Q4 2018 Earnings Call

Company Participants

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

Other Participants

- Aga Zmigrodzka, Analyst, UBS
- Ali Agha, Analyst, SunTrust Robinson Humphrey
- Andrew Levi, Analyst, ExodusPoint
- Ashar Khan, Analyst, Verition Fund Management, LLC
- Charles Fishman, Analyst, Morningstar Research
- Christopher Turnure, Analyst, JP Morgan
- Insoo Kim, Analyst, Goldman Sachs
- Jonathan Arnold, Analyst, Deutsche Bank
- Julien Dumoulin-Smith, Analyst, Bank of America Merrill Lynch
- Michael Weinstein, Analyst, Credit Suisse

Presentation

Operator

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

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

David Mordy {BIO 20391499 <GO>}

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

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

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

Today, management will discuss certain topics 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 guidance for 2019 and 2020. The 2019 guidance basis EPS range excludes the following impacts associated with the Vectren merger: integration and transaction related fees and expenses, including severance and other costs to achieve anticipated cost savings as a result of the merger; merger financing impacts in January prior to the completion of the merger due to the issuance of debt and equity securities to fund the merger that resulted in higher net interest expense and higher common stock share count.

Both the 2019 and 2020 guidance ranges consider operations performance to date and assumptions for certain significant variables that may impact earnings such as customer growth, approximately 2% for electric operations and 1% for natural gas distribution, and usage including normal weather, throughput, commodity prices, recovery of capital investment through rate cases and other rate filings, effective tax rates, financing activities and related interest rates, and regulatory and judicial proceedings, as well as the volume of work contracted in our Infrastructure Services business. The ranges also consider anticipated cost savings as a result of the merger and the estimated cost and timing of technology integration projects.

The 2019 guidance range assumes Enable Midstream Partners' 2019 guidance range for net income attributable to common units of $435 million to $505 million, provided on Enable's fourth quarter earnings conference call on February 19, 2019. The 2020 guidance range utilizes a range of CenterPoint Energy scenarios for Enable's 2020 net income attributable to common.

In providing this guidance, CenterPoint Energy uses a non-GAAP measure of adjusted diluted earnings per share that does not consider other potential impacts such as changes in accounting standards or unusual items, including those from Enable, earnings or losses from the change in the value of the ZENS securities and the related stocks, or the timing effects of mark-to-market accounting in the Company's Energy Services business, which, along with the certain excluded impacts associated with the merger, could have a material impact on GAAP reported results for the applicable guidance period. CenterPoint Energy is unable to present a quantitative reconciliation of forward-looking adjusted diluted earnings per share because changes in the value of ZENS and related securities and mark-to-market gains or losses resulting from the Company's Energy Services business are not estimable as they are highly variable and difficult to predict due to various factors outside of management's control.

During today's call and in the accompanying slides, we will refer to Public Law Number 115-97, initially introduced as the Tax Cuts and Jobs Act, as TCJA or simply tax reform. In the slides accompanying this call, information covering 2018 and prior years refers to pre-merger CenterPoint only. We are not including pro forma information. Information covering 2019 and beyond incorporates the impact of the merger. However, please note that in Slide 11, we've included 2018 year-end rate base, which shows the combined rate base for Vectren and CenterPoint.

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

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

Scott M. Prochazka {BIO 17360314 <GO>}

Thank you, David, and good morning, ladies and gentlemen. Thank you for joining us today and thank you for your interest in CenterPoint Energy. I will begin on Slide 5. 2018 was a strong year for CenterPoint. This morning, we reported 2018 diluted earnings per share of $0.74. On a guidance basis, excluding the impacts associated with the merger, we finished the year at $1.60 per share versus 2017 guidance basis earnings excluding impacts of tax reform of $1.37 per share, an increase of nearly 17%. $1.60 per share means we achieved the top end of our guidance range we set in February of last year. Our strong performance in 2018 can be primarily attributed to growth in our core businesses and Midstream Investments' performance.

Turning to Slide 6. As I mentioned, we were pleased to achieve the high end of our earnings range. We invested nearly $1.6 billion of capital in our regulated utilities. We successfully implemented our regulatory strategies in multiple states, resulting in incremental annual revenues of $110 million exclusive of tax reform impacts. Our Board of Directors increased the dividend that was declared in December by approximately 4%, marking the fifth year in a row of providing such increases. We entered into a definitive merger agreement to acquire Vectren Corporation, engaged in integration planning and raised capital for the transaction that we closed earlier this month. We also executed an internal spin of our midstream assets, resulting in better credit ratings for CERC.

Onto Slide 7. The communities we serve continue to grow as evidenced in part by the addition of more than 77,000 customers in 2018. We completed major infrastructure projects like the Brazos Valley Connection in Houston Electric and substantially completed cast iron pipe replacements across our natural gas distribution systems. Energy Services continued to grow its volumes and margin, resulting in strong operating income growth excluding mark-to-market impacts. We also continued to support our industry peers as we sent mutual assistance crews to Florida, California and Puerto Rico to help various recovery efforts. It was a busy 2018, and I'm proud of how our employees worked collectively to achieve our goals.

We have a busy 2019 planned, as you can see on Slide 8. We anticipate the Public Utility Commission of Texas will provide a ruling on the Bailey to Jones Creek Project later this year, and we expect to file a general rate case for Houston Electric on or before April 30th. We anticipate two orders from the Indiana Utility Regulatory Commission later this year. One is for approval of a 50 megawatts solar facility. The other is for the 800 megawatt to 900 megawatt combined cycle gas turbine generation facility that will replace aging coal generation in Indiana. We believe both of these facilities are vital in providing clean, reliable and affordable electric for Southern Indiana.

On the natural gas regulatory front, we expect the final order from the Public Utilities Commission of Ohio on the Ohio general rate case. We also intend to file a general rate case in Minnesota later this year. That rate case, which utilizes a forward-looking test year and interim rates, will run its course primarily in 2020.

Turning to Slide 9. Electric operations will continue to invest significant capital to ensure our system can meet growth requirements and is safe, resilient and reliable. Our most recent five-year plan includes $6.8 billion of capital investment in electric operations. This five-year capital plan now includes the updated estimate for the Bailey to Jones Creek Project that will serve the growing needs of the petrochemical industry in the Freeport, Texas area and the plan is aligned with the anticipated capital increases we shared during our third quarter 2018 earnings call. The plan also includes the 15 megawatts of solar generation and costs associated with the new combined cycle gas power plant in Indiana.

Moving to Natural Gas Distribution on Slide 10. The $5.3 billion five-year capital plan targets investment around safety, growth, reliability and infrastructure replacement. We continue to modernize our system via our pipe replacement programs in all of our jurisdictions. We will also spend capital to support ongoing growth in our service territories, and we expect continued spend on innovative technology that improves our system operations and customer interface functionality.

Turning to Slide 11, you can see our projected year-end rate base growth. Our capital plan is expected to translate to a compound annual rate base growth rate of approximately 8.2% through 2023. This growth in rate base is a key driver for our overall earnings performance. We also have solid growth projections for our non-utility businesses. We believe Energy Services, Infrastructure Services and Energy Systems Group will provide valuable complementary services to each other's customers and to our core utility businesses. I was very pleased with Enable's 2018 performance as they increased natural gas gathered volumes, natural gas process volumes, as well as crude oil and condensate gathered volumes. We're excited for Enable to continue this momentum into 2019.

Moving to Slide 12. Our 2019 guidance basis EPS range is $1.60 to $1. 70. This guidance range includes anticipated merger-related cost savings and excludes the one-time impacts of integration and transaction-related fees and expenses. This number also excludes merger financing impacts in January prior to the completion of the merger. Our 2020 guidance basis EPS range of $1.75 to $1.90 includes anticipated cost savings achieved by that point. We're also providing a compound annual growth rate target of 5% to 7% through 2023, based off of 2018 actual guidance basis EPS of $1.60 excluding the impacts of the merger. Utility operations' rate base growth is anticipated to be the primary driver of our long-term EPS growth. Bill will discuss additional drivers for 2019 and 2020 guidance later in the call.

Slide 13 provides a history and forecast view of our guidance ranges. We have worked hard to consistently grow earnings since 2015, often hitting the upper end of our guidance. Anchored by a strong utility investments, I believe CenterPoint is well positioned to continue solid earnings growth.

I will wrap up with Slide 14. I want to express my sincere thanks to those who served on the integration planning teams and give equal thanks to their colleagues throughout the Company who picked up some additional responsibilities to ensure that critical projects and normal business functions remain on track. Due to the talent and commitment exhibited by our employees, we are in a strong position to meet our objectives. We continue to focus on a comprehensive safety strategy, which targets employee, system, contractor, customer and public safety. Our use of technology supports continued operational improvement that drives efficiency and helps to meet changing customer expectations.

Many of these achievements have led to industry awards. We are proud to be recognized for emergency systems, customer satisfaction and innovative solutions. We believe a continued focus on our strategy of operate, serve and grow will lead to the realization of our long-term earnings growth objectives.

As most of you know, Bill announced late last year that he plan to retire towards the end of Q1, following the close of our merger. Therefore, since this is Bill's last earnings call with CenterPoint, I'd like to thank Bill for the contributions he has made to our success over the past four years. And Bill, we wish you well as you transition to this next phase of life. I'll turn it over to you.

William D. Rogers {BIO 15746544 <GO>}

Thank you, Scott. It has been a privilege to serve you, your management team, our customers, communities and investors. And it has been a privilege to lead our finance and accounting efforts at CenterPoint.

I will start with year-over-year operating income walks for Electric Transmission & Distribution and Natural Gas Distribution segments, followed by utility operations and consolidated EPS walks. Then I will cover drivers behind our earnings forecast. Finally, I will conclude with an outline of how we will present our businesses going forward as a result of the merger.

Beginning with Houston Electric transmission and distribution's operating income walk on Slide 16. Revenue decreased $79 million as a result of tax reform. When reviewing net income, this revenue impact is offset by lower federal income tax expense. Rate changes translated into a $105 million of favorable revenue variance for the year, and customer growth provided another $31 million positive revenue variance. O&M had an unfavorable variance of $79 million due to normal increases and to some concentrated work on resilience and technology projects. We expect O&M growth in future years to moderate, so this more closely matches the rate of inflation. Equity return related to the true-up of transition charges increased $32 million. Lastly, depreciation and taxes accounted for a $17 million unfavorable variance. Excluding equity return and the impacts of tax reform, Houston Electric's transmission and distribution's operating income increased by $54 million year-over-year. This represents a 10% improvement over 2017.

Turning to slide 17. Natural Gas Distribution operating income for 2018 was $266 million versus $348 million last year. Revenue decreased $47 million as a result of tax reform. This was offset by lower income tax expense. Operating income included a $46 million positive variance from rate relief and a $10 million benefit from customer growth. On a year-on-year basis, O&M was higher by $71 million. This is (technical difficulty) increases in support services, contracts and services, labor and benefit costs, and other operation and maintenance expenses. A portion of the increase is due to accelerated records integrity work. As with Houston Electric, we anticipate holding O&M closer to the rate of inflation in future years. Lastly, depreciation and taxes increased by $19 million.

When we make a comparison of Gas Distribution on a year-on-year basis, we eliminate one non-recurring item and one timing item. The non-recurring item is a $16 million benefit in 2017 associated with a rate order that directed us to capitalize certain retirement benefits that were previously expensed. The timing adjustment is a $10 million of lower revenues in 2018 due to the timing of recovery for weather normalization. Adjusting for these two items and the tax reform impacts of $47 million, Gas Distribution's operating income declined by $9 million to $266 million in 2018. We anticipate Natural Gas Distribution's 2019 operating income will increase over 2018.

Energy Services 2018 operating income, excluding mark-to-market adjustments, was $63 million versus operating income in $47 million in 2017. Energy Services benefited from the full -- first full year of operations post integration of acquisitions completed in 2016 and 2017. Energy Services also achieved record throughput in excess of 1.3 trillion cubic feet in 2018. This represents approximately 5% of end-user demand in the United States. For 2019, we anticipate this business will increase its operating income.

Our year-over-year utility operations earnings per share walk on a guidance basis is on Slide 18. The guidance walk excludes all expenses and capital costs associated with the acquisition of and merger with Vectren, which were $0.24 of EPS. We start with $0.99 for 2017 and add $0.05 for the change in core operating income, inclusive of utility performance and Energy Services, but excluding equity return. Higher interest expense reduced EPS by $0.02. Equity return provided a $0.05 improvement and other items provided $0.02. Other items includes the benefit from a lower federal income tax rate. This brings us to $1.09 of utility operations EPS on a guidance basis. Excluding the tax benefit, the year-on-year growth in utility operations EPS was 9%.

Our consolidated guidance EPS comparison is on Slide 19, starting with $1.37 for 2017 and ending with $1.60 for 2018. In short, we were up $0.10 year-over-year for utility operations. Midstream Investments had a $0.13 improvement, $0.09 of which are attributable to tax reform. Excluding tax reform, Midstream Investments' EPS contribution increased 8% year-to-year.

Turning to Slide 20, we show some of the EPS considerations for 2019. The 2019 guidance range is $1.60 to $1. 70 and excludes merger financing costs in January and certain expenses associated with the integration of Vectren and CenterPoint. I will note the impact of several activities which were not likely to occur in 2019. For example, our anticipated filing of the Houston Electric rate case means we will not file DCRF and do not anticipate filing TCOS in 2019. In 2018, these filings provided approximately $87 million in combined annual revenue increases relative to 2017. Therefore, we expect to have much greater regulatory lag for these investments made on behalf of our customers. Once the rate case is complete and revenues are in effect, the updated rates will reflect transmission and distribution investments made in 2018.

In addition to these impacts, we expect lower equity return from our transition bonds in 2019 relative to 2018. Pretax equity return related to transition and storm restoration bonds is expected to decrease by $31 million, from $74 million to $43 million. For more information on the schedule, please turn to Page 35 in the appendix.

We anticipate the effective tax rate for 2019 will be approximately 22% excluding EDIT, or excess deferred income tax, amortization, which has a corresponding offset in operating income. Finally, we will be adjusting our cadence of timing on the filing of the general rate case in Minnesota. We expect to file in the fourth quarter versus recent filings in the third quarter. This will delay interim rates and revenue by several months.

While we are quite pleased with Enable's performance, we recognize the midpoint of their forecast of net income range in 2019 is lower than their 2018 net income. In order to assist you with this segment's net income contribution, on Slide 21, we provide pertinent data including Enable's net income forecast, our ownership percentage, the anticipated basis difference accretion adjustments, and the anticipated interest expense and marginal tax rate for this segment.

Turning to Slide 22. Our 2020 guidance range of $1.75 to $1.90 reflects the completion of the Houston general electric rate case and our ability to file TCOS and DCRF mechanisms in 2020. It also reflects interim rates in Minnesota, the completion of the Ohio general rate case, and a full year of earnings from legacy Vectren entities. Notably, it also includes $75 million to $100 million of pretax O&M cost savings. These anticipated savings are primarily corporate overhead and operating synergies, and will be allocated to both utility and non-utility businesses. Since we closed the merger on February 1st, we have taken actions to capture the majority of these savings. Over time, much of these savings will benefit our customers. Further, the synergy forecast excludes costs to achieve. We considered each of these factors when developing our guidance range.

On Slide 23, we show the business segments from an SEC reporting perspective and how we have grouped those segments in our investor slide deck in recent years. Slide 24 shows how we intend to report our SEC segments going forward and how we will organize and report these segments to the investment community. We will group our electric segments into Electric Operations and all of our regulated utility segments into Utility Operations. We will then report out the remaining four segments in our earnings walk.

In December, we announced a $0.2875 per share quarterly dividend. This represents an approximate 4% increase over the previous quarterly dividend, consistent with our approximately 4% increases in each of the last five years. This also marks the 14th consecutive year we have increased our dividend.

I will now turn the call back over to David.

David Mordy {BIO 20391499 <GO>}

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

Questions And Answers

Operator

(Operator Instructions) And your first question is from the line of Ali Agha with SunTrust. Please go ahead.

Q - Ali Agha {BIO 1509168 <GO>}

Thank you. Good morning.

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

Good morning, Ali.

Q - Ali Agha {BIO 1509168 <GO>}

Good morning. And Bill, wishing you all the best for the future as well.

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

Thank you.

Q - Ali Agha {BIO 1509168 <GO>}

My first question, just to clarify the '19 guidance, are you resuming any merger synergies in '19?

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

Yes, we do assume merger synergies in 2019, as well as obviously, we have costs to achieve those. But to answer your question specifically, we do assume that synergies are in there.

Q - Ali Agha {BIO 1509168 <GO>}

So of the $75 million to $100 million, how much should we assume will be in '19?

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

We have taken action to get after a fair amount of that. We haven't disclosed the actual amount for 2019. But we have already gone forward with reductions in workforce, which is a significant component of that.

Q - Ali Agha {BIO 1509168 <GO>}

Okay. And my second question, as you map out the 5% to 7% growth '18 through '23, are you assuming that Enable stays within the portfolio over that five years? And for the non-utility businesses, are you generally assuming a growth rate that's also in line with 5% to 7%, or is it higher or lower? Can you just provide a little more clarity on those?

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

So Ali, we are assuming that we remain invested in Enable. I will say that we are not assuming that Enable performs at the -- in terms of growth, at the same level that our utilities will. We've taken a more conservative view of that. To your question about the growth of our utilities, the growth of our utilities will be a slight reduction off of the growth in rate base over that period due to regulatory lag.

Q - Ali Agha {BIO 1509168 <GO>}

But just to be clear, the other Vectren non-utility operations, are they going in line with the overall growth, or they are also growing less or more?

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

I'm, sorry. I misunderstood your question. As far as the competitive segments, we do assume that they're growing but not at the rate of our utilities.

Q - Ali Agha {BIO 1509168 <GO>}

Understood. Thank you.

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

Yes.

Operator

Your next question is from the line of Julien Dumoulin-Smith with Bank of America. Please go ahead.

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

Hey, good morning.

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

Good morning.

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

So I just wanted to follow up on the 5% to 7%. I know you guys discussed that in the initial slide deck after the Vectren transaction. Can you give us a little bit more of a sense of what's changed and if there's any kind of apples and oranges sense versus what's out there implied in the 2020 number? I think costs to achieve, for instance, but anything else, right? Obviously, some of the synergy numbers may have changed, but versus the April deck versus today on '20?

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

Well, Julien, I think the 2020 view that we provided, I think, is very much in line with what we had shared before. As you know, we've tightened up the range versus what we were looking at before as we understand more the pieces. As far as the growth rate, this is the first time we provided kind of growth for that five year period, and it's really driven by the visibility around the growth in our utilities.

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

Got it. When it comes to costs to achieve, that's been -- that's comparable treatment last time versus this go around (ph)?

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

Yes, that is absolutely correct.

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

Got it. And then just quickly if you can clarify this, what kind of balance sheet metrics are you seeing in the '20 time frame associated with that 5% to 7% at that point in time?

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

I'll let Bill -- you want to comment on that?

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

On the balance sheet, Julien, as we've shared before...

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

Like FFO to debt in '20.

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

Yes, FFO to debt is in -- we target 13% to 16%, and we are comfortably in that range. And therefore, as we've said in the past, we don't foresee any need to raise equity in either 2019 or 2020.

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

Got it. Congrats, again, Bill. And I'll leave it there. Thank you.

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

Thank you.

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

Thank you, Julien.

Operator

Your next question is from the line of Michael Weinstein with Credit Suisse. Please go ahead.

Q - Michael Weinstein {BIO 19894768 <GO>}

Hi, good morning, guys.

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

Good morning, Michael.

Q - Michael Weinstein {BIO 19894768 <GO>}

So just to clarify on Julien's question, the costs to achieve in 2020, what is that? What are you expecting there?

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

So we've not provided what that number looks like. What we have said though is, within the forecasted range of our EPS for that year, we have included a range of possibilities. The reason we haven't provided, we just don't have visibility. We have much more visibility at this point to what the synergies or the cost efficiencies will be. In terms of the primary contributors towards costs to achieve at that point, it will be systems related. And we are just going through the exercise now of refining what that looks like. So we have a range in our minds. We weren't prepared to provide it, but those numbers are going to be primarily system-related costs, and they're inclusive in the earnings range we gave.

Q - Michael Weinstein {BIO 19894768 <GO>}

And he -- I think he was specifically trying to get at, were you including costs to achieve in the prior range that was higher?

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

We were, yes. Yes, we were.

Q - Michael Weinstein {BIO 19894768 <GO>}

Okay. And I apologize, but one more question. The 5% to 7%, that is the standalone guidance. So the current 5% to 7% is now a merger -- a merged pro forma guidance, which is unchanged. So is there -- what synergies are you assuming in this new 5% to 7%? What are the offsets to those synergies that are keeping the 5% to 7% flat at the same level?

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

Yes. So we had assumed a 5% to 7% growth rate for a -- and discussed a shorter window for it. We've now made the window longer with the visibility around the merged business. We are still in the range, but to your point, following the merger, believe we have moved upward in the range or that we have strengthened our potential performance within that range, but we are still in that range.

Q - Michael Weinstein {BIO 19894768 <GO>}

Okay. Thank you, very much.

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

Yeah. Thank you, Michael.

Operator

Your next question is from the line of Insoo Kim with Goldman Sachs. Please go ahead.

Q - Insoo Kim {BIO 19660313 <GO>}

Hi, thank you. I don't know if I missed this a little bit before, but were you saying that you don't anticipate any sale of units of Enable, at least through the next few years, in your guidance?

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

Insoo, what we've said is that we don't anticipate issuing equity in 2019 or 2020. We have also stated that we will look for opportunities over the forecast horizon to sell some Enable units in order to fund our capital investment.

Q - Insoo Kim {BIO 19660313 <GO>}

Understood. And then, not to beat a dead horse, but going back to the 2020 slide from last April to the guidance you gave this time, I appreciate you'd mentioned that the costs to achieve metric was included in both slide decks and the resulting range is about $0.05 below what you presented in April. Can I assume -- if the utility is still growing at a healthy rate, are the moving pieces -- the other moving pieces in terms of the costs to achieve that maybe have been updated since what you originally thought, in addition to maybe the additional equity that you ended up raising. Where those the moving pieces that had an impact on the midpoint?

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

Yeah. So Insoo, I appreciate your question here. This maybe another (ph) calls we're getting at. If you look at the new range versus the old range, the most significant driver for the decrease on the upper end would be changes around the midstream segment. The forecast provided earlier were at a time when commodity prices were different than they were today. So as we thought about the range of opportunities, that included a larger range of commodity -- a larger commodity range as it would impact the Enable performance.

So by reviewing today's commodity environment and taking a little bit more conservative look, given the commodity prices, that's been the primary driver of the reduction of the upper range. We've also, since that time, updated our capital spending for the five-year period and have been able to refine a little bit the timing around some of the recovery. But the majority of the impact is related with Enable.

Q - Insoo Kim {BIO 19660313 <GO>}

Understood. Thank you, Scott. And Bill, it's been a pleasure. Wish you the best of luck.

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

Thank you, Insoo.

Operator

Your next question is from the line of Aga Zmigrodzka of UBS. Please go ahead.

Q - Aga Zmigrodzka

Good morning. Could you please discuss what could drive your earnings closer to the higher versus lower end of your 2020 EPS outlook range?

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

Aga, this is Bill. Scott shared it one way in the last question, I'll just putting it another way. Within the 5% to 7%, the largest unknown is the contribution of earnings from the midstream segment. So what could drive us to the higher end would be a strengthening commodity prices environment, translating to greater volumes in our midstream segment and, therefore, earnings contribution.

Q - Aga Zmigrodzka

So as a follow-up to that, do you expect Enable's net income in 2020 to be flat versus 2019 in your like middle of the range, or you expect a decline? Any sense you could give around that?

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

We have only provided what Enable has provided in their earnings call, and that's their 2019 guidance. We do take a look at their forecast and take a view against that with respect to commodity prices, but we are not going to forecast Enable's net income or other finance metrics beyond 2019.

Q - Aga Zmigrodzka

Okay, thank you for that color.

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

Thank you.

Operator

Your next question is from the line of Jonathan Arnold with Deutsche Bank. Please go ahead.

Q - Jonathan Arnold {BIO 1505843 <GO>}

Good morning, guys.

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

Good morning.

Q - Jonathan Arnold {BIO 1505843 <GO>}

And congratulations and thank you, Bill.

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

Thank you.

Q - Jonathan Arnold {BIO 1505843 <GO>}

A question on -- just as we look at the -- back to that original guidance slide. You had the $50 million to $100 million range on commercial opportunities and cost savings, and now, it's $75 million to $100 million on O&M savings. Have you effectively sort of taken out whatever you're assuming on commercial opportunities? Or is that still part of but just not called out? I'm just curious if you could bridge those numbers a bit for us.

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

Sure, Jonathan. Thank you for the question because it's a good point. Since we're talking about 2020, our disclosure reflects the fact that we believe the majority of the synergies in 2020 are going to be cost related or O&M related. We still have expectations that there will be commercial synergies. We just believe they're going to develop more fully in the years following 2020.

Q - Jonathan Arnold {BIO 1505843 <GO>}

So if I could just probe on that a little bit more, of the $50 million to $100 million, you originally listed commercial opportunities first, suggesting that might have been the bigger piece of it. So is there -- have the cost savings actually increased although the range for the combined is the same, and if so, how much?

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

Yeah. I would say that the way we intended to represent the $50 million to $100 million was that the primary of that would be efficiencies or cost savings and that there would be some component that was revenue synergy or commercial synergies. Those numbers were an estimate early on. And as we've gotten further into this and we realized the timing, I think we've got more clarity around the cost side of things, which gives us confidence in how we talk about it in 2020. And we have expectations for the commercial side, but we now know the development of that will primarily occur after 2020.

Q - Jonathan Arnold {BIO 1505843 <GO>}

Great, okay. Thank you. And then just -- I may have missed this. I apologize if you have to repeat it, but could you give us an update on the process and timing for replacing Bill?

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

That activity is underway as we speak. We do not have a replacement announced, but we're actively working that process. And I hate to give timelines when we're in environments like this, but let's just say, it's being actively worked and we hope to have his replacement on in the near future.

Q - Jonathan Arnold {BIO 1505843 <GO>}

Are you looking inside, outside, or both?

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

We are looking outside for his replacement.

Q - Jonathan Arnold {BIO 1505843 <GO>}

Okay. Thank you, guys.

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

Yeah, thank you.

Operator

Your next question is from the line of Christopher Turnure with JP Morgan. Please go ahead.

Q - Christopher Turnure {BIO 17426636 <GO>}

Good morning, guys, and congratulations again, Bill. A lot of questions have been asked already, but I wanted to just kind of maybe summarize what your message is here and how it's changed. Is it fair to say that outside of Enable and perhaps a little bit of timing differential with incremental lag in maybe '19 and '20 at the utilities at Houton Electric, the overall plan is pretty much the same. It's not kind of enhanced and a little bit better than it was before?

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

I think that's a fair representation. We're excited by the plan. We have -- as you've seen, we have a robust capital deployment plan for these service territories and we're excited about it. So I think that's a safe summary.

Q - Christopher Turnure {BIO 17426636 <GO>}

Okay. You mentioned in response to an earlier question that the, I guess, net income growth of the utilities would be slightly lower than the 8% rate base CAGR. In that vein, is there any reason to believe that a lag would remain wide after you hit your stride after the Houston Electric rate case across the whole utility footprint? Will you basically be able to earn your authorized ROE?

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

I think there will be some accelerated or maybe some enhanced lag in '19 for the reasons that we talked about or Bill talked about. But I think on an ongoing basis, given all the jurisdictions and the various rate mechanisms and the need for occasional rate proceedings, there will always be some element of lag such that our earnings growth will kind of consistently lag behind the 8% rate base growth. But it continues to be our objective to push towards and achieve, if not get very close to, our allowed returns in our jurisdictions.

Q - Christopher Turnure {BIO 17426636 <GO>}

Okay, great. And then just real quick on VISCO, can you give us any updated thoughts there? I know the merger has only closed recently, but any reason to think that the Vectren standalone plan has changed?

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

No. In fact, we believe VISCO is doing well. As we go forward and we begin to talk about the segments starting in Q1, we will begin to provide some more information as to how well that segment is doing. But traditionally, their -- one of their metrics has been backlog, and their backlog is doing very well at the moment.

Q - Christopher Turnure {BIO 17426636 <GO>}

Okay, great. Thank you, guys.

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

Yep.

Operator

Your next question is from the line of Charles Fishman with Morningstar Research. Please go ahead.

Q - Charles Fishman {BIO 4772353 <GO>}

Yeah, thanks. And Bill, congratulations on a great career.

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

Thank you.

Q - Charles Fishman {BIO 4772353 <GO>}

Is -- I only had one question left. On Slide 9, your investment outlook for electric, is Freeport now in there? I assume it's in there. And have you tied that down, because I think last time, you were talking $500 million to $700 million is in -- in what years is that in, if it is included?

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

Yeah. So that project is now fully baked into the plan. We -- as you say tied down, we don't have it completely tied down. We have estimated what it looks like. The actual amount will be the outcome of the proceeding with the Commission because it involves -- it will involve decisions around routing and around some of the infrastructure decisions being made. So there is a range that's in there. What we tend to provide and look at when we provide this data will be kind of midpoint of range, and it spans across primarily '21 -- '20, '21 and '22, with '21 being obviously the most significant year.

Q - Charles Fishman {BIO 4772353 <GO>}

And it's still in that $500 million to $700 million range?

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

Yes, that is correct. Yes, still in that range.

Q - Charles Fishman {BIO 4772353 <GO>}

Okay, that's all I have. Thank you.

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

Yep.

Operator

Your next question is from the line of Ahar Shan (ph) with Verition. Please go ahead.

Q - Ashar Khan {BIO 19979997 <GO>}

Hi, this is Ashar. They got my name wrong. Can I just ask you, is the merger accretive in '19 and '20 or not, based on the new disclosure provided today?

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

With the exception of costs to achieve, we're forecasting the merger to be modestly accretive.

Q - Ashar Khan {BIO 19979997 <GO>}

Okay. And secondly, sorry, a lot of things going on this morning, Bill, can you just mention there what the average shares outstanding are -- I might have missed it, it might be on the slide -- in 2019 guidance and 2020?

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

Yes, we have provided -- I believe we provided that. But it's not -- you should consider the average shares outstanding to be 500 million in 2019, and that will be less than the share count of 505 million because we closed the merger on February 1st, so we're taking out one-twelfth of the new shares, and then moving to 505 million to 506 million into 2020.

Q - Ashar Khan {BIO 19979997 <GO>}

Okay. I appreciate it. Thank you so much.

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

Thank you.

Operator

Our last question is from the line of Andrew Levi with ExodusPoint. Please go ahead.

Q - Andrew Levi {BIO 17235317 <GO>}

Hey, guys. How are you?

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

Good morning. Doing well. Thank you.

Q - Andrew Levi {BIO 17235317 <GO>}

Congratulations, Bill. You've been a very good friend and a better CFO.

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

Thank you.

Q - Andrew Levi {BIO 17235317 <GO>}

I will miss you dearly, but it's been a good run. Just a couple of questions. Just back on Enable, so you're assuming flat earnings on Enable as the forecast. Is that correct?

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

So our forecast, Andy, is, in 2019 -- and we recognize Enable's midpoint, taken from what they have disclosed, is below their 2018 contribution. Beyond that, we have not disclosed our forecast, but it does include a range of scenarios, and that's why that growth rate of 5% to 7%.

Q - Andrew Levi {BIO 17235317 <GO>}

Okay. I thought that you were just taking the '19 number and then just using that going forward. So you have some number in '20 and '21 that may or may not be different than the '19 number, is that kind of correct? Am I saying that correctly?

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

Is he saying it correctly?

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

Andy, could you repeat that? I think it faded a little bit -- your voice faded.

Q - Andrew Levi {BIO 17235317 <GO>}

Sure. I apologize. So in '19, you have your estimate based on what Enable has put out there. And then in '20 and '21, you're not using the '19 estimate. I thought you were just kind of using the same number. But you have an estimate for '20 and '21, you're just not sharing that with us.

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

Yeah, that is correct. That's right.

Q - Andrew Levi {BIO 17235317 <GO>}

Got it. Okay. And then on the costs to achieve in '20, how much -- I'm sorry, if I missed that, but how much is that?

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

We've not specified what that specific amount is. I commented earlier that, thematically, the majority of it will be system-related, and we're not far enough along with the analysis post-merger to know exactly what that looks like in that year. So we've made some estimates on a range, and we've made that inclusive in our thinking about earnings, but we've not specified what we think that costs to achieve is in that year.

Q - Andrew Levi {BIO 17235317 <GO>}

Well, I'll ask a question, I don't know if you can answer it. Is it greater or less than $0.05 per share in '20? Okay. That's no answer. I got that. Got a laugh. Thought I'd ask. Okay. And then the last question I have, so you do have these two Vectren legacies, the VISCO and VESCO, and again, you guys didn't break that out as far as what the earnings contribution is for those in '19, did you?

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

We did not.

Q - Andrew Levi {BIO 17235317 <GO>}

Okay. At the same time, I'm just kind of thinking longer term. I kind of have in my head what I think the business is worth if you were to sell them and then what you could either do with the cash, whether it's buy back stock or whether fund your business to maybe raise CapEx, whatever it may be. But it's a very low P/E business relative to your regulated business. And so I don't really see much sense in keeping those businesses. They don't really grow much. So I just want to get your thoughts longer term. I know, obviously, you just bought them, but is it in the realm of possibilities that you would dispose of those assets and reinvest that in a higher P/E business?

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

Again, either way I would answer that is, to your point, we just acquired them. They just came in as part of the merger. As we were looking at those businesses coming in, while they're different than the utility business, they have some utility-like characteristics, which we were comfortable with. We do think there is growth opportunity in those businesses. So I would say our strategic direction is to own and operate and grow those businesses, and that's where we stand at the moment.

Q - Andrew Levi {BIO 17235317 <GO>}

How much capital are you putting into VISCO this year?

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

Go ahead.

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

Andy, one way to think about that is really the 2017 and 2018, and they invested approximately for $50 million in capital in the infrastructure businesses.

Q - Andrew Levi {BIO 17235317 <GO>}

Okay. But because it is a fairly -- depending on the year, a fairly capital-intensive business because of the equipment needed on the pipeline side, so I don't know. I guess we'll discuss it more in Boston, but obviously, clearly, you know my opinion. Thank you, very much.

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

Okay. Thank you, Andy.

A - David Mordy {BIO 20391499 <GO>}

No further questions. I'd like to thank everyone for their interest in CenterPoint Energy. We will now conclude our fourth quarter 2018 earnings call. Have a great day.

Operator

This concludes the CenterPoint Energy's fourth quarter and full-year 2018 earnings conference call. Thank you for your participation. You may now disconnect.