Q2 2020 Earnings Call

Company Participants

- David J. Lesar, President & Chief Executive Officer
- David Mordy, Director, Investor Relations
- Kristie L. Colvin, Interim Executive Vice President & Chief Financial Officer

Other Participants

- Aga Zmigrodzka, UBS
- Insoo Kim, Goldman Sachs
- Jeremy Tonet, JP Morgan
- Julien Dumoulin-Smith, Bank of America
- Michael Weinstein, Credit Suisse
- Shar Pourreza, Guggenheim
- Stephen Byrd, Morgan Stanley
- Steve Fleishman, Wolfe Research

Presentation

Operator

Good morning, and welcome to CenterPoint Energy's Second Quarter 2020 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, and good morning, everyone. Welcome to our second quarter 2020 earnings conference call. Dave Lesar, CEO; and Kristie Colvin, Interim CFO and CAO, will discuss our second quarter 2020 results and provide highlights on other key areas.

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 upon various factors, including weather, regulatory actions, the economy and unemployment, commodity prices, the impacts of COVID-19 pandemic, and other risk factors noted in our SEC filings. We undertake no obligation to revise or update publicly any forward-looking statement for any reason. We will also discuss guidance for 2020 in two components.

In summary, the utility EPS guidance range includes net income from our utility segment as well as after-tax operating income from the corporate and other segments. This guidance range considers operations performance to-date and assumptions for certain significant variables that may impacts earnings as noted in our earnings release.

The guidance range also reflects dilution and earnings as if the Series C preferred stock were issued as common stock and incorporates our COVID-19 scenario ranges, which Kristie will discuss further in her remarks. Utility EPS guidance range also assumes an allocation of corporate overhead based upon its relative earnings contribution. Utility EPS guidance excludes midstream investments EPS range, results related to our recent divestitures, and costs and impairment resulting from the sale of these businesses. Certain expenses associated with merger integration and Business Review and Evaluation Committee activities, severance costs, earnings or losses from the change in the value of ZENS and related securities and changes in accounting standards.

In providing this guidance, CenterPoint Energy uses a non-GAAP measure of adjusted diluted earnings per share that does not consider the items noted above and other potential impactss, including unusual items, which could have a material impacts on GAAP reported results for the applicable guidance period.

We also provide guidance as for midstream investments, which takes into account among other things, the outlook provided by Enable on their earnings call. For further information on our guidance methodology and a reconciliation of the non-GAAP measures used in providing earnings guidance during today's call, please refer to our earnings news release and our slides, which can be found under the Investors section on our website. As a reminder, we may use our website to announce material information.

I'd like to call your attention to our upcoming Corporate Responsibility Report which we anticipate publishing later this year. In addition to carbon reduction efforts the report will highlight employee and supplier diversity and inclusion, COVID-19 risk management, governance, safety and more.

Before Dave 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. Finally, I will note that in contrast with previous conference calls, slides should be considered supplemental materials and are not paced with the upcoming remarks.

I will now turn the call over to Dave.

David J. Lesar {BIO 1519300 <GO>}

Thank you, Dave, and good morning, ladies and gentlemen. First, I'd like to say how excited I am to be leading CenterPoint Energy and I'm honored by the trust the Board has placed in me. Additionally, I'd like to thank all of our operations personnel for their unwavering commitment and tireless efforts delivering on CenterPoint's brand promise of being 'Always There' for our customers, during these unique and challenging times, presented by COVID-19. In my first 30 days, I've tried to hit the ground running and I can tell you that I am greatly energized about the future of this company.

Before I provide my remarks, I'm going to pass it off to Kristie to cover a brief business and financial overview of our second quarter results. Kristie?

Kristie L. Colvin {BIO 18874385 <GO>}

Thank you, Dave, and good morning, everyone. I'd like to start by highlighting the strong second quarter results from our utility operations. As you saw from our news release earlier today, we reported earnings of $0.11 per diluted share on a GAAP basis for the second quarter. On a guidance basis our utilities delivered $0.18 per diluted share for the quarter, which includes $0.06 of negative impactss associated with COVID-19.

The COVID-19 impacts was driven primarily by lower natural gas and electric usage and miscellaneous revenues. In spite of that, our utilities continued to deliver outstanding results. And we are reiterating our 2020 guidance basis utility EPS range of $1.10 to $1.20 per share and expected 5% to 7% five-year guidance basis utility EPS CAGR, even with the negative impactss of our COVID-19 scenario range. I will provide a more detailed review of the quarterly performance drivers and COVID-19 impactss later in the call.

Underpinning our utility strong performance this quarter was robust customer growth, disciplined O&M management and execution of our regulatory strategy. We also deployed over $600 million of utility capital investment during the quarter to support system safety and integrity as well as modernization and load growth.

On the regulatory front, we received approval for over $40 million of increased incremental annual revenue largely as a result of our capital recovery mechanisms, within the Houston Electric and Texas Gas jurisdictions. In addition, we now have the ability to recover certain incremental expenses associated with COVID-19, including bad debt across all jurisdictions. Also during the quarter, we completed the sale of energy services and infrastructure services. Proceeds from these sales, along with our May equity issuance, we're used to primarily pay down parent level debt.

Additionally, CERC received a rating upgrade at Moody's as a result of the improved business risk profile. Positioning CERC as a pure-play regulated natural gas LDC. These transactions highlight our successful execution of a utility-focused strategy, designed to improve CenterPoint Energy's business risk profile and strengthen the balance sheet. Providing a firm platform to capture our robust utility capital investment opportunity across diversified jurisdictions with favorable regulatory constructs.

I would now like to review the quarter-over-quarter utility operations guidance basis EPS drivers. On a guidance basis utility operations delivered $0.18 per diluted share, which includes $0.06 of negative impacts from the COVID-19 pandemic, compared to $0.23 per diluted share in the second quarter of 2019. This quarter benefited from rate relief, largely as a result of capital recovery mechanisms in our Indiana, Ohio and Texas gas jurisdictions, along with the implementation of interim rates in Minnesota.

Lower O&M expenses, continued strong organic customer growth, primarily in Houston and along the Texas Coast, as well as net-interest expense savings primarily driven by paying down parent level debt were also beneficial to the quarter. Offsetting these positive variances were lower usage and miscellaneous revenues as a result of COVID-19 along with higher income tax expense, depreciation and amortization, and other tax expense and lower equity return, primarily due to the annual true-up of transition charges.

Now, let me provide a little color on the COVID-19 impactss experienced during the quarter. Because of COVID-19 we saw declines in demand from commercial businesses, like bars, restaurants and other retail, as well as some of our small industrial customers. On the flip-side, residential usage was up, because people are staying at home. We experienced declines in other revenues and associated fees across the Indiana Electric and Natural Gas Jurisdictions.

Though bad debt exposure has increased, we don't believe it has had a significant impacts on liquidity and we anticipate our exposure will be mitigated by regulatory recovery. In aggregate, we estimate that COVID-19 impacts reduced guidance basis utility EPS by $0.06 for the quarter.

Let me highlight what has changed from our original COVID-19 assumptions laid out on the first quarter earnings call. We originally assumed these lower levels of demand would gradually decrease after April and would return to normal levels by September. As we now know the State of Texas is currently experiencing a spike in cases after reopening, so the lower level of demand continued through the second quarter. For purposes of our full-year 2020 guidance, we have adjusted our COVID-19 assumptions to account for the reduced demand experienced in the second quarter as the peak with an anticipated prolonged period of lower demand and reduced miscellaneous revenues.

And based on what we are seeing right now, we anticipate another $0.04 to $0.09 of negative impacts to guidance basis utility EPS for the remainder of the year. However, if the pandemic gets worse or if Texas or our other jurisdictions shutdown again that range could be higher. There are few key factors that are expected to mitigate our current updated forecasts of full-year COVID-19 impacts, such as continued robust organic growth in Texas, more favorable than model impacts from rate cases, disciplined O&M management and interest savings.

Additionally, our guidance assumptions continue to reflect the anticipated deferral and recovery of incremental COVID-19 expenses including bad debt. To the extent actual results deviate from these COVID-19 scenario assumptions or the mitigating factors don't offset the anticipated impacts, our projected full-year guidance range may change.

And now, I'd like to turn the call back over to Dave.

David J. Lesar {BIO 1519300 <GO>}

Thank you, Kristie. If you look at CenterPoint Energy objectively, you see a company that is reaffirming its annual guidance basis utility EPS in 5-year CAGR, despite the impacts of our

COVID-19 scenario range. You also see a company with a great regulated asset base and with attractive opportunities to invest more capital across its premier jurisdictions. This is especially true for our larger service areas in Texas, Indiana and Minnesota.

For example, Texas continues to experience top-tier organic growth and is a place we expect future robust capital investment opportunities. Given our footprint, the opportunity for continued investment and inherent organic growth and comparing this to where our peers trade, I believe our share price is too low and trades at an unreasonable discount.

Now after speaking with many of you in the short time I've been here, I believe I have a better understanding for the reasons why this discount exists. You believe, we have let you down, and it's certainly my job to address those issues that concern you as we move forward.

I can tell you, we take very seriously our commitment to be good stewards of your investment and I realize our obligations are to maximize shareholder value. There are many ways to achieve this objective, and we are committed to a thorough review.

Before I address my approach, I want to confirm a few things. First, I want to reiterate our 2020 guidance basis utility EPS range of a $1.10 to $1.20 per share and an expected 5% to 7%, five-year guidance basis, utility EPS CAGR both despite the impacts of our COVID-19 scenario range.

Next, we will continue to review regulated capital investment opportunities with an eye towards improving and optimizing our capital allocation process, as we move forward with our $13 billion five-year capital investment plan. This will include the exciting opportunity to potentially own a larger share of the proposed renewable resources in our new integrated resource plan investment in Indiana.

Confidence in our growth projections are supported by the fact that we have assets and regulated utilities in business friendly states with organic growth opportunities, and therefore, significant opportunity to grow in the future by investing additional capital. For example, one of our premier utilities, Houston Electric has been consistently adding customers for not years but decades. It has a three decade long annualized residential customer growth rate of 2% including in the most recent quarter during the pandemic where amazingly we saw a 2.6% year-over-year residential customer growth even with the impactss of COVID-19.

Organic growth is anticipated to continue to drive the need for future prudent capital investments. In addition, our Natural Gas Distribution business continued to experience year-over-year customer growth, primarily in our Texas and Minnesota jurisdictions.

The growth in the natural gas business is anticipated to require investments in our utility business at current or even greater rates for at least the next decade. In Indiana, we see potential to invest capital and simultaneously upgrade our generation to continue to meaningfully reduce our environmental impacts. We are eager to find opportunities to build renewables ourselves and we'll be examining tax and other financial and operational considerations as we make the determination on who builds that generation.

Overall, we have a tremendous level of regulatory investment runway ahead of us. In addition, we will continue to review every dollar of our spending and drive to earn at or near our allowed ROEs across all of our jurisdictions. I'm getting a lot of questions from shareholders on our Business Review and Evaluation Committee, so let's talk about that next.

Three months ago, we formed the Business Review and Evaluation Committee called the BREC, with a mandate of assisting the full board in evaluating and optimizing CenterPoint Energy's various businesses, assets and ownership interests, all centralized around unlocking and creating value. In addition to being the CEO, I'm also pleased to chair this committee.

The BREC has met four times since its formation and we will meet again next week. I am driving a process at the BREC dedicated to thoroughly assessing opportunities we have to maximize value for all of our stakeholders. I can clearly tell you that nothing is off the table in the BREC review process. But in the meantime, we believe it is prudent to take advantage of any opportunity we determine might help us become more efficient or enhance stakeholder value while the BREC continues its work. I will mention a couple of those areas in a few minutes.

Let me highlight a few of the BREC areas of focus to-date. First, efficient cost control. The company is making great strides in this area and will continue to be steadfast on its O&M focus to support long-term EPS growth and capital investment. But like any company, this is an area where we can incrementally improve our efficiency and I believe that disciplined cost management is something we need to continue to keep top of mind in all that we do.

Second, rebuilding regulatory relationships. In my first 30 days as CEO, I've met with the Chairman of the Texas Railroad Commission, which regulates the Texas natural gas business. All members of the Texas Public Utility Commission, which regulates our Texas electric business, four out of five of the public utility commissioners in Indiana, which covers both the electric and natural gas businesses, as well as the Governor of Indiana and I currently have plans to visit the leaders of the commission's in the other states in the next couple of weeks.

Building new relationships and helping regulators and officials understand the vital role we play and the investments necessary to better serve our customers will be a priority of mine, not just something we focus on when a rate case is near. So I believe we are off to a good start in this area in building our relationships.

Third, proper business alignment. We are looking at the business configuration across all of CenterPoint Energy's businesses to identify opportunities for additional efficiencies. A direct result of this was the decision to combine the two electric businesses into one business unit, which was announced earlier this week. We expect a combination of these two complementary businesses will better align our resources and further support our efforts to streamline operations, leverage O&M efficiencies and maximize the skill set of our human capital. All of which, we believe, will ultimately drive value for our stakeholders. This is an example of my previous comment, demonstrating that we are not waiting to take action until the BREC completes its work, if we see an opportunity to currently make our operations more efficient.

Fourth, evaluating Enable options. Traditionally, our representatives on the Enable Board have been the CentrePoint CEO and CFO. I really did not think maintaining that status quo was the right approach. This is why we made the appointment of Al Walker and Bob Gwin as our representatives to the Enable Board of Directors, which was also announced earlier this week. Both former Anadarko Petroleum senior executives. Al and Bob are highly accomplished and qualified leaders, who bring extensive energy industry experience, financial acumen, transaction experience, deep knowledge about MLPs and a long history of value creation.

Consistent with our goal to take actions that we believe will strengthen CenterPoint Energy's long-term performance, these appointments allow our CenterPoint Energy management team to focus on driving regulated utility value while Al and Bob focus on driving the value from our Enable investments. This is another example of seizing an opportunity in front of us, while the BREC completes its work. While I know there is great interest in Enable, I do not intend to discuss CenterPoint Energy's stake and Enable any further in this call.

Fifth, operations and financial peer group performance review. The BREC has also taken a deep dive across all business units, reviewing key operational and financial metrics in comparison to our peers. And I can say that we are in pretty good shape, running an efficient business that is near or in the top quartile in operational performance with outstanding comparative scores and customer satisfaction rates versus our peers. But I also believe this is an area where we can always get better. For example, if we are top quartile, then why can't we strive to be top decile?

Now unfortunately, the financial comparisons are not as good. As you all know, when looking at our financial metrics versus peers, we clearly lag the group. That's a fact. That's why we're so focused on trying to understand all of the factors that go into our equity discount and working to address them head-on.

Sixth, assessment of non-regulated businesses. Because we are rapidly moving the company to a pure-play regulated utility, we currently are assessing the remaining non-regulated businesses.

Seven, the role of renewables in our portfolio. This is another area we are giving a lot of attention. The recently filed integrated resource plan or IRP in Indiana, is focused heavily on renewables and would significantly transform our generation mix in a short period of time, providing an avenue to potentially capitalize on the favorable tax treatment around renewables. We're also really excited about a pilot program starting next year in Minnesota, which is expected to convert renewable energy to hydrogen that will then be blended with our natural gas supply.

And finally, the BREC is focusing on optimizing our financial flexibility by assessing the makeup of our balance sheet, borrowing capacity and overall capital structure. Unlike many utilities, CenterPoint Energy has numerous incremental, prudent capital investment opportunities, and we are working hard on our ability to efficiently raise capital. We believe, the optimal outcome is a long-term capital structure that allows us to grow the business beyond our forecasted longer-term earnings growth rate. We have engaged a financial advisor to help us with this important effort.

Now as a reminder, our formal timeline is for the BREC to provide recommendations to the Board in October and we will then hold an Analyst Day by the end of the first quarter of 2021. I can tell you, I'm really eager to host our Analyst Day, and I will continue to keep investors up to speed at the appropriate time on progress we make between now and then. Because the work at the BREC, is a business sensitive and ongoing process and there are so many moving parts to the effort, this is all I'm going to say today about BREC activities. Because of this, as I'm sure you can all understand, I cannot take any questions on BREC activities in today's call. I have also spent time evaluating employee strength and have already made various leadership and organizational changes in the past month.

The next big step is solidifying the executive team by hiring a permanent CFO. Building a high performing team with the right skill set will position us to build on our strong regulated utility assets and help us execute our strategy. Having once been a CFO, I know how important it is to have a CFO with a complementary skill set to the CEO and the rest of the management team. I used my first few weeks to determine the desired CFO skill set I am looking for and the external search process has now started.

I've also received direct and frank investor feedback regarding your view on the misalignment around our compensation program and shareholder interests. I strongly believe good governance and proper alignment of management compensation in tandem with shareholder interests is critical. I discussed your feedback at our recent board meeting and I'm committed to reviewing our program with your feedback in mind. We look forward to continued engagement with our investors on this important topic.

So as you can see, we have a lot going on. I believe many good things are happening in our company and I can tell you we start from a really good place. We have a large regulated asset base across diversified growing premium jurisdictions all with plenty of room to invest and increase our rate base. But the bottom line is, I'm disappointed at our current equity discount.

Our task is really simple. We need to run this company efficiently, fix what isn't working and get more out of our existing assets, people and jurisdictions. We must consistently live up to our commitments and continue to get your feedback. And finally, we have to simplify the CenterPoint Energy story.

Now I've hit on a lot today. So before we go into questions, let me summarize, what I hope you take away from the call today. First, I'm really excited to be here and our management team is energized about our direction and the path forward. We are addressing our challenges head-on. Next, we are reiterating our 2020 guidance basis utility EPS, even burdened with the $0.10 to $0.15 per diluted share of full year anticipated impacts of our COVID-19 scenario range.

We are reiterating our targeted 5% to 7%, five-year guidance basis utility EPS CAGR, unlike many of our peers CenterPoint Energy has regulated businesses in large markets with organic growth opportunities and lots of potential to invest capital. Given that, I believe we will continue to weather the COVID-19 storm as well as anyone.

As CEO of CenterPoint Energy and Chairman of the BREC, I take our obligation to maximize value for all of our stakeholders very seriously. Our utility-focused strategy is clear and we remain focused on getting the most out of our regulated assets as efficiently as possible and we will continue to assess all of our options.

In my view, the CEO owns the shareholder relationship and I will work hard to restore shareholder confidence. Once we regain your confidence and you see that we are not only making the hard near-term decisions to enhance stakeholder value, at the same time, we are taking nothing off the table in the BREC review. I believe that confidence will be reflected in our share price.

Thank you. And let me turn the call back over to Dave Mordy.

David Mordy {BIO 20391499 <GO>}

Thank you, Dave. We will now open the call to questions. As a reminder, please limit yourself to one question and a follow-up. Today we shared with you where we are with the BREC at this point. As Dave mentioned, because the BREC is an ongoing board-driven process slated to conclude in October and followed up by an Analyst Day, we will not be taking any additional questions on the BREC. Regina?

Questions And Answers

Operator

(Question And Answer)

(Operator Instructions). Our first question will come from the line of Shar Pourreza with Guggenheim.

Q - Shar Pourreza

Hey, good morning, guys.

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

Good morning.

Q - Shar Pourreza

So congrats on the quarter, I mean, obviously you pushed the COVID assumptions out to year end and still reiterated the '20 guide and your 5% to 7% trajectory. So you have an Indiana IRP proposal which looks to generate a meaningful increase versus the prior iteration. Can we talk about sort of the CapEx updates and mainly focusing on the moving pieces for '21 to '24 and it's a solid plan. So what could provide upside to this as we think about further capital growth opportunities that could maybe be accretive to your 5% to 7%? And have a follow-up on strategy.

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

Sure. Well, thanks for the compliment. I appreciate it. I want to congratulate our team for the quarter, they did a great job. As I said in my prepared remarks, we have lots of upside beyond the capital plan that we have out there right now. If you look at the organic growth in Texas, you look at opportunities we have in Minnesota, you look at the IRP plant in Indiana that to me is why making sure that we're doing proper capital allocation is so important because we have the luxury of having more opportunities in front of us than, at this point, we can fund, and therefore we have to figure out a way to efficiently fund them and be able to drive continued growth and at some point in time, obviously, as we said in the call would like to up our growth projections going forward and that's what we would anticipate to do.

Q - Shar Pourreza

Great. That's great. And that sort of just touched on the fundamentals remain really strong. And just kind of sort of two small parts strategic question here if I may. Dave in you're prepared remarks you mentioned quarter-on-quarter nothing is off the table, which is a bit of a widening of the language from prior management's comments. So are you saying that BREC could also be looking at corporate M&A opportunities versus a standalone initiative? Then just have a quick follow-up to that.

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

Shar, just as a reminder, we're going to not hit any BREC questions today, just since we have that ongoing and we'll certainly update folks when we have updates on that.

Q - Shar Pourreza

Got it. And then the only other thing also Dave you talked a little bit about simplifying the story that you have there with CenterPoint and there is obviously, Indiana and Texas you've highlighted its core to the company, and you do sort of have some smaller jurisdictions, potentially nonadjacent jurisdictions. It's about 23% of your rate base is in other states with LDCs. Is that potentially also an opportunity? Do you consider potentially monetizing LDCs capturing pretty healthy multiples as a potential avenue to streamline or simplify your story, recycle capital and maybe strengthen your balance sheet even further outside of your core Indiana, Texas?

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

Yeah. I mean, let me just comment in this way. I mean, I've covered a lot of territory in my first 30 days, but I haven't covered all the ground we have in the organization. So, let me defer off to probably the next quarter call to address some of those related topics. When we say simplify the story is as I sort of look back at how we've communicated with shareholders over the past several years, we really have not had a consistent message, we've had a relatively complicated story, we've had a lot of M&A, we've had regulated versus non-regulated, we've had the MLP to deal with. And so, I do believe that a simple message to shareholders consistently executed quarter after quarter will I think help regain confidence that shareholders have in us as a management team and our ability to not only maintain, but grow our future revenue and return stream. And so I guess at the end of the day, give me some time. 30 days is not enough time to give you a complete answer, but we're definitely headed in that direction.

Q - Shar Pourreza

Well, congrats Dave on your first-ever utility earnings call. Congratulations.

A - David Mordy {BIO 20391499 <GO>}

Thank you.

Operator

Your next question will come from the line of Steve Fleishman with Wolfe Research.

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

Good morning, Steve.

Q - Steve Fleishman {BIO 1512318 <GO>}

Hey. Good morning, Dave. That that was a hell of a lot you've done in 30 days.

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

(Inaudible)

Q - Steve Fleishman {BIO 1512318 <GO>}

Appreciate that. So, two questions. First, on your Point 8, the optimized financials, you went through that pretty quickly. And I think that's a pretty important point. So could you just maybe repeat or maybe give a little more color on your thoughts on that aspect of what you're looking at?

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

Yeah. I mean, what I said is basically, what you want to always do as a company is make sure you optimize your financial flexibility as an organization. COVID is a perfect example of why you can't predict the future. So if you can't predict the future, you need to be as financially flexible as you possibly can. And so focusing on our financial flexibility and then of course in our case that means looking at our balance sheet, looking at our borrowing capacity and then looking at our overall capital structure, where do you lodge your debt for instance. Do you put it at the parent, do you put it at the individual subsidiaries. You know that the ultimate goal, as I said is to basically have a long-term capital structure that allows us to grow the business beyond the 5% to 7% that we have out there. And that's an integral part of what we're studying right now and it's a process we're in the middle of and I don't want to sort of presuppose any outcome, which is really why we don't really want to talk about any more of the inner workings of the BREC at this point in time. Give it a chance to work. I think the BREC at is working really-really well, but we're really only at half time if you will in terms of what we're doing and what we're looking at. And just let me leave it at that.

Q - Steve Fleishman {BIO 1512318 <GO>}

Got it. So, okay. It sounds like the growth opportunities are there, you just need to figure out how to fund them efficiently.

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

They are at there, absolutely there. Every time I see Kenny Mercado for instance who run our electric business. He has a sheet of paper he brings with him with all the extra areas that we could invest just in Houston Electric or Indiana.

Q - Steve Fleishman {BIO 1512318 <GO>}

Got it. And then just one other question. This is maybe just a silly logistical question. But with the two people that you named to the enable board, like how do they communicate back to CenterPoint? What's going on with Enable? And just could you maybe give a little more color on just the information flow and in the like there?

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

Sure. They are our representatives. They are not Independent Directors on Enable Board. They represent our interests and Enable. And just like when Kristie was on the Board she would talk to me about what was happening in Enable. They will be in constant communication with us as to their views of that organization.

Q - Steve Fleishman {BIO 1512318 <GO>}

Okay, great. Thank you very much.

Operator

Your next question comes from the line of Insoo Kim with Goldman Sachs.

Q - Insoo Kim {BIO 19660313 <GO>}

Thank you. Good morning. And congratulations, Dave. My first question is on the cost structure and obviously that's part of the plan and you guys are assessing the overall strategy. But just in your first 30 days as you look at the cost structure of CenterPoint and the different parts and if you've had a chance to compare that data versus peers on the utility side on different metrics, how does it compare and does that give you confidence that there's a lot of low hanging fruit or runway of cost opportunities there?

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

Well, I mean, I think they're a number of ways for a company to get more efficient. One is just sort of be Draconian[ph] and institute cost controls and cost management down. I think that if you look at our operating metrics as I indicated on the call, our O&M per customer, our O&M per this metric or that metric, our reliability standards are very, very good. So I think, you come away saying operationally our folks run a pretty efficient business, but the reality is that any business can become more efficient. And one of the things I have done as I mentioned in the call, not only have we trimmed back some of the more senior management in the organization, I have restructured where functions report within the organization to put them more adjacent to places they naturally should fit. So customer service for instance, which is a very technology driven part of our business. I have put adjacent to the IT department for now, because I can -- I believe we can share set of cost, we can share some infrastructure, we can share some management across that. So I think one is just looking at the business differently. Two, is using technology a little bit more efficiently to help us continue to look at reducing our costs. And then the third is as I mentioned, just structurally looking at things like putting the electric businesses together under one management team and trying to harvest the sort of efficiencies you get there.

So again, I don't -- I'm not here to say I have all the answers. 30 days has come and gone very quickly. I'm still learning a lot about how we fit together and are stitched together as an organization. But I've been in business a long time and I recognize that any company no matter where they are in their life cycle can always be more efficient. And I just need to make sure that we're making prudent decisions around making us more efficient and that's what we're doing.

Q - Insoo Kim {BIO 19660313 <GO>}

Yes. Definitely appreciate that. And I'm sorry for asking all these questions in a given it's only been 30 days. On the rate base growth opportunity on the regulated side. When you look at the electric businesses together and the gas side of things if -- and the potential upside they had that each of each of those businesses have, what -- do you see more upside to either of the businesses or are there just a lot in both?

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

No, I mean, I think that, it's really let's not let's not get totally focused on electric, yes, we have tons of upside in electric. We can take on more of the ownership on the renewable side in the IRP in Indiana. Renewables is a space that we need to learn to play in, not only does it bring some tax advantages but it really is the wave of the future. And so it's something that we need to learn how to do, because we really haven't tippy-toed into that area in the past. As I've said in my remarks, that Houston Electric is a crown jewel utility. I mean, it's in a market that has grown consistently for decades. As I said earlier, the guy who runs our Houston Electric business of carries around a list in his pocket of things he would like to invest in incremental to our $13 billion we have. But also, our gas business is good. And as I mentioned in the call, we can invest at or greater into that business for the next decade. And so, that to me is why it comes back to making sure we have an efficient capital structure that allows us to take on those opportunities, grow the business beyond the 5% to 7% and do it in a way that doesn't dilute down our shareholders any more than you normally would have to, to grow the business.

Q - Insoo Kim {BIO 19660313 <GO>}

Understood. Thank you so much for the color.

Operator

Your next question comes from the line of Julien Dumoulin-Smith with Bank of America.

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

Hey, good morning, team. Thank you for the --

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

Good morning, Julien.

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

Hey, good morning, and congratulations. If I could follow back up just to clarify a little bit more on the financial outlook and aspirations, just to clarify, again I hope I'm not intruding too much into the ground rules here, but with respect your answer to Steve. How are you thinking about the needs for capital raising, specifically equity over the forecast period as it stands today and has that changed at all? So want to make sure we're crystal clear about that. And then separately, what is the ultimate aspiration of this effort, if it to become a fully regulated entity of some sort or is it to refine and improve upon the EPS growth target? I feel at least the perception is that perhaps you said both things and through the course of this call. So just want to make sure we're clear on that as well if I can.

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

Yeah. Again, number one, we're reaffirming the 5% to 7% growth rate that we have out there. That is built around a $13 billion capital spend base. So, let use that as the base line if you will. My effort and my goal and again, I don't have all the answers after 30 days, but if you look at developing the balance sheet flexibility, you look at efficient capital allocation process, you look at the opportunities we have in front of us, I believe that when we get through this process that we could look at increasing our growth rate. I'm not saying we're going to do it yet, I'm not declaring that today, what I'm saying is that's aspirational for us at this point in time and we have the biggest building block available to us to be able to do that, which is the capital opportunity that exists in our Texas businesses, our gas business, our Indiana businesses. So, unlike a lot of utilities that maybe have the capital available but not the opportunities. We have the opportunities available which many don't which is a really great place to start. And so that's what I'm trying to convey is our excitement around the opportunities. It's my job and the job of the management team now to figure out how do we get the balance sheet flexibility to take advantage of those opportunities.

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

Thanks. If I could follow up exactly along that line of thinking if you will. What is reflected in your outlook today with respect to Indiana and the IRP? And your confidence on being able to self-build any opportunities that come out of that process specifically, and obviously, this is with the proposal now becoming a little bit clearer? And then related tied back to what you just said a second ago, isn't it typically bill headroom that sort of is the limiting factor? And how are you thinking about the O&M that is necessary to create the additional headroom to invest?

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

Yeah, let me have Kristie -- let me have Kristie answer the front part of that and I'll try to come in and back clean up a little bit.

A - Kristie L. Colvin {BIO 18874385 <GO>}

Yeah. Well, we had our best guess of what our capital would be in the -- capital plan that we had for Indiana think it was the over the first years the total capital plan for Indiana was in the $300 million range going to $400 million, and like as Dave said where we hope to be able to do more than what is in that plan.

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

I think Julien what the way I think about it is that if you looked at sort of our initial view, we had an allocated amount of that $13 billion in capital to the plan in Indiana. As I look at the renewable opportunity with respect to that. Our initial view was that we would not take on much of that. I really want to revisit that because I think for two reasons. One, I think we need to be in the renewable space, we need to learn how to operate in that space and because of the tax -- basically the tax advantages of it, we ought to be in that space. And therefore, we're really right in the middle of us reassessing. What part of that plant and how much do we want to own, and how we might find and seek partners for the rest of it.

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

It is not or isn't the plan. What was it -- just to make sure heard that is right.

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

So what was in the $13 billion -- I'm looking at Kristie now. What was in the $13 billion plan was about $300 million to $400 million for the IRP.

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

Okay. Thanks for all the color. Appreciate that.

Operator

Your next question comes from the line of Stephen Byrd with Morgan Stanley.

Q - Stephen Byrd {BIO 15172739 <GO>}

Hi, good morning and Dave congratulations.

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

Thanks.

Q - Stephen Byrd {BIO 15172739 <GO>}

Wanted to just first talk about your dialogue with the rating agencies, and then thinking about the your credit statistics and the linkage to enable cash flows and whether there's a possibility that over time your credit sets really can be dependent on your core utility businesses rather than sort of have a dependency or linkage to enable from a credit perspective. Would you mind just give me a general sense of where we are now and sort of what your objectives are there.

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

You actually just made my pitch in terms of what we want to do. Yes, we are engaged with the credit rating agencies. I've had a lot of experience with them over the years. I understand it's a matter of laying out a process and a path forward. I agree with you that in terms of the credit metrics that were held against today or potentially will be held against in the future, that's a dialogue we have to have with them. I think we have to demonstrate a path to growth which I think we're in as we've talked today, we're going to be able to do, reaffirm where our current commitments are which we are doing today. But then have a dialogue with them that doesn't in effect penalize us for the cash flow that we get off of Enable. And that's an ongoing dialogue and I hate to keep coming back to it, but give me more than 30 days to sort of get those conversations behind us, but they're top of mind at this point in time for sure.

Q - Stephen Byrd {BIO 15172739 <GO>}

Yeah. I respect that. And then just wanted to go back to one of your the elements of the prepared response in terms of the benchmarking work that you had done. And I think you had mentioned briefly that operationally very solid metrics, but you've mentioned the financial metrics versus peers were less solid. I wondered if you could just talk a little bit more about what financial metrics you focused on in that in that benchmarking work?

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

I mean, basically, if you can name it we took a look at it. I mean, clearly, you look at PE. You look at discount to where we ought to be trading with the assets we have, with the growth potential we have, with our affirmation of our earnings per share and the 5% to 7% CAGR that we put out there. But I think instead of all relative market valuation metrics, we lag behind. And I think, I understand why now, and a lot of it has to do with what I said in my remarks. In that, if you look at sort of the last year of history at CenterPoint, we've let our shareholders down. And it's my intent and my focus to turn that around. Again, I understand it isn't instantaneous. It's really a matter of engaging with our shareholders, listening to our shareholders, understanding what the individual shareholder may view as shortcoming in the organization. But as I said, as I've talked to people, I'm a very high touch individual as a CEO. I like engaging with shareholders. I like debating with shareholders. And so again, just give me a chance to get out there, get you an opportunity to know me better. And I think that we'll rebuild that confidence.

Q - Stephen Byrd {BIO 15172739 <GO>}

That's really helpful. If I could just -- one last question just on Renewables. It's obviously an exciting area of growth. I know it's early days, but just as you look at CenterPoint's capability with respect to Renewables and the capabilities needed versus peers versus more established players and clean energy. How do you sort of scope out the capabilities you have, additional capabilities you might want? Or do you feel like you do have sort of what you need to be able to pursue Renewables in a cost-effective way?

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

No, I mean, I think, I know we can find the resource to pursue Renewables in a cost-effective way. The question is going to be how much of that do you bring in-house and build that capability and how much do you hire? As consultants or do you seek partners on it? And I think we're early in that process. We've made the conclusion, we need to be bigger in Renewables. We have the perfect opportunity in front of us with the IRP plant in Indiana We know that in that plant we can get both into solar and to wind. And it really now is a matter of doing the calculation that optimizes what we want our participation to be there. But it is fair to say, we do not have much of that capability in-house at this point in time, but it is not such a scarce resource in the world that we can't go out and find it. And as I said, the decision for us is going to be how much do we bring in-house and institutionalize, because we're going to be in this area for a long time. And how much do you use sort of the best assets and people in the industry to jump start you in this area and we're still going through that assessment. But, I'm confident, we'll hit the right balance.

Q - Stephen Byrd {BIO 15172739 <GO>}

It's great. Thank you so much.

Operator

Your next question comes from the line of Jeremy Tonet with JP Morgan.

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

Good morning.

Q - Jeremy Tonet {BIO 15946844 <GO>}

Hi, good morning. Maybe starting off at Indiana here. Just wondering if you could share any early feedback you've received on the IRP. Just want to get a feeling for how that's progressing?

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

Yeah, I think, we've been through start of the process of exposing it to the market. The response was very-very positive. You know clearly, there are the regulatory hoops that we have to jump through. And frankly, I don't have enough knowledge about how we would do that. We've got our Head of Regulatory Affairs here, if you want to do a little bit deeper dive in terms of it. But I think it's got a lot of momentum behind it. I think the political process in Indiana, the political environment has positive. I think the reality is that you don't think of Indiana as a place that's got a lot of wind and a lot of solar opportunities, but it really does. And it's really wind in the north along the Great Lakes area and lots of sun in ability to build solar in the southern part. So I think the state is behind it because it sees an opportunity not only to develop the generation capability from Renewables, but to do it actually in Indiana which brings with it then the construction jobs, the O&M jobs and those kinds of things. So, I haven't really encountered any major opposition to it at this point in time, but it's still a bit early days. But we're optimistic at this point.

Q - Jeremy Tonet {BIO 15946844 <GO>}

Got it. That's very helpful. Thanks. And then may be turning over to COVID. Just want to dig in a little bit more there on the assumptions in the back half of the year and just kind of how you see -- how long the depressed demand would kind of continue and do you see it spilling into '21? Or just if you could give us a little bit more feeling for how you see that unfolding in your neck of the woods?

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

Yeah. I'll let Kristie give you a little more granularity and then I'll sort of again come in and back clean up on the back end of the question.

A - Kristie L. Colvin {BIO 18874385 <GO>}

So in our COVID-19 range -- the new range, we have assumed that the recovery would go out through the end of the year. And so in gradually improve from the second quarter as what the peak would be.

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

Yeah. I mean, I would just say, this is more anecdotally since I've moved back to Houston now. You see traffic starting to pick up a little bit. If -- your data points are how are you living your life everyday. I'm seeing more traffic on the roads. But I'm sitting here in downtown Houston right now and it's still a ghost town. And restaurants aren't open, the bars aren't open, and those are consumers of our products. And so as Kristie said if you look at where we've had demand destruction of you will, it's in sort of the light commercial, light industrial part of the business. So, I think that if anybody could predict sort of where COVID is going to go, they could make a lot of money betting in the stock market, that's not me. As I said earlier, we just have to make sure we have a company that's structured to be flexible enough to handle anything that is thrown at us. And what we gave you is sort of our best guess of the impacts in the markets that we're in. And if you think back, our big markets are Minnesota, Indiana, Texas a little bit of Ohio and Arkansas, Louisiana and Mississippi, each of those states is sort of approaching the reopening in a bit of a different way. So we're giving you our best shot at it right now. Things might get better quicker. We might get shut down and we'll update you if we set a very off of the scenario that we laid out.

Q - Jeremy Tonet {BIO 15946844 <GO>}

Got it. That makes sense. That's helpful. Thanks.

Operator

Your next question will come from the line of Aga Zmigrodzka with UBS. .

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

Good morning.

Q - Aga Zmigrodzka {BIO 22331833 <GO>}

Good morning. Dave you met with Commissioners from different jurisdictions and in Q&A, you mentioned potential for higher CapEx across electric and gas utilities. What is the potential for adding new or expanding regulatory mechanism to accelerate recovery of CapEx to reduce the regulatory lag? Is that something that we should expect?

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

Let me have Kristie answer that one. She's our resident expert on regulatory lag and basically getting our capital investment into our rate base as fast as we can.

A - Kristie L. Colvin {BIO 18874385 <GO>}

Yeah, I mean, as you know, Houston Electric, we do have capital recovery mechanisms for both transmission and distribution capital. In the Texas Gas jurisdictions, we have capital recovery mechanisms as well. Our other jurisdictions besides Minnesota pretty much have well I would say, Arkansas, Mississippi, Oklahoma, Louisiana all have cost of service. So again fairly, quickly the capital is in the rates. In Indiana and Ohio, we also have capital recovery mechanisms. So it's really Minnesota and in Minnesota, we have interim rates and a rate case pretty much every couple of years to help reduce that regulatory lag. We actually think we are in good shape and as we increase this capital. We have the mechanisms.

Q - Aga Zmigrodzka {BIO 22331833 <GO>}

I have one follow-up question. Kristie you mentioned lower interest expenses are helping offset higher COVID impacts. Do you expect that trend to continue? If yes, could you quantify how much interest expense are going to be down in 2020 versus 2019? Is that's tracking better than you previously expected?

A - Kristie L. Colvin {BIO 18874385 <GO>}

Yeah. The interest is better than we had in our models for our plans. And let's see in the quarter interest was favorable $0.03 to last year.

Q - Aga Zmigrodzka {BIO 22331833 <GO>}

Do you expect that to continue or?

A - Kristie L. Colvin {BIO 18874385 <GO>}

Yeah, I mean we do expect to see favorable interest going forward.

Q - Aga Zmigrodzka {BIO 22331833 <GO>}

Perfect. Thank you for taking my questions and stay safe.

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

Thank you.

Operator

Our final question will come from the line of Michael Weinstein with Credit Suisse.

Q - Michael Weinstein {BIO 19894768 <GO>}

Hey, guys.

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

Good morning.

Q - Michael Weinstein {BIO 19894768 <GO>}

David -- good morning. David, congratulations. Some investors have noted you're coming into the job after a long and distinguished career at Halliburton and you're 67 years old, I'm just wondering what your -- how long do you plan in staying at CenterPoint? Where do you see your career at this point as you take on this role?

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

Yeah, it's a good question. You know, I guess, I see myself as 67 going on 50. The reason I left Halliburton is Halliburton has a mandatory retirement age or frankly, I would still be there. I've got a lot of energy, I like being a CEO, I like being a leader. And to me, this was a perfect opportunity because of the great assets, the great jurisdictions, the great people that are here. So I have not set a timeline on my tenure here. I'll know it and Board will know it when the time is right to move on. But I think for right now I am totally committed, and as I said earlier, I've just moved back to Houston last weekend. And I am raring to go and as far as I'm concerned the sky's the limit at this point in my career.

Q - Michael Weinstein {BIO 19894768 <GO>}

Sounds good. Have you had a chance to meet with the regulators yet in Texas to talk about how the last rate case went and some of the criticisms that I think a lot of people had about that rate case and also maybe even meet with the Governor? Just wondering if?

(Multiple Speakers)

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

Yeah, clearly I know the Governor. I know the Governor well from my days at Halliburton. So, having a meeting with the governor for me would be pretty easy to get. As I indicated in my prepared remarks, I've actually met with all three of the Public Utility Commissioners in Texas. I had a face-to-face sit down with the Chairman of the PUC in Texas. We did have a frank discussion and dialogue around the rate case and the outcome. But I think, it's really important to point one thing out in that even though there was a lot of noise there look around our rate case. If you look at the outcome that we got and the outcome that others have gotten since then, we were really the maybe the first company up that was experiencing a bit of a policy change in and around the equity splits and the ROEs that we're going to be allowed to utilities in Texas. And so that was part of the dialogue that I've had with the commissioners. If you look at where we came out, we're pretty much in the middle of the more recent cases that have been adjudicated through the system in Texas. But that doesn't mean that we are not going to continue and I am not going to continue to have a dialogue. And it's important to have relationships with your regulators every place that you operate. They are in business to protect the consumers in their particular states, and it's our job to provide reliable gas and power to those consumers. So I don't necessarily see that has to be an adversarial relationship. It really needs to be a partnership, really pointed toward making sure that we're providing reliable power and gas to the consumers in the states where we operate.

Q - Michael Weinstein {BIO 19894768 <GO>}

Great. Well, thank you very much and good luck, and godspeed.

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

Hey, thank you. Thanks, everyone.

A - David Mordy {BIO 20391499 <GO>}

Thank you everyone for your interest in CenterPoint Energy. That will conclude our second quarter 2020 earnings call. Have a great day.

Operator

Ladies and gentlemen, thank you for joining today's call. You may now disconnect.