Q2 2018 Earnings Call

Company Participants

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

Other Participants

- Ali Agha, Analyst, SunTrust
- Antoine Aurimond, Analyst, Bank of America Merrill Lynch
- Greg Gordon, Analyst, Evercore
- Julien Dumoulin-Smith, Analyst, Bank of America
- Michael Lapides, Analyst, Goldman Sachs
- Michael Weinstein, Analyst, Credit Suisse
- Steve Fleishman, Analyst, Wolfe Research

Presentation

Operator

Good morning, and welcome to CenterPoint Energy's Second 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>}

Thanks, Ginger. Good morning, everyone. Welcome to our second quarter 2018 earnings conference call. Scott Prochazka, President and CEO; and Bill Rogers, Executive Vice President and CFO will discuss our second quarter 2018 results and provide highlights on other key areas, including our pending merger with Vectren. 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've 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 upon 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 non-merger 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 the value of the Zero-Premium Exchangeable Subordinated Notes, or ZENS securities, and the related stocks, or the timing effects of mark-to-market accounting in the company's energy services business. The guidance range also considers such factors as Enable's most recent public forecasts and effective tax rates.

During today's call and in the accompanying slides, we will refer to Public Law No. 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.

And now, I'd 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. Since we have some potential new investors on this call, I would like to start with a brief overview of CenterPoint's vision and strategy. Later in the call, Bill will provide an overview of how we present our financial performance.

Beginning on slide five, CenterPoint has a longstanding vision to lead the nation in delivering energy, service, and value. We are committed to leadership and have been recognized for our use of technology to improve operations and create a better service relationship with our customers. We have enjoyed these successes due to our simple strategy of operate, serve, and grow.

These three elements keep us focused on safely and reliably maintaining and operating more than $20 billion in assets, making sure our customers receive the benefits of our investments and product offerings and creating growth opportunities for our employees and our investors. This is done by making the right investments in our energy delivery systems, in the new technologies we introduce to improve efficiency and service quality, in our employees and in the communities we serve. The pending merger with Vectren is well aligned with our vision and strongly supports the elements of our strategy.

Next, I will cover the quarterly results, business unit highlights and full-year outlook. Turning to slide six, this morning, we reported a second quarter 2018 net loss of $75 million, or $0.17 per diluted share compared with net income of $135 million, or $0.31 per diluted share in the same quarter of last year. This quarter includes a non-cash charge of $0.42 per share associated with our ZENS securities, primarily as a result of AT&T's acquisition of Time Warner.

On a guidance basis, excluding $34 million of pretax costs associated with the pending merger with Vectren, second quarter 2018 adjusted earnings were $127 million, or $0.30 per diluted share compared with adjusted earnings of $125 million, or $0.29 per diluted share in the same quarter of last year. Increases were associated with the lower federal income tax rate related to tax reform, rate relief, equity return primarily due to the annual true-up of transition charges, customer growth and midstream investments. These benefits were largely offset by higher operations and maintenance expense, depreciation and amortization, and interest expense, and certain timing impacts due to both the 2017 Texas Gulf rate order and the Arkansas decoupling mechanism.

Utility operations and midstream investments both had a solid quarter. Our performance keeps us on track to achieve the high end of our $1.50 to $1.60 earnings per share guidance range, excluding costs associated with the pending merger with Vectren. Our business segments continue to implement their strategies, which are focused on safely addressing the growing needs of our customers, while enhancing financial performance.

Turning to slide seven, I'll cover business highlights, starting with Houston Electric. Electric Transmission and Distribution core operating income in the second quarter of 2018 was $167 million compared to $151 million in the same quarter of last year. We see continued growth in our electric service territory, adding more than 34,000 metered customers since the second quarter of 2017.

On the regulatory front, we made a transmission investment recovery, or TCOS, filing in May, requesting an annual revenue increase of $41 million based on a $285 million increase to rate base, which is largely a result of completing the Brazos Valley Connection transmission project. We plan to file our certificate of convenience and necessity, or CCN, with the Public Utility Commission of Texas, or PUCT, in September for our Freeport Master Plan Project. We anticipate a ruling from the PUCT in the third quarter of 2019. This project is currently included in our five year plan at a cost of $250 million, as filed in our 2017 Form 10-K. We now anticipate this project will cost up to $630 million and we will include this as part of our new five year capital plan in our 2018 Form 10-K. For a full regulatory update of our current filings, please see slide 24. Houston Electric is having a strong year and is performing ahead of our expectations for 2018.

Turning to slide eight. Natural Gas Distribution operating income in the second quarter of 2018 was $7 million compared to $42 million in the same quarter of last year. We continue to see solid customer growth with the addition of more than 29,000 customers since the second quarter of 2017. The variance for the quarter was largely driven by the timing elements I mentioned earlier and which Bill will discuss in more detail later. In short, Natural Gas Distribution is performing well and on target to meet our expectations for 2018. Overall, CenterPoint is on track with our planned $1.7 billion in capital expenditures for the year.

Energy Services operating income was $7 million in the second quarter of 2018 compared to $10 million in the same quarter last year, excluding a mark-to-market gain of $8 million and $6 million, respectively. We continue to see value from our recent acquisitions and are reiterating Energy Services' core operating income target of $70 million to $80 million for 2018.

As mentioned earlier, midstream investments contributed $0.10 per diluted share in the second quarter of 2018, compared to $0.09 per diluted share in the same period last year. On slide nine, we've captured some of the highlights from Enable's second quarter earnings call on August 2. Quarterly volumes of gas gathered and processed were at an all time high since Enable's formation in May of 2013. On their second quarter call, Enable stated they anticipated achieving for 2018 the midpoint or higher of their net income attributable to common units guidance of $375 million to $445 million. We use this guidance as input for CenterPoint's EPS guidance.

Turning to slide 10. We continue to forecast strong earnings growth relative to 2017 and are excited about the second half of the year. Year-to-date, for guidance EPS, we are $0.19 ahead of where we were at this time last year. We anticipate that utility rate relief and customer growth, contributions from Energy Services, and earnings from Enable will continue to drive growth. We are reiterating our 2018 guidance EPS at the upper end of our $1.50 to $1.60 range, excluding costs associated with the pending merger with Vectren.

Regarding the merger, I am pleased with the integration planning work done to-date and look forward to closing the merger with Vectren in the first quarter of 2019. Once merged, we will be better positioned as a leading US energy delivery, infrastructure and services company. Over the past couple of months, I have had the opportunity to meet with many Vectren employees. I'm excited by the enthusiasm they share to help build a company that is committed to common values, safety, customers, communities, reliable operations, and growth. I've also met with stakeholders, including regulators, customers, and local officials in both Indiana and Ohio. I believe these stakeholders appreciate our values and the commitment we have to serving our customers.

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

Bill Rogers {BIO 15746544 <GO>}

Thank you, Scott. We recognize that there may be new analysts on this earnings call. Therefore, before I begin the quarter and year-to-date discussions, I want to provide an overview of how we present our financial performance as described on slide 12. I will start with the GAAP EPS versus guidance EPS when reporting our results, We have adjusted our GAAP EPS for two items to determine guidance EPS. Those adjustments are mark-to-market impacts at our Energy

Services business, and the net of the mark-to-market assets and liabilities associated with our ZENS securities and related stocks. We do not adjust for timing related items, one-time items, or Enable-related mark-to-market impacts. For a detailed reconciliation, please see appendix slides 28, 29 and 30.

We have five business segments within our company. Those segments are, Electric Transmission and Distribution, Natural Gas Distribution, Energy Services, Midstream Investments, and Other Operations. The term utility operations and our EPS breakout includes the four business segments other than the midstream investment segment. When we speak of core operating income, we exclude the transition and system restoration bonds from Electric Transmission and Distribution and the mark-to-market impacts from our Energy Services. Core operating income does not provide any adjustments to the Natural Gas Distribution segment, nor does it include Other Operations.

With that overview, I will now review the financial performance for the second quarter. On a GAAP basis, we reported a second quarter 2018 loss of $0.17 per diluted share. Earnings included a non-cash charge of $0.42 per diluted share associated with our ZENS securities. This $0.42 is primarily due to the acquisition of Time Warner by AT&T whereby Time Warner stockholders receive cash and AT&T stock. As with our ZENS accounting for Charter's acquisition and merger with Time Warner Cable in the second quarter of 2016, there were no cash flow or tax impacts as a result of this transaction. Further details are provided on page 22 of the slide deck, as well as Note 11 in our second quarter Form 10-Q.

In order to review our financial performance on a guidance basis, I will begin with quarter-to-quarter operating income walks for our Electric T&D and Natural Gas Distribution segments, then review EPS drivers for utility operations and finish with our consolidated earnings 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, excluding costs associated with the pending merger with Vectren. As we noted in the first quarter, the adoption of the accounting standard for compensation retirement benefits resulted in increased operating income for 2017 as it moved certain amounts below the operating income line.

As you can see on slide 13, Houston Electric performed well during the second quarter. While revenue and operating income decreased $19 million as a result of tax reform, this decrease was offset by lower income tax expense when looking to the net income line. Rate relief translated into $26 million favorable variance for the quarter and customer growth provided an $8 million positive variance. Usage accounted for $9 million favorable variance, primarily due to a return to more normal weather.

Equity return related to the true-up of transition charges increased $14 million. We have provided an updated equity return amortization table in the appendix due to our recent non-standard true-up filing. O&M accounted for an unfavorable variance of $15 million. Excluding the equity return and the tax reform adjustment, Houston Electric's operating income increased by $21 million on a quarter-to-quarter basis. Overall Houston Electric is performing ahead of our expectations for 2018.

Now turning to slide 14, Natural Gas Distribution operating income for the second quarter was $7 million versus $42 million for the second quarter of last year. This $35 million decline was primarily attributable to three items. First, the recording of regulatory liabilities to reflect the decrease in the tax rate from tax reform has a corresponding decrease to revenue of $5 million. As noted in the Houston Electric review, there is a corresponding offset in income tax expense. Second, the timing of a decoupling normalization accrual recorded in the second quarter 2017 associated with warmer than normal weather during the 2016 and 2017 winter season accounted for a $16 million benefit in 2017 that was not repeated in 2018. Third, in second quarter 2017, we had a one-time net benefit of $10 million attributable to adjustments related to the Texas Gulf rate order.

Operating income also included $7 million positive variance from rate relief, a $2 million benefit from customer growth, and then a $11 million increase in O&M expense. The Natural Gas Distribution segment is performing well and is on track with our expectations for 2018. Energy Services' second quarter operating income excluding mark-to-market adjustments, was $7 million versus $10 million in the second quarter of 2017. For this business segment, we are reiterating our operating income target for the full year 2018 of $70 million to $80 million, compared to $46 million for 2017, again excluding mark-to-market adjustments in both years.

Our quarter-to-quarter utility operations EPS walk on a guidance basis is on slide 15. We start with $0.20 and subtract $0.02 for core operating income inclusive of Energy Services and excluding equity return. This decrease is a result of items I noted in operating income walk for the gas distribution. Next, we had $0.01 for additional interest expense as a result of higher debt-to-fund capital investment. We also had additional interest expense connected with our bridge financing, however, that is included in merger-related expenses. Next, we had $0.02 of improvement from equity returned and $0.01 of improvement for other. Other does include the benefit from a lower federal income tax rate. That brings us to $0.20 of utility operations EPS on a guidance basis, excluding $0.06 of merger-related expenses.

Our consolidated EPS comparison is on slide 16, starting with $0.29 for the second quarter of 2017 and ending with $0.30 for the second quarter of 2018. In short, we are even quarter-over-quarter for the utility operations and midstream investments, after a $0.02 mark-to-market charge at a $0.01 net EPS gain.

Slide 17 shows the year-to-date consolidated guidance comparison, starting with $0.66 for the first half of 2017 and ending with $0.85 per share for the first half of 2018. Utility operations has delivered $0.16 of improvement year-to-date, primarily due to the strong performance of our electric utility and in Energy Services. Midstream investments, after a $0.03 mark-to-market charge year-to-date, has delivered a net $0.03 improvement. With this $0.19 of total improvement year-to-date, we are well on track to meet the high end of our 2018 guidance range.

Now turning to slide 18, we are providing an update as to key milestones in our pending merger with Vectren. Vectren's shareholders will vote on the pending merger on August 28. We made informational filings with the Indiana and Ohio commissions and a hearing is scheduled for Indiana on October 17. There is no hearing scheduled in Ohio and no parties intervened or protested our FERC application. Our plan of financing is unchanged since the first quarter update.

We plan to finance the acquisition of Vectren common shares with a combination of $2.5 billion of CenterPoint common equity, mandatory convertibles or other high-equity content securities. The remainder of the acquisition financing will be senior notes and/or commercial paper issued by our holding company and cash. Additionally, the process for our internal spend of Enable is progressing well and is expected to be completed in 2018 prior to the Vectren merger close. As we have shared previously, we do not plan to sell Enable units to finance the merger.

Moving to slide 19, the plan of financing is based upon our objective to achieve a consolidated 15% adjusted funds from operations to debt as measured by rating agencies in 2020. We view that with our current business risk profile and this debt coverage, we will achieve BBB or better credit quality for all of our rated debt securities upon closing of the merger.

I will conclude on slide 20 with our prospective combined company projected rate base. We created this combined rate base slide from year-end rate base estimates provided by us and Vectren's rate estimates published in yesterday in their earnings call slides. CenterPoint's year-end rate base estimates are consistent with the average rate base estimates that we provided on our February 22 call. Added together, our investments produce a compound annual growth rate of 7.6% for the 2017 through 2022 period. We anticipate both companies will be updating their capital expenditure plans and the respective independent filings of their 2018 Form 10-Ks.

Finally, we'd like to note our recently declared dividend of $27.75 per common share. This is an approximately 4% increase relative to a year ago and consistent with our 4% annual increases in dividends over the last several years.

I'll now turn the call back to David.

David Mordy {BIO 20391499 <GO>}

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

Questions And Answers

Operator

At this time, we will begin taking questions. (Operator Instructions) Our first question comes from Ali Agha with 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. My first question, Bill, I mean, I wanted to just get a sense, any further thoughts that of the $2.5 billion equity in terms of the mix that you're looking at, are we still thinking that the bulk of it will be common as opposed to mandatory or some other form and just some sense of how you're thinking about the timing?

A - Bill Rogers {BIO 15746544 <GO>}

Ali, good morning, it's Bill. I think you said it correctly. The bulk of it is $2.5 billion and it's a combination of common equity, mandatory convertibles, or other high equity content securities. With respect to the timing, we have said, we intend to complete the permanent financing for the acquisition of Vectren common shares before we close on the merger.

Q - Ali Agha {BIO 1509168 <GO>}

Okay. And I guess my second question, Scott, to you, looking at the numbers you've given us on slide 20, which breakout the rate base growth rates for each company separately. On a -- if I look at just the CenterPoint component of it, you're growing at about 8.1%, the Vectren numbers are 6.6%, so the combined gets to the 7.6% that you pointed out. I guess the question being that on a standalone basis your rate base growth which is a good proxy for earnings growth in my mind is actually higher. So again, I'm not quite clear what Vectren would bring to that table given that it's actually diluting your rate base growth rate.

A - Scott Prochazka {BIO 17360314 <GO>}

Yes, Ali, the way I would respond to that is, they still have a very strong growth rate on their rate base given their capital plans. Their plans, as they have shared them, where their expectations involve growth in both of their regulated businesses and their unregulated businesses. And when you look at the growth opportunities for that complete set matched up with our set, we think they are nicely complementary to our growth rate. So this is just taking a look at the utility side.

I will also say that each year, both companies or all companies update their capital plans based on requirements going forward. But, as you pointed out, their growth rate is technically lower than ours on the utility side, but they anticipate other growth in some of their non-regulated business units.

Q - Ali Agha {BIO 1509168 <GO>}

Thank you.

Operator

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

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

Hey, good morning.

A - Scott Prochazka {BIO 17360314 <GO>}

Good morning.

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

Hey. So wanted to follow up on the sale -- basically the financing composition here, can you perhaps elaborate a little bit on your latest thoughts on Enable just in the context of ongoing equity needs independent to the sale and also with respect to the sale of the composition of equity and equity units, if you have any further thought process in how exactly you want to structure it?

A - Scott Prochazka {BIO 17360314 <GO>}

So, Julien, I don't think we have any more to share on the composition piece in terms of our equity other than what Bill just shared a minute ago. And with respect to Enable, look right now, we are focused on the financing of this transaction. What we have said is, following the transaction, we will have some modest equity requirements to fund the capital requirements of our businesses going forward. And at that time, Enable may be a source of funds for that. But at this point, we're focused on completing this transaction and the necessary financing for it.

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

Got it. Understood. And can you elaborate a little bit -- I mean you just discussed a little bit already around the accretive nature to rate base of the Vectren acquisition. Can you comment a little bit more specifically around the electric versus gas versus non-reg contributions to that future rate base or let's keep it with electric versus gas, just to keep the focus on rate base specifically? But all together, I mean, I know that this is perhaps separate than the $50 million to $100 million pretax that you've talked about, but just getting a little bit more of a sense as you have had more time to look at the business.

A - Scott Prochazka {BIO 17360314 <GO>}

Yes, Julien, I don't think we're prepared at this point to comment on the rate base growth deltas by business unit at this point. We are -- for context purposes about three weeks into our integration planning exercise. So, we are at the front end of understanding more information about the specifics that we will pursue once the deal is closed.

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

Got it. Or maybe let me specify a little more carefully. Electric on the Vectren side historically has seen a little bit more rate inflation and so therefore, I suppose, has had a little bit more of a difficult time accelerating their growth. Could you see merger related benefits accruing such that electric could see a disproportionate growth again or we talking principally about the sizable growth at gas and just continue to accelerate on that front?

A - Scott Prochazka {BIO 17360314 <GO>}

Well, again, it's probably premature to be talking about their capital plans, but they do have appreciable spend in both their electric and their gas businesses, if that's helpful.

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

Alright. Fair enough. Thank you.

A - Scott Prochazka {BIO 17360314 <GO>}

Okay.

Operator

Your next question is from Michael Weinstein from Credit Suisse.

Q - Michael Weinstein {BIO 19894768 <GO>}

Hi, guys.

A - Scott Prochazka {BIO 17360314 <GO>}

Good morning, Michael.

Q - Michael Weinstein {BIO 19894768 <GO>}

Good morning. Could you talk a little bit about the Freeport plan and the reasons for the substantially increased cost? I am just looking at the 10-Q and I see that some of that's related to environmental and I'm wondering if maybe Hurricane Harvey had something to do with that or -- and then also as a part of this question, maybe address the -- how you think regulators might react to this -- to the extent you've already talked to them about these increased costs?

A - Scott Prochazka {BIO 17360314 <GO>}

So, Michael, to your first question, the driver for the increase from the original estimate of $250 million, that estimate was made early on when we were considering at a high level of different routing options. During the time between that estimate and the one we just provided, we were able to do much more refined analysis about routing options and the structures needed to be able to withstand certain win tolerances as well as recognition of environmental wetland type areas that are in this region of our service territory .When you couple the design requirements, including all of those factors, we end up with a cost for this line that has gone up from the $250 million, up to the number that I specified at around $630 million. So that's really the driver. It's structure and environmental related routing issues, that would be the short answer to that. Go ahead.

Q - Michael Weinstein {BIO 19894768 <GO>}

Yes. And on regulatory commentary on this so far, I mean, presumably you already have [ph] some talks here.

A - Scott Prochazka {BIO 17360314 <GO>}

Yes. So, this is something that is just now entering the process with the Commission. We will be presenting that to them as we make our filing. But one point to note. This is a investment that was deemed necessary by ERCOT as a result of reliability needs in the region. So we still see this as a solution to solve a reliability related design issue and still believe it's the most cost effective solution available.

Q - Michael Weinstein {BIO 19894768 <GO>}

Okay, great. Thank you very much.

A - Scott Prochazka {BIO 17360314 <GO>}

Yes.

Operator

Our next question is from Michael Lapides from Goldman Sachs.

Q - Michael Lapides {BIO 6317499 <GO>}

Hey, guys, thanks for taking my question. Just thinking about Texas and on the electric side, can you talk to us a little bit about demand trends that you're seeing specifically -- weather normalized obviously. But specifically across the customer classes, what's coming in a little bit higher than maybe what you had baked in, what's coming in a little bit lower than maybe what you anticipated and maybe what the drivers are?

A - Scott Prochazka {BIO 17360314 <GO>}

So, Michael, good morning. What we're noticing around the Texas area is really strong ongoing demand in the commercial and the industrial sectors. That's what tends to be driving overall throughput along the system as well as some weather related, but you asked for kind of weather normalized. Those two segments tend to be weather normalized automatically. We still continue to see strong demand with our residential sector. They are essentially on a use per customer basis holding flat, which is what we've seen for several years now. You will note that we have seen a slight downturn in the growth rate associated with residential addition. We believe that's associated with hurricane Harvey and the impacts that had on residential meters. And I think we're going see noise in that growth rate until we pass the period in which Harvey occurred, which would be in the fall. So that's creating some noise.

We also had a surge in the most recent period of completing multiple multifamily units and multi-family unit construction has slowed now, while the inventory is being consumed. But our additions in, say, a more of a suburban setting continue to be strong. One of our indications for that is we have joint trench crews, these are crews that go out and put in the infrastructure ahead of development build. These crews are operating at a level that is higher than last year, for example. So we see good fundamentals that even though the residential count is lower that the residential demand is still very strong.

Q - Michael Lapides {BIO 6317499 <GO>}

Got it. Can you talk to us a little bit about what is your kind of all in demand growth that you embed in your multi-year guidance?

A - Scott Prochazka {BIO 17360314 <GO>}

We think about 2% overall.

Q - Michael Lapides {BIO 6317499 <GO>}

Got it. Thank you, Scott. Much appreciated.

A - Scott Prochazka {BIO 17360314 <GO>}

Yes.

Operator

Your next question is from Greg Gordon from Evercore.

Q - Greg Gordon {BIO 1506687 <GO>}

Hi, good morning.

A - Scott Prochazka {BIO 17360314 <GO>}

Good morning, Greg.

Q - Greg Gordon {BIO 1506687 <GO>}

Two questions. One, it doesn't seem like that big of an issue, but through the $3 million delta quarter-over-quarter in the Energy Services businesses now you're obviously still pointing to confidence in your guidance range for the year. So I'm sure it's inter-quarter [ph] volatility, but can you just go into little more detail as to what caused that?

A - Scott Prochazka {BIO 17360314 <GO>}

Yes, Greg, there was a little bit of volatility in the quarter. But as you pointed out, it's a low quarter anyway. So, any amount of volatility gets exacerbated. We did -- we made some adjustments. There were some adjustments that we made on the balance sheet that had an effect and fairly minor in nature, but again, since the number is small on this quarter, it got amplified. Obviously, the fundamentals remain very strong in this business. Customer account is up, our throughput is up, margin is staying very healthy. So we're still very, very bullish on this space.

Q - Greg Gordon {BIO 1506687 <GO>}

Okay. That's the answer, there was no shift in underlying fundamental trends in the business?

A - Scott Prochazka {BIO 17360314 <GO>}

No, there was not.

Q - Greg Gordon {BIO 1506687 <GO>}

Okay, thank you. Second question is, unless I'm mistaken, I don't think you've announced the full suite of who is going to be your senior management for the pro forma company other than you definitively being CEO, is that correct? And if that is, when will we get a fuller sense of who the management team is going to be?

A - Scott Prochazka {BIO 17360314 <GO>}

That is correct. I have not announced it. And as for timing, waiting until later in the process, I'd like the decision-making to be informed by our integration planning process. So it'll be a little later in the process before I get to that point.

Q - Greg Gordon {BIO 1506687 <GO>}

Okay, thank you.

A - Scott Prochazka {BIO 17360314 <GO>}

Thanks, Greg.

Operator

Your next question is from Zach Prince from Merrill Lynch.

Q - Antoine Aurimond {BIO 20263073 <GO>}

Hey, guys, it's Antoine actually. How are you?

A - Scott Prochazka {BIO 17360314 <GO>}

Good morning, Antoine, we're fine. Thank you.

Q - Antoine Aurimond {BIO 20263073 <GO>}

Quickly on the -- and apologies if I missed it, but the -- where you guys are in the restructuring of CERC?

A - Scott Prochazka {BIO 17360314 <GO>}

I'll let Bill answer this.

A - Bill Rogers {BIO 15746544 <GO>}

Antoine, good morning. And as we've said, we should be completing that at year end this year where our investments in Enable Midstream that are held at the CERC level get moved to a separate entity, we call it CenterPoint Midstream and then we put leverage against those investments and use of the proceeds from those borrowings will be to pay down debt at CERC and to pay down debt at the holding company.

Q - Antoine Aurimond {BIO 20263073 <GO>}

Got it. And for CERC there will be supposedly to reach the debt-to-capital ratio?

A - Bill Rogers {BIO 15746544 <GO>}

Yes, the target debt-to-capital ratio for CERC is the weighted average debt-to-capital ratio that we have for the utilities and CERC.

Q - Antoine Aurimond {BIO 20263073 <GO>}

And would Energy Services to be included in that?

A - Bill Rogers {BIO 15746544 <GO>}

For this time, Energy Services will remain part of CERC.

Q - Antoine Aurimond {BIO 20263073 <GO>}

Got it. Okay, thank you.

Operator

(Operator Instructions) Our next question is from Steve Fleishman from Wolfe Research.

Q - Steve Fleishman {BIO 1512318 <GO>}

Hi , good morning.

A - Scott Prochazka {BIO 17360314 <GO>}

Hi, Steve.

Q - Steve Fleishman {BIO 1512318 <GO>}

Old investor, not new investor. So just on Enable, so if you go back to, I'd hope, last 12 months or so, obviously, it's been a tough environment and you've mentioned a few times in terms of thinking about monetizing. There has been some signs of that changing. So maybe just from that standpoint, does that ignoring that you don't need it for the merger or just is there -- is it a better environment now for you to think about monetization of some of the stake.

A - Scott Prochazka {BIO 17360314 <GO>}

Look, clearly, Steve, with the strengthening in the market, that space, that is a positive sign. We like to see that. We can continue to monitor that market for strength of investors. But I would answer the question by saying, look, our near-term focus is around financing the acquisition and keeping our attention on that. And then to the extent that there would be opportunities for Enable, it would be down the line when we're looking at equity requirements for our ongoing growth capital.

Q - Steve Fleishman {BIO 1512318 <GO>}

Okay. And then one other question on just the 2018 guidance. Wanted to clarify, you're still using the midpoint of the Enable range, and also, did you -- are you including any of the good July weather, which I guess we pay attention to on the power side?

A - Bill Rogers {BIO 15746544 <GO>}

Steve, it's Bill. Our guidance at the high end of our $1.50 to $1.60 incorporates Enable's guidance when they say they're at their midpoint or higher. With respect to July weather, yes, it's been somewhat warmer than normal weather. But to-date, we haven't updated for third quarter activities. This is just through second quarter.

Q - Steve Fleishman {BIO 1512318 <GO>}

Okay. Thank you.

A - Scott Prochazka {BIO 17360314 <GO>}

Thank you, Steve.

Operator

Again, there are no further questions in the queue. I would like to turn it over to the leaders for any closing remarks.

A - David Mordy {BIO 20391499 <GO>}

Thank you, everyone, for your interest in CenterPoint Energy. We will now conclude our second quarter 2018 earnings call. Have a great day.

Operator

This concludes CenterPoint Energy's second quarter 2018 earnings conference call. Thank you for your participation.