amounts below the operating income line.

As you can see on slide 15, Houston Electric performed well during the quarter. The recording of a regulatory liability to reflect the decrease in the tax rate from tax reform has a corresponding decrease to revenue of $12 million. This decrease in revenue is offset by lower income tax expense. Rate relief translated into a $23 million favorable variance for the quarter and customer growth translated into a $6 million positive variance. Usage accounted for $8 million favorable variance, primarily as a result of a return to more normal weather. Equity return primarily related to true-up of transition charges increased $14 million.

However, we intend to make a non-standard filing for a true-up of transition charges for Transition Bond Company IV this May. If approved, this would lower the transition charge and the equity return amortization in 2018. O&M accounted for an unfavorable variance of $6 million. Our objective is to maintain expense increases below 2.5% per year over the five-year plan period. Excluding equity return and a tax reform adjustment, Houston Electric's operating income increased from $59 million to $90 million on a quarter-to-quarter basis. Overall, Houston Electric is on track with our expectations.

Turning to slide 16. Natural Gas Distribution also performed well for the quarter. Operating income for the first quarter was a $156 million versus $168 million for the first quarter last year.

The recording of regulatory liabilities to reflect the decrease in the tax rate from tax reform as a corresponding decrease of revenue of $15 million and an offset in income tax expense. Rate relief translated into a $22 million positive variance and customer growth provided a $3 million benefit. Usage related primarily to a return to more normal weather provided a $5 million benefit. Other, including O&M, accounted for $12 million unfavorable variance. Planned leak repair, records management and pipeline integrity, all contributed to higher O&M within gas.

As with our electric segment, over the longer term, we expect to manage expense increases below 2.5%.

Depreciation and taxes accounted for a $15 million unfavorable variance. Within depreciation and the taxes variance, we would note that we had a Minnesota property tax refund benefit of $9 million recognized in first quarter 2017. Without the tax reform adjustment and excluding the 2017 Minnesota property tax adjustment, operating income improved 7% quarter-over-quarter. We are on track with our expectations for this business segment.

Improvement in our Energy Services segment is included within the $0.10 improvement in core operating income on slide 17. Energy Services' first quarter operating income was $54 million, excluding mark-to-market adjustments, and represents a $34 million improvement over first quarter 2017. Successful integration of recent acquisitions has resulted in commercial opportunities and improved financial performance. Our Energy Services business through size and scale was well positioned to take advantage of price volatility and higher natural gas demand due in short -- due to short-term spikes from colder weather. Overall, weather was milder than normal. However, we did benefit from colder weather in several of our key regions. Simply put, we are doing more profitable business with more customers. For this business segment, we are raising our operating income guidance for the full year 2018 to $70 million to $80 million, which is included in our revised and higher earnings guidance for 2018.

Now returning to the earnings walk on slide 17. Our quarter-to-quarter utility operations starts with $0.27 in utility operations EPS and adds $0.10 of improvement from core operating income. This is inclusive of energy services, but exclusive of equity return. Next, we had $0.02 of improvement from equity return, the $0.04 improvement in other inclusive benefit from tax reform in the Federal Tax rate. All in all, utility operations had an approximate 59% improvement on a quarter-to-quarter basis with the guidance EPS, increasing from $0.27 to $0.43 per share.

Our consolidated guidance EPS comparison is on slide 18. The utility operations increases showed on the previous slides are totaled here for $0.16 improvement. On a quarter-to-quarter basis, Midstream had a $0.02 improvement in contribution to CenterPoint earnings. The quarter-to-quarter improvement would have been $0.03, but for a $0.01 mark-to-market gain that was recognized in first quarter 2017.

Overall, we had approximately 49% quarter-to-quarter improvement on a guidance basis, or $0.55 per share in this quarter versus the $0.37 per share in first quarter 2017. With the improvement for the first quarter, we believe it is appropriate to update our 2018 guidance, despite the fact that we have three quarters of a year remaining.

Building on Scott's discussion of our earnings trajectory, slide 19 provides our combined potential 2020 guidance earnings per share walk. Using publicly available 2018 guidance and earnings growth projections of 5% to 7% for CenterPoint Energy and 6% to 8% for Vectren, we provide a forecast of 2020 net income for each company. We are targeting 50 million to 100 million of near-term improvements in operating margin on a pre-tax basis from new revenue opportunities, commercial opportunities and corporate cost savings. We expect to recognize these operating margin improvements across our unregulated business footprint.

For the purposes of this slide, we assume $3.5 billion of debt at a 4% average interest expense. Next, we assume 90 million to 110 million shares of CenterPoint common equity to provide both for the 2.5 billion net proceeds for the acquisition of Vectren shares and for the potential issuance of common equity in 2019 or 2020 to fund rate base investment.

Although this slide reflects issuance of common equity, as stated in the foot note, we continue to evaluate the inclusion of other high equity content securities, such as mandatory convertible securities and our plan of acquisition financing. Should we include the securities, then it would be less dilutive to our basic earnings per share calculation provided on this slide. This plan of financing does not contemplate sales of Enable units in 2018 through 2020, rather this is accomplished by further sales of CenterPoint common shares. As we stated in our year-end 2017 earnings call, and as disclosed in this footnote, we consider the sale of Enable units to be a potential source of equity needs for our 2019 and 2020 rate base investment. This is under the assumption there is an attractive equity capital market environment for these securities. The resulting 2020 potential EPS range is a $1.76 to $1.98. As Scott shared in his call last week, this is neutral to accretive to our prior forecasted 2020 earnings per share range.

Next, I will turn to our financing plan and discuss two components. First, I will discuss the merger financing in more detail, including our credit outlook. Secondly, I will discuss our plan for separating our Enable common units from CERC into a newly wholly-owned subsidiary of CenterPoint called CenterPoint Midstream. This internal corporate restructure is subject to continued review and evaluation.

As you can see on slide 20, we plan to finance the acquisition of Vectren common shares with proceeds from the equity and debt markets. As previously discussed, CenterPoint will issue 2.5 billion of common and potentially high equity content securities, such as mandatory convertible securities. The balance is $3.5 billion of debt financing at the holding company and CenterPoint Midstream, which would then dividend the proceeds of the holding company. We do not expect Houston Electric or CERC to issue debt to support this merger. This plan of financing is based on our objective to maintain a consolidated 15% adjusted FFO to debt or better as measured by the rating agencies. We believe that maintaining this metric, as well as our current business risk profile, will result in BBB or better credit quality at all current and future publicly rated CenterPoint entities.

For further clarity, again, I will repeat that we do not intend to sell Enable common units to finance the acquisition of Vectren shares (technical difficulty) high value on having solid investment grade credit quality. We met with all three rating agencies in advance of signing the merger agreement with Vectren. During those meetings, we shared our strategic rationale, plan of financing and forward-looking financial forecast. We will continue this dialog as we execute our plan of financing, merger and corporate reorganization. All three rating agencies published after our announcement on Tuesday, April 24th. We have included some of their commentary on slide 21 and an update on our credit ratings and outlook.

As seen on slide 22, we are planning to separate our Enable common units from CERC through an internal spend of these interest. Subject to continued review and evaluation, we would establish the CenterPoint Midstream company in 2018 to hold our interest in Enable. This would be a direct or indirect wholly-owned subsidiary of CenterPoint Energy.

Please note that this would be an internal spend and not an external spend of our Midstream interest. We have two objectives for this structure. Firstly, creation of this new entity would be to begin the transformation of CERC into an entity that owns and operates only regulated natural gas distribution companies. Second , we anticipate that that raise of CenterPoint Midstream will reflect our prior internal allocation of debt associated with the investments in the Midstream segment. Since there is legacy debt at both CERC and the holding company, this is related to our Midstream segment, CenterPoint Midstream's new borrowing is expected to help reduce both CERC and holding company debt. At this time, we would not expect CenterPoint Midstream to be a separate SEC registrant or to have its own public credit ratings. We expect this structure will provide greater visibility of our internal and external performance measurement at our natural gas utilities and Midstream segments.

Before I close, I will add few comments on the Vectren the merger. We are combining two companies with strong capital investment opportunity and rate based growth. In addition to the regulated businesses, we believe we have the right mix of unregulated products and services to meet the customer needs of today and tomorrow. We delivered strong first quarter results this morning and we are excited that this merger provides us with the opportunity to deliver even stronger earnings results than we would as separate entities. We continue to target closing for the first quarter of 2019 and we are looking forward to sharing more detail as we get closer to closing.

Finally, we'd like to note our recently declared dividend of $0.2775 per common share. This is an approximate 4% increase relative to year ago and consistent with our 4% increases in dividends over the last several years. Dividend declarations are made by our Board in review of all of the financial facts and circumstances at the time of the declaration. Having stated that, we have modeled similar increases in our financial forecasts that I reviewed earlier in this presentation. 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. Ginger?

Questions And Answers

Operator

At the time, we will begin taking questions. (Operator Instructions) Our first question comes from Michael Weinstein from Credit Suisse.

Q - John Edwards {BIO 5223230 <GO>}

Good morning, everyone. Actually this is John [ph] from Michael.

A - William Rogers {BIO 15746544 <GO>}

Good morning.

A - Scott Prochazka {BIO 17360314 <GO>}

Good morning.

Q - John Edwards {BIO 5223230 <GO>}

Good morning. Sir, quick questions we see on the merger. Can you elaborate a little bit more on what confidence you have in terms of synergy and business opportunities in that merger, given the physical distant between the companies?

A - Scott Prochazka {BIO 17360314 <GO>}

Yeah. The way we look at this is, we look at opportunities for revenue synergies between our unregulated businesses. They have customer lists, which can benefit the combined new business mix, so that creates revenue opportunities we have with any corporate public merger of this size, you would obviously have opportunities for streamlining and efficiencies. And if you look at just the number that we put in here as a placeholder of $50 million to $100 million of pre-tax, that's a fairly small number compared to the revenue elements of the unregulated businesses as well as the combined O&M budget of the two companies. So, we think this is very achievable.

Q - John Edwards {BIO 5223230 <GO>}

Right. Okay. Thank you. So on the total FFO to debt, can you remind us what kind of range of the combined entity, you indicated 15% upon the closing of the merger, and what range will be -- you will be comfortable and plan to improve that ratio in the future?

A - William Rogers {BIO 15746544 <GO>}

That's right. Subsequent to the merger on a forward-looking basis, we see 15% FFO to debt, as calculated by the rating agencies, and that should gradually improve over time.

Q - John Edwards {BIO 5223230 <GO>}

Okay, great. Thank you very much.

A - William Rogers {BIO 15746544 <GO>}

Yup.

Operator

Our next question comes from Greg Gordon from Evercore ISI.

Q - Greg Gordon {BIO 1506687 <GO>}

Thanks. Good morning. Great quarter in the core business. Congratulations on a good start.

A - Scott Prochazka {BIO 17360314 <GO>}

Thank you. Good morning.

Q - Greg Gordon {BIO 1506687 <GO>}

Sorry to circle back on this, but frankly you guys have paid a pretty significant premium to have the opportunity to merge with Vectren and the business is -- core utilities are excellent businesses, there is no question about that. I'm just less familiar with their unregulated businesses and since the secret sauce here in terms of earning back the merger premium seems to be in the synergies, you think you can generate in the unregulated segment, could you just please, if you can, talk about what sort of the natural industrial logic is to the synergies there? And why you believe that combining those businesses your current Energy Services platform and their VISCO and VESCO businesses creates that type of opportunity?

A - Scott Prochazka {BIO 17360314 <GO>}

So, Greg, I think to your point, it's a mix of revenue opportunities as well as efficiencies from combining two companies. So it's both of those pieces, but the piece you are asking about specifically is the opportunities associated with these unregulated businesses. They have a -- Vectren has an infrastructure business that works with utilities from around the country, they're in over 30 states. We have a gas business that also interfaces with similar types of LDCs as well as other companies across similar number of states, but not exactly the same states. The ability to bring in services to the utility that's both infrastructure and gas sales oriented is presented by the combination of these businesses. Further when infrastructure -- the infrastructure business goes in to do work for replacement of pipelines, sometimes there is need for continuation of service to customers, we have a group within our Energy Services space that can continue to provide gas service while that repair or replacement work is being done. So we could combine opportunities in that regard as well. Those are just a couple of examples.

Q - Greg Gordon {BIO 1506687 <GO>}

Great, thanks. And it dons upon me just looking at the algebra here that you're targeting 5% to 7% long-term earnings growth, but the math here, if you were to hit the high-end of the synergies, would obviously be significantly above 7%. So is that -- am I missing something there, because it seems really obvious? And then second, what are the underlying assumptions you're using with regard to Enable earnings contribution when you think about that guidance?

A - Scott Prochazka {BIO 17360314 <GO>}

Well, as you know, Enable only gives guidance for the year. So we've incorporated a range of possible outcomes for Enable beyond the current year, as we think about this growth rate. You are correct though, that if we were to hit the high-end and you did the math, the growth rate would actually be higher than the 5% to 7%. What we were trying to illustrate is that, with respect to our current guidance of 5% to 7% per year growth for the next two years, this merger creates the opportunity for us to be accretive to that.

Q - Greg Gordon {BIO 1506687 <GO>}

Great. Thank you very much. Have a good day.

A - Scott Prochazka {BIO 17360314 <GO>}

Thank you.

Operator

Your next question is from Ali Agha from SunTrust.

Q - Ali Agha {BIO 1509168 <GO>}

Thank you. Good morning.

A - Scott Prochazka {BIO 17360314 <GO>}

Good morning, Ali.

Q - Ali Agha {BIO 1509168 <GO>}

Good morning. Scott or Bill, as you're looking at financing for the Vectren transaction, can you give us some sense on how are you thinking about the equity portion of that, Bill, and the timing we should be looking at in terms of any milepost in your mind?

A - William Rogers {BIO 15746544 <GO>}

Ali, all I can say on the timing is, in advance of closing the acquisition and in the respect to the forms of equity, as I said in my prepared remarks and as disclosed on the slide, common equity and consideration of other high equity content securities such as mandatory convertibles.

Q - Ali Agha {BIO 1509168 <GO>}

Okay. And then on the CES business, as you mentioned, you benefited from some spikes in weather, which caused a very strong result this year, it's caused you to raise your guidance, what's the visibility or confidence level that -- of that higher base you can continue to grow or do you think, I mean, just given the nature of that business, does that include or create a level of volatility, even though just small piece but a level of volatility to your earnings. That's different from your base core utility business?

A - Scott Prochazka {BIO 17360314 <GO>}

Ali, the way we look at is, we look at it is opportunity presented by some variability that we think is more normal or natural in the market. So to that end, as we think about the projection we provided for this year, we look at the business as being able to outperform that next year.

Q - Ali Agha {BIO 1509168 <GO>}

Outperform the next year. Okay. Thank you.

A - Scott Prochazka {BIO 17360314 <GO>}

Yup.

Operator

Your next question is from Julien Dumoulin-Smith from Bank of America Merill Lynch.

Q - Josephine Moore {BIO 21133910 <GO>}

Good morning, everybody. It's Josephine on the line for Julien.

A - Scott Prochazka {BIO 17360314 <GO>}

Good morning, Josephine.

Q - Josephine Moore {BIO 21133910 <GO>}

I just wanted to follow-up on -- you mentioned more equity issuance in 2019 and 2020 to fund the growth. Would that be for incremental CapEx opportunities from the combined unit or would that be CapEx already in the plan?

A - William Rogers {BIO 15746544 <GO>}

Josephine, good morning. It's Bill.

Q - Josephine Moore {BIO 21133910 <GO>}

Hi.

A - William Rogers {BIO 15746544 <GO>}

We've discussed in our call in February that due to our increase in rate base investment, we should think about more equity in our capital structure and our view would be that that could be provided by sales of Enable units in 2019 and 2020. For the purposes of the model that you have in front of you in this presentation, we've just assume that that's common equity.

Q - Josephine Moore {BIO 21133910 <GO>}

Got it. And then in regards to Energy Services' strong results this quarter, I was just wondering as part of the restructuring in the capital structure where will Energy Services sit? Is that going to be part of CERC or is that going to move separately?

A - William Rogers {BIO 15746544 <GO>}

I think that is to be determined.

Q - Josephine Moore {BIO 21133910 <GO>}

Got it. Okay, great. That's all in my end. Thank you very much.

A - William Rogers {BIO 15746544 <GO>}

Thank you.

Operator

Your next question is from Jonathan Arnold from Deutsche.

Q - Jonathan Arnold {BIO 1505843 <GO>}

I think you guys hit most of my questions. Yeah, just the Energy Services. But I would like to probe a little more on -- the level you all now talking about for 2018 is sustainable going forward. And in the prepared remarks it sounded like you were talking about being the result of volatility in the market and how do you say that's -- what you now see is more normal? I mean, it's a very significant uptick in business that have been going along at a certain level. I just want to understand a little better. You know, if we do (multiple speakers) Go ahead.

A - Scott Prochazka {BIO 17360314 <GO>}

Jonathan, this is Scott. Let me try to clarify that a little bit. A component of why the business did better was related to what we think is a more normal volatility. The majority of the improved performance was, what I would consider base business that has to do with the addition of customers and improvements in margin. And that is the result of effectively integrating the two acquisitions we made, the most recent one having been AEM. So that's what is the primary driver of the improvement, which we think is sustainable going forward. There was an element in here though that was caused by some weather-related volatility that we were able to take advantage of.

Q - Jonathan Arnold {BIO 1505843 <GO>}

Okay. So mostly sustainable effectively?

A - Scott Prochazka {BIO 17360314 <GO>}

Yes.

Q - Jonathan Arnold {BIO 1505843 <GO>}

And then in terms of how you're thinking about the guidance, the 5% to 7%, it's that now sort of formally off of the high-end of 2018 or is it still off of some other number?

A - Scott Prochazka {BIO 17360314 <GO>}

You can think of it. You can think of that as off the high-end.

A - William Rogers {BIO 15746544 <GO>}

Jonathan, in the slide that we used to develop the 2020 EPS, it was off the high-end.

Q - Jonathan Arnold {BIO 1505843 <GO>}

Yeah. I see that. Okay, great. I think that's all I got. Thank you very much.

A - Scott Prochazka {BIO 17360314 <GO>}

Thank you.

Operator

Your next question is from Insoo Kim from RBC Capital Markets.

Q - Insoo Kim {BIO 19660313 <GO>}

Hey. Good morning, everyone.

A - Scott Prochazka {BIO 17360314 <GO>}

Good morning, Insoo.

Q - Insoo Kim {BIO 19660313 <GO>}

Going back to the 2020 potential accretion in the earnings potential, obviously the earnings benefit from the commercial opportunities and cost savings is pretty meaningful, at least, from our view. And I think you've reiterated the fact that beyond 2020 you expect this deal to be even more accretive, does that mean that this 50 million to 100 million pre-tax number could be higher in 2021 and 2022?

A - Scott Prochazka {BIO 17360314 <GO>}

Yeah. I think it's possible that there will be -- in fact, we would expect to see more benefit in the out years. We were just providing a picture of what it would look like if we were to accomplish two levels either at 50 total benefit or 100 million total pre-tax benefit.

Q - Insoo Kim {BIO 19660313 <GO>}

Understood. And then maybe a question on Enable. Obviously given Enable has been performing well as of late and they expect to reduce exposure of your portfolio after that VVC acquisition. Does this make you rethink in anyway your strategy of divesting it, in general?

A - Scott Prochazka {BIO 17360314 <GO>}

No, our views about Enable are consistent with how we've been showing them in the past. We think that Enable is well positioned. They are performing well in their space. You saw their call and their operations. We've just said that if we see constructive markets and an opportunity to redeploy some proceeds from a sale into a constructive market that we would consider doing so. But we still very positive on Enable's performance. Our view to reduce exposure is simply about reducing exposure to the Midstream space.

Q - Insoo Kim {BIO 19660313 <GO>}

Okay. So there was no real defined timeline of when you're going to be out of the Enable stake?

A - Scott Prochazka {BIO 17360314 <GO>}

That's correct.

Q - Insoo Kim {BIO 19660313 <GO>}

Got it. Thank you very much.

Operator

Your next question is from Steve Fleishman from Wolfe.

Q - Steve Fleishman {BIO 1512318 <GO>}

Good morning. Wanted to follow up on that same question. So, Scott, you said in your remarks that Enable is -- you think Enable is undervalued based on the latest numbers they provided. And I guess arguably one of the main reasons for the stock hasn't done as well is because everyone knows CenterPoint may sell overtime. So, I guess, a question here is, how do you kind of stop that feedback loop and use your communication a little bit different from the standpoint that you're not necessarily -- it does require constructive markets to sell Enable, you're not just going to it because it strategically you want to shrink the exposure.

A - Scott Prochazka {BIO 17360314 <GO>}

Yeah. Steve, I think you're absolutely right. It's about finding a right opportunity in which to reduce our exposure. It's not about a need to have to sell our position down. My comments about being undervalued, I think, are certainly with respect to Enable. If you look at their performance, I think, unfortunately, I think the whole sector is suffering similar pressure as Enable at the moment. That's just a lack of a constructive market and the ability to attract investors at the moment. So, my comments are about the -- both Enable and the industry. And I just want to reiterate that as we look for opportunities to reduce our ownership, we need to be very thoughtful about and do so on a coordinated fashion with Enable, so that we don't have a negative impact on Enable.

Q - Steve Fleishman {BIO 1512318 <GO>}

Okay. And I guess one could argue we are having Vectren would further diversify your mix without having -- you having do sell any Enable for a while too?

A - Scott Prochazka {BIO 17360314 <GO>}

It does have an ancillary benefit. I think we show that on one of the slides. I even think referenced it on one of my comments.

Q - Steve Fleishman {BIO 1512318 <GO>}

My other question is on the synergies. Is it -- can you give us a rough sense of the mix on the synergies between commercial revenue type synergies versus cost synergies?

A - Scott Prochazka {BIO 17360314 <GO>}

Yeah. We're not far enough along to be able to do that. What we attempted to do here was put in some numbers that are very reasonable and very achievable. The exact mix between all of that is yet really to be determined.

Q - Steve Fleishman {BIO 1512318 <GO>}

Okay. Thank you. Yup.

A - William Rogers {BIO 15746544 <GO>}

Steve, I will just add one additional comment there. Remember the corporate cost savings or corporate G&A that we might have, that gets spread across all of our unregulated and regulated businesses. So, we'll be keeping a good percentage of those savings.

Q - Steve Fleishman {BIO 1512318 <GO>}

Okay. So the synergies that you're selling there, that would only include the synergies you would expect to keep?

A - William Rogers {BIO 15746544 <GO>}

You're right.

Q - Steve Fleishman {BIO 1512318 <GO>}

Yeah. Okay. Thank you.

Operator

Your next question is from Charles Fishman from Morningstar Research.

Q - Charles Fishman {BIO 4772353 <GO>}

Hi. I think my question just got an answer. But let me make sure on -- the Steve was referring the slide 19 of 50 million to 100 million potential commercial opportunities/cost savings, that's strictly unregulated in the holding company. Anything that's associated with the regulated utilities is up in the second line and is incorporated into the 6% to 8% growth, is that correct?

A - William Rogers {BIO 15746544 <GO>}

No, that's partially correct, Charles. And that the -- it's associated with the regulated businesses, that's going to be for the benefit of those customers, but it is not captured and the first two lines which forecast CenterPoint and Vectren's net income.

Q - Charles Fishman {BIO 4772353 <GO>}

But the 50 million to 100 million, that's cost savings and unregulated, cost savings at -- any -- because you got two holding companies that you can spread out over more operations. And obviously, I think, it was referred to earlier, the secret sauce of expanding the commercial opportunities with its certainly real and can be determined, but that's all that's included in that 50 million to 100 million. There is nothing -- you are not anticipating any cost savings eventually flow to the regulated utility customers.

A - Scott Prochazka {BIO 17360314 <GO>}

Those will go to the customers.

Q - Charles Fishman {BIO 4772353 <GO>}

Okay. That's what I thought. Just want to clarify -- make sure. Thank you very much. That's all I have.

A - Scott Prochazka {BIO 17360314 <GO>}

Thank you.

Operator

Your next question is from Larry Liou from J.P. Morgan.

Q - Larry Liou {BIO 20692426 <GO>}

Thanks for taking my question.

A - Scott Prochazka {BIO 17360314 <GO>}

Yeah. Good morning.

Q - Larry Liou {BIO 20692426 <GO>}

Could you just give us a little more clarity around the internal spend. How much that you expect to raise at the new entity? And how would you go about kind of paying down that debt at CERC to get to the 48% debt ratio?

A - William Rogers {BIO 15746544 <GO>}

Right. So the -- I'll begin with the first part of the question. Internally, we have allocated 3 to 4 times EBITDA as the debt to that entity. And the EBITDA is simply the distributions to CenterPoint, which were $297 million in 2017. So, we will be working with the lending community as to what's the right amount of debt that those distributions can support. You are also correct in that we will be paying down some debt at CERC to get to the 52%, 48% equity debt element and that we have at this point in time a higher dollar amount of fixed rate debt relative to the rate base. So, we'll be looking at various ways to do that in the liability management structures.

Q - Larry Liou {BIO 20692426 <GO>}

Thanks for that. And just one last follow-up. There was a tax basis change for Enable, because of the spend?

A - William Rogers {BIO 15746544 <GO>}

It does not.

Q - Larry Liou {BIO 20692426 <GO>}

Okay. Thank you.

Operator

Your last question comes from Lasan Johong with Auvila.

Q - Lasan Johong {BIO 4135934 <GO>}

Thank you. Just kind of curious on the Enable. You can't be selling Enable in the market, because you can't get the right price. And according to what Steve said and you agreed to, it's kind of a negative feedback loop, everybody think [ph] that CenterPoint is going to sell. You don't needed to finance Vectren and you may or may not needed to finance internal utility projects. So why not spin it to CenterPoint own shareholders and let then shareholder decide what they want to do with Enable, that gets me to another negative feedback loop, it provides value to each individual shareholders, they can realize earnings [ph] they want. Why even talk about separating Enable into a separate unit and doing all this other stuff, just spin it off to your shareholders.

A - William Rogers {BIO 15746544 <GO>}

Lasan, good morning. It's Bill.

Q - Lasan Johong {BIO 4135934 <GO>}

Good morning.

A - William Rogers {BIO 15746544 <GO>}

We did review an external spend as part of our strategic work on our Enable investment and we close that out in the middle of last year. The statements we made at that time remain true today. If that were spun as a separate public entity, we did not want to put so much debt on that entity as that would be -- and its ability to service that debt or its ability to look forward for other opportunities. And with the limited amount of debt that we could put on that SpinCo, we would had too much remaining debt at CenterPoint. So we terminated our discussions and are thanking on that for that reason and that remains true today.

Q - Lasan Johong {BIO 4135934 <GO>}

Bill. I apologize, I wasn't talking about an external spend, but spend to your own shareholders, dividending out you shares to your own shareholders.

A - William Rogers {BIO 15746544 <GO>}

And that's what I mean by an external spend.

Q - Lasan Johong {BIO 4135934 <GO>}

Okay. All right. Thank you.

A - William Rogers {BIO 15746544 <GO>}

Thank you.

Operator

I would now turn the call back over to Mr. David Mordy for any closing remarks.

A - David Mordy {BIO 20391499 <GO>}

Thank you, everyone, for your interest in CenterPoint Energy. We look forward to seeing many of you at the upcoming AGA Conference. And that concludes our first quarter 2018 earnings call. Have a great day.

Operator

This concludes CenterPoint Energy's First Quarter 2018 Earnings Conference Call. Thank you for your participation.

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