Q1 2021 Earnings Call

Company Participants

- David J. Lesar, President & Chief Executive Officer
- Jackie Richert, Investor Relations
- Jason M. Ryan, Senior Vice President, Regulatory Services & Government Affairs
- Jason P. Wells, Executive Vice President & Chief Financial Officer
- Philip Holder, Senior Vice President of Investor Relations
- Tom Webb, Senior Advisor

Other Participants

- Durgesh Chopra, Evercore ISI
- Insoo Kim, Goldman Sachs
- Jeremy Tonet, JPMorgan
- Julien Dumoulin-Smith, Bank of America
- Michael Weinstein, Credit Suisse
- Shar Pourreza, Guggenheim Partners
- Steve Fleishman, Wolfe Research

Presentation

Operator

Good morning and welcome to CenterPoint Energy's First Quarter 2021 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 remarks. (Operator Instructions).

I would now like to turn the call over to Phil Holder, Senior Vice President of Strategic Planning and Investor Relations. Mr.Holder?

Philip Holder {BIO 22115119 <GO>}

Good morning, everyone. Welcome to CenterPoint's earnings conference call. Dave Lesar, our CEO; Jason Wells, our CFO; and Tom Webb, our Senior Advisor will discuss the company's first quarter 2021 results. Management will discuss certain topics that will contain projections and other forward-looking information and statements that are based on management's beliefs, assumptions and information currently available to management.

These forward-looking statements are subject to risks or uncertainties, actual results could differ materially based upon various factors as noted in our Form 10-Q, other SEC filings, and our earnings materials. We undertake no obligation to revise or update publicly any forward-looking statement.

We will also discuss earnings guidance and our utility earnings growth target. In providing this guidance, we a non-GAAP measure of adjusted diluted earnings per share. We previously refereed to our earnings guidance as guidance basis EPS, and will now refer to it as non-GAAP EPS or utility EPS. Similarly, we will refer to our 6% to 8% non-GAAP utility EPS target growth rate as utility EPS growth rate.

For information on our guidance methodology and a reconciliation of the non-GAAP measures used in providing guidance, please refer to our earnings news release and presentation, both of which can be found under the Investor section on our website. As a reminder, we may use our website to announce material information. This call is being recorded. Information on how to access the replay can be found on our website.

Now, I'd like to turn the discussion over to Dave.

David J. Lesar {BIO 1519300 <GO>}

Good morning, and thank you for joining us for our earnings call. We are observing a sense of normalcy starting to return here in Texas, and in many of our other jurisdictions. Just as important to me is that I look forward to an opportunity to meet you in person and tell you about the amazing things we have accomplished in less than a year and what our strategy entails moving forward. I want to share with everyone our excitement about the progress CenterPoint is making and our continued believe in the utility assets that we operate.

We believe, they are premium assets and want you to believe that too.

Today, we will provide an update on the continued disciplined execution of our strategy that we outlined during our Investor Day just five short months ago. I hope you see that we are developing a track record of being consistent and accountable against the goals that we set. As you know, I like to lead with headlines and we have some worthy ones to cover this quarter.

First, we delivered very strong results for the first quarter of 2021, including $0.47 of utility EPS. Because the higher natural gas prices are passed through cost for our business, they did not impact this quarter's utility results. In addition, our first quarter results are inline with recent historical trends in which the first quarter contributed close to 40% of the full-year utility EPS.

We are of course reaffirming our full-year utility EPS range for 2021 of $1.24 to $1.26, and our long-term 6% to 8% utility EPS annual growth target. We are off to a great start for the year. So let's check the utility earnings box as being on track.

The second big headline is of course the announced agreement to sell our Arkansas and Oklahoma gas LDCs, which is anticipated to close by the end of the year, subject to regulatory approvals. These are premium assets and this was demonstrated by the level of interest we saw, and of course in the price we got for them. The landmark valuation was 2.5 times 2020 rate base. This outcome was well beyond what even the most optimistic observers thought we would achieve.

We saw extraordinary interest from over 40 parties, 17 of which may bids, including strategics, infrastructure funds and PE firms. There are a number of key takeaways from this great outcome. First, it validates our strong and stated belief that our remaining gas LDCs are significantly undervalued and investors should rethink their position as to the value of our remaining gas LDCs in our share price. This also illustrates the strength, viability and value of the broader gas LDC industry. To premium multiples, these assets garnered in the marketplace shows that investors continue to see natural gas as an essential fuel that is efficient, valuable and affordable energy source.

This transaction demonstrates how we can efficiently finance our industry-leading rate-based growth. This is a perfect example of the efficient capital recycling strategy, we committed to you on our Investor Day. It's a simple model. You sell at two-and-a-half times rate-based and invest at one times rate-based. Naturally, this begs the question if we would consider more LDC sales in the future? Currently we're content[ph] with our utility portfolio mix, but that being said, if we see another opportunity to recycle capital in a similarly attractive way, we would explore it as part of our broader strategy.

Our Investor Day plan highlighted that we have the opportunity to spend an additional $1 billion over our current $16 billion five-year capital plan. At this price, the LDC transaction will provide us with $300 million of incremental proceeds on an after-tax basis compared to the five-year plan we showed you on our Analyst Day. We will first like to deploy this $300 million in incremental proceeds into high-value utility capital spend opportunities that are part of those additional $1 billion in capital opportunities. This incremental capital spending is likely to be spent in 2022 and begin to flow into earnings in 2023, and allow us to continue to provide velocity flow[ph], essential services to our customers. Therefore, this transaction will not impact our long-term growth plans or earnings trajectory.

On the contrary, we believe this will even more strongly support consistent 6% to 8% utility earnings annual growth rate in our industry leading 10% rate based CAGR targets. We previously committed to you a 2Q sales announcement and we delivered on that, so let's also check that box as being done.

Turning now to the Enable transaction. We anticipate the transaction between Enable and Energy Transfer to close in the second half of the year. We remained absolutely focused on reducing and eliminating our midstream exposure through a disciplined approach. And to reiterate what we said when we announced the news of a transaction back in February, completing this transaction also will not change our 6% to 8% utility EPS annual growth target or our 10% rate based CAGR. So that box stays checked as we remain on track to reduce midstream exposure.

Turning to the impacts from the winter storm Uri. Last quarter, many of you questioned the incremental gas costs and the likelihood and timing of recovery. We said that the storms impacts won't change the utility EPS target range and they will not. We also said we believe we had a handle on the issue, but needed some time to work through it with our regulators. Let me give you an update on what progress we have made on that front.

First, in part by actively engaging, auditing and challenging our gas suppliers, we have reduced our incremental gas costs by over $300 million since our initial estimates, resulting in reduced customer, incremental gas cost exposure of $2.2 billion. We won't stop pursuing these actions, because we believe this is the right thing to do for our customers.

We are also beginning to seek the timely recover of these costs through early adjustments to our normal cost recovery mechanisms. We have started recovery in Arkansas and Louisiana, including some carrying costs. Both Arkansas and Oklahoma have also passed legislation for securitization. In Minnesota, we are pursuing recovery of storm related costs, including some carrying costs through the existing gas cost recovery mechanism over a two-year period. And in Texas, a state-sponsored securitization bill on incremental gas costs has already passed through the house is being considered by the Senate.

We believe, there is good momentum behind this bill. The gas price recovery process has been well supported politically in each of these jurisdictions. Thanks to the constructive nature of our jurisdictions and our legislators. So while not completely behind us, we are getting closer to checking the incremental gas cost box. We have said all along that we have strong regulatory relationship and that belief is supported by our progress in working through this event.

On the electric side, the Texas PUC is undergoing a complete turnover. And we look forward to building our relationships with the new team. There's also been some legislative progress around the proposal to increase grid resiliency in Texas. In Texas, several proposed bills have been moving that are intended to protect systems and customers from a repeat of the electric disruption we saw in February. We are very encouraged by the progress, and we see this as an opportunity for the system as a whole to find better ways to serve our community. We remain on course for our $16 billion plus capital spending program and industry-leading 10% compounded annual rate based growth target over the next five years.

For 2021, we are on track to spend the full $3.4 billion outlined on our Investor Day. Similar to our earnings, there is a seasonality to our capital spend where we typically ramp up spending as the year progresses. As stated previously, we have opportunities above our current $16 billion 5-year plan and the $300 million in increments proceeds from the ultimate sale of Arkansas and Oklahoma LDC assets transaction, will provide additional capacity for us to pursue some of these, if we so choose. So let's check the capital spending box as being on track.

We have talked about our industry-leading organic customer growth rates. Despite the impact of COVID, we again saw about 2% growth rates quarter-over-quarter, reinforcing the value of the fast-growing markets that we serve. That organic growth plays a part in keeping our service cost reasonable for our customers.

In addition, we take a disciplined approach to reducing our O&M expenses to benefit our customers. We are on track to reduce O&M by 2% to 3% in 2021. However, giving the incremental opportunity set, we see to reinvest in our business, we may take the decision to reinvest some O&M savings back into our utility assets this year. This is a great luxury to have. So for 2021 on O&M, let's check that box as being on track.

Next up is our commitment to environmental stewardship. We are well under way in developing and then announcing what we believe will be an industry-leading carbon strategy. On that front, a critical constructive piece of news was recently received in Indiana, where we received a very positive Indiana directors report for our IRP. Though our Indiana IRP does not require approval, the directors report has provided us with a confidence that we are headed down the right renewable path with both regulators and our communities.

Since our last earnings call, we have reviewed our updated ESG plans with our Board and are preparing a rollout of our transition to net zero. We should be in a place to disclose these exciting plans in the third quarter. Since this is still a work in progress, we cannot check the box here, but I am very happy with the progress that we are making. So thank you all for spending your time with CenterPoint this morning.

I've been looking forward to these calls every quarter, because we have so many exciting things to share with you, as we execute our long-term strategy that we outlined on Investor Day. I strongly believe that the strategy we laid out and the progress we have made so far, more than demonstrates what unique value proposition CenterPoint offers.

With that, let me turn the call over to Jason.

Jason M. Ryan {BIO 20096804 <GO>}

Thank you, Dave, and thank you to all of you for joining us this morning for our first quarter earnings call. Just to echo Dave's sentiment, we're looking forward to seeing more of you in person in 2021. To continue the theme of execution and delivery, I want to start by reviewing our quarterly results with you as well as provides incremental details on a few events Dave highlighted. Let me get started with our first quarter earnings.

On a GAAP basis, we reported $0.56 for the first quarter of 2021, compared to a loss of $2.44 for the first quarter of 2020. Looking at slide 4, we reported $0.59 of non-GAAP EPS for the first quarter of 2021 compared to $0.60 for the first quarter of 2020. Our utility EPS was $0.47 for the first quarter of 2021, while midstream investments contributed another $0.12 of EPS.

The notable drivers when comparing the quarters are strong customer growth across all of our jurisdictions and rate recovery, which makes up $0.05 of the favorable impact. Our disciplined O&M management contributed another $0.03 of positive variance for the quarter. The growth drivers were partially offset by the $0.09 from share dilution due to the large equity issuance back in May 2020 and $0.03 due to the non-recurring CARES Act benefit we received last year.

Turning to slide 5. We are very pleased with the high level of interest we received for our Arkansas and Oklahoma gas LDCs, as we've conveyed through the entire process. As Dave said, there were interested parties across the spectrum which drove a highly competitive auction process. The successful outcome emphasizes the high-quality nature and supportive regulatory frameworks that are present in all of our businesses. We're preparing to commence the regulatory approval process and anticipated close by the end of the year.

The integrated nature of the operations between these two jurisdictions will also accelerate the carve-out integration process with the new owners as we work towards closing and will facilitate delivery and on our commitment of reducing any remaining allocated O&M.

As shown on the slide, this transaction priced at $2.15 billion, inclusive of $425 million of incremental gas cost recovery. The $1.725 billion in proceeds after the natural gas cost recovery represents a multiple of 2.5 times 2020 rate base and a multiple of 38 times 2020 earnings for those businesses.

This earnings multiple is based on the purchase price of $1.725 billion reduced by approximately $340 million of implied regulatory debt compared to $36 million of 2020 full year earnings. This transaction multiple consistent with some of the highest multiples paid for gas LDCs demonstrates that the market continues to see gas LDCs playing a pivotal role in our country's energy supply by providing affordable, efficient and lower carbon energy sources for our customers.

The net proceeds from this sale are estimated to be $1.3 billion after tax in closing costs, as our Arkansas and Oklahoma assets have a relatively low tax basis of approximately $300 million. While there's been a lot of focus on tax leakage, we were clear at our Investor Day that our five-year plan assumed full tax on the gain on sale for these assets given the low tax basis.

Therefore the headline is the competitive auction process will at close result in generating an additional $300 million in after tax proceeds then what was assumed in the original five-year plan. To zero-in on the use of the incremental $300 million of proceeds, we will prioritize funding and increase in our capital investment plan. It is important to note, this incremental capital will be deployed in 2022 and as a result, will likely impact 2023 earnings and beyond, once the capital has been approved in rate based.

We will also evaluate using some of the excess proceeds to delay the start of our at the market equity program that was originally slated for 2022. We're grateful, I have these options. I'd also like to reiterate that this disposition will not change for 2021 utility earnings guidance range. It is also important to reiterate Dave's point that the premium multiple achieved through this transaction as well as the performance of the systems through the recent winter storms reinforces that there are many states that see natural gas as a viable low carbon fuel source and the market has been undervaluing these assets.

And as renewable fuels continue to advance, our systems will have the proven capabilities to (inaudible) evolve along with them.

Turning to slide 6. Dave discussed that we're still on pace to close the Enable and Energy Transfer merger in the second half of this year, and then we'll look to liquidate our midstream position in a disciplined, but efficient manner. As a reminder, we will have 385 million of energy transfer preferred units that we can liquidate it anytime after the merger closes. The 200 million of energy transfer common units we will receive in the merger will be registered through a process that will likely take two to three months after close.

We will have the flexibility to either dribble those units into the marketplace or sell through up to five block offerings. As we've noted in the past, our negative tax basis that Enable will carry over to Energy Transfer units and will result in an effective 50% tax on the sale. As previously discussed, we continue to explore tax mitigation strategies across the company to offset the burden that may come with a common unit sales and continue to have confidence we can reduce the tax leakage. As a result, I'd like to reaffirm that the sale of the Energy Transfer units will not change our utility EPS growth target 6% to 8% annually.

As Dave mentioned, we have actively worked with suppliers, which has in part help to reduce the overall incremental gas costs from the winter storm to $2.2 billion down from $2.5 billion signal last quarter. In addition, CenterPoint regulators and legislators have all been working over the past few months to align on cost recovery methods that suit the needs of all of our stakeholders.

As laid out in slide 7, we have multiple mechanisms available to us for cost recovery.

Two states have already initiated interim recovery, another two states have enacted a legislation enabling securitization, and Texas has a securitization bill pending. Between the securitization, the sale of the gas LDCs and the interim rate recovery we now expect between $1.6 billion and $1.7 billion of the total incremental gas cost to be recovered before the one-year anniversary of the storm, assuming, the Texas securitization bill is signed into law. We are grateful for the diligence of our regulatory team and the constructive support of our commissions across our jurisdictions for getting us to this point.

Turning to our financing updates. We closed our $1.7 billion senior notes offering on March 2, which included $1 billion of floating rate notes and $700 million of fixed rate notes, both due in 2023. The proceeds from the $1.7 billion issuance we're used to pay for the incremental gas costs for the winter storm and the notes have an optional redemption date at any time on or after September 2 of this year, giving us full flexibility to pay down this debt consistent with our regulatory recoveries.

Recovery of the carrying costs in a majority of the impacted states such as Texas, Louisiana, Arkansas and Oklahoma will help to offset the incremental interest cost from this direct issuance. Our current liquidity remains strong at approximately $2.1 billion after the issuance of the senior notes proceeds in the payments made for the incremental gas costs.

Our long-term FFO to debt objective is between 14% and 14 .5%, and is consistent with the expectations of the rating agencies. We continue to actively engage with them and they are comfortable with the outlook and thresholds we've indicated. I'd like to reiterate, we have no large equity issuance needs over our current planning horizon and can now re-evaluate the need for our ATM program in 2022, depending on how we utilize the expected proceeds from our LDC asset sale.

I hope it's becoming clear that our story is streamlining nicely as we prove to you, our investors that we're delivering on our plan, as I want. We are reducing our exposure to non-utility businesses, realigning our balance sheet to reduce our reliance between inter-company borrowings and pay our debt and committing to efficiently fund our industry-leading rate base growth. These are the updates for the quarter.

Both Dave and I are excited about the direction CenterPoint is taking, and we cannot wait to share more good news with you as we continue to execute on our plan throughout 2021 and beyond.

I'd like to now turn the call over to Tom Webb, our Senior Advisor to discuss one of the important pieces of our plan through which he has been closely advising us. The O&M cost savings and continuous improvement deliverables[ph] here at CentePoint.

Over to you, Tom.

Tom Webb {BIO 1881788 <GO>}

Thanks, Jason. Five months after our strategy revealing Investor Day, CenterPoint as you just heard, is well underway executing its strategy. Its dispensing with volatile non-core non-utility businesses, thinking able, implementing efficient financing, think gas LDC sales, introducing clean energy, think coal[ph] closures, renewable additions and much more, and improving performance, think continuous improvement a whole new culture.

Dave and Jason already have highlighted details about each of these, as strategic changes are nearing completion, our premium utility operation is humming. I hope you see it, I hope you feel it. We really sweat the details so you don't have to. We have superior rate base growth, delivering needed capital investment. Our growth rate target of 10% outstrips the pier average of about 7%.

Our resulting utility EPS growth target at 6% to 8% every year is well above the pier average of five, and our customer growth at 2% is something we would celebrate at my old company. With top quartile customer satisfaction, we still seek to hold down customer price increases, reducing our O&M cost by 1% to 2% every year. Coupled with customer growth, this creates a lot of headroom for the needed capital investment.

On slide 8, please look at the box on the left. Five months ago, we showed you our five-year plan to reduce costs 1% to 2% each year. We added the detail for 2021 during our last call, and here you can see our progress in the first quarter. We plan for a fast start with 2021, down 2% to 3% with results in the first quarter faster yet. Please keep in mind, some of this as timing, we still expect to reduce cost by about 2% to 3% for the year.

As you know, one of our tools is our continuous improvement initiative. We improve our processes from the ground up to enhance safety everyday, quality doing things right the first time, delivery, doing things on time, cost, we see and eliminate waste and morale, higher and higher every day, yes, morale. Each day I observe more who are proud to wear the colors.

Continuous improvement takes time to ramp up. Its a powerful process. It shifts dependence from heroic individual work to better processes that can be repeated.

As we succeed at eliminating human struggle, the cost will fall out. My favorite chart is on the right. We take on the headwinds, we take advantage of the tailwinds, we deliver our EPS commitment consistently every year, we really do swept the details so you don't have to.

As I've experienced elsewhere. this management team may do so well on cost reductions that it can pull ahead work from next year, reinvesting savings to benefit our customers sooner. We did this last year. We maximize resources for customers and deliver our commitment to you our investors, no more, no less, a win-win.

Dave, Jason and this superb leadership team know the secret sauce, they are working for both our customers and our investors, know or is here. Thank you for letting me play a small role on the team.

Back to you, Dave.

David J. Lesar {BIO 1519300 <GO>}

I want to re-emphasize what we consider critical elements as we transform CenterPoint into a premium utility, we believe it can be. We will continue to deliver sustainable, predictable and consistent 6% to 8% earnings growth year-after-year. With our industry-leading organic customer growth and our disciplined O&M management, we believe we can generate robust CapEx and 10% rate base growth, while continuing our focus on safety.

We also look forward to unveiling our enhanced ESG strategy that will put us as an industry leader for a net zero economy. We will continue to keep our eyes on maintaining and enhancing our balance sheet and credit profile. We have executed on our capital recycling strategy to our announced gas LDC sale at 2.5 times right base and investing at one-time rate base, and we will continue to explore opportunities to do more of this.

We remained absolutely committed to delivering an economically viable path to minimize the impact of our midstream exposure and eventually eliminate it. And finally, as we work to move towards a fully regulated business model, we continue to stay focused on our utility operations and improving the experience for our customers.

I hope you will join us on this path of transitioning CenterPoint into a premium utility, while myself, our team, and our employees are only 10 months into this new journey, I could not be more pleased by the momentum we have, what we've accomplished an the bright future we see for CenterPoint. What you see is the new CenterPoint, where you can expect consistent and predictable earnings and rate based growth, world-class operations, and growing service territories and a commitment to delivering on our promises to you, our investors. We swept the details, so you don't have to.

Philip Holder {BIO 22115119 <GO>}

Thank you, Dave. We will now take questions until 9:00 AM Eastern. If you would, please limit yourself to one question and one follow-up, and re-enter the queue if you have further follow-ups to allow all callers an opportunity to ask their questions. Operator?

Questions And Answers

Operator

(Question And Answer)

At this time, we will begin taking questions. (Operator Instructions) Thank you. Our first question comes from the line of Insoo Kim with Goldman Sachs. Insoo, your line is open.

Q - Insoo Kim {BIO 19660313 <GO>}

Thank you. My first question is in Texas and the pending legislation for securitization there. Thanks for the color there. But could you give a little bit more detail based on your efforts around how -- what do you think the chances are of it getting passed in this session that is coming to the close in the next few weeks? And if it doesn't pass this session, what are the different pathways from here for the regulatory process?

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

Yes, it's a question, obviously that we expected. Number one, number two, I'm going to let Jason handle it, because he is working hand-in-hand with Jason Ryan, who is our Regulatory Affairs leader, who is essentially in Austin now every single day. And as I said, they're working hand-in-hand on this.

Jason, why don't you answer the question.

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

Thanks David. Good morning, Insoo. I'd say obviously the legislature here in Texas has a number of priorities in front of it right now, but we continue to remain optimistic that the securitization bill for gas cost recovery will be signed into law. At the end of the day, it's probably the most constructive outcome for all the stakeholders. It minimizes or reduces the bill impact for customers by spreading the recovery out over a much longer period of time and it helps to keep the debt off the balance sheet of the gas LDCs. And I think the constructive nature of this tool is sort of well understood by all.

And while we remain optimistic that it will be signed into law to your point, it is important to note that the Texas Railroad Commission has been very constructive signaling that the gas LDCs will be eligible to recovery -- sorry will be eligible to recover carrying costs, as we look to probably recover these costs over about a three-year period of time again in the event that the securitization bill is not signed into law, but we remain optimistic as I mentioned.

As that side, Dave and I will be joining, Jason Ryan and our team there in Austin and a little over a week to meet with the new PC Commissioners, the Railroad Commission, and other legislation to continue to make sure that CenterPoint is supporting the state's objectives. And as I said, I think we remain optimistic that this bill will be signed into law here at this legislative session.

Q - Insoo Kim {BIO 19660313 <GO>}

Got it. That's good color. My second question is perhaps for Dave on the gas utilities bill. Given the color you gave on the number of bigger the amount of interest and ultimately the multiple data generated. Just from your standpoint, how do you balance that enthusiasm and what that imply for the potential growth opportunity for gas utilities and investments there? Looking at your other jurisdictions potential for not just pipe modernization, but perhaps items like orangey or hydrogen. Can you balance the multiple that you've seen recently versus potentially those organic opportunities that you could take advantage of in your other systems longer-term?

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

Yes, it's obviously a great set of options to have, because I think one of the things that sale demonstrated is that clearly the value of our gas LDCs that remain behind are worth more in our share price and I think is reflected today. As I said in my comments, I think we do have an obligation to sort of look at that price we got, and then look at the overall options we have as an organization.

But I think as we said in our Analyst Day, we have significant capital spend opportunities in our remaining gas LDCs. We like those LDCs, we like the markets that we're in. But if we find an opportunity to look at monetizing them as I indicated, we have an obligation to do so. But we would certainly not do that, unless we saw an opportunity to reinvest it back in our business, in our regulated business, something that would have to be accretive to our current 6% to 8% growth rate. And really have an impact on the balance sheet. So, we're still sort of digesting the level of interest that was there, the price we got. But I can tell you it is a great place to be right now.

Q - Insoo Kim {BIO 19660313 <GO>}

Got it. Thank you so much.

Operator

(Operator Instructions) Your next question comes from the line of Shar Pourreza with Guggenheim Partners. Shar, your line is open.

Q - Shar Pourreza

Hey. Good morning, guys.

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

Good morning.

Q - Shar Pourreza

Just David, started to handle this, but let me just follow up on the prior question that was asked and maybe a little bit more theoretical. Assuming you do look for further asset optimizations on the LDC side to may be capitalized in this multiples. Do you believe you can efficiently redeploy that capital quick enough where potential larger transactions could still be earnings accretive? I mean to point out that you clearly have incremental spending opportunities, not really capital constrained, especially as you bring to light further decarbonization plan. So, maybe a little bit more of a theoretical question, but just thoughts there as you drill down.

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

Yes, I mean, it's a -- it is a theoretical question. I think the way to answer it is, first of all, we're not going to do anything crazy here. We've got a great business. The gas LDCs are wonderful businesses to own right now, and I think that we would take a very rational and I think systematic approach to looking at doing something different and we clearly, as we've signaled have billion dollars of capital spend on top of the 16 billion we discussed at our Analyst Day, but I always sort of fall back to, what is your base strategy? And I said it when I answered the last question, we're not going to do anything that is not accretive to our 6% to 8% growth rate. So I think that's where the signals the timing that we would want to do.

We're not going to do anything that impacts the fixing up of our balance sheet and getting to the credit metrics that we want, that would signal I think the timing. And it has to be consistent with our strategy of becoming more and more regulated. So I think there is a way to thread that needle. That has as I said earlier, we're still digesting the opportunity that has been put in front of us with the price that we got for these LDCs. So, give us a chance to digest it.

And then we'll see what -- how to take advantage of this great opportunity. It's either got to show up in the share price or will look at other options.

Q - Shar Pourreza

Fair enough. Thank you for that. And then just lastly for me. Shifting to the cost cuts and reinvestment, which is near and dear to Mr.Webb's heart. Looks like you guys, you're on plan with the 1% to 2% O&M reduction target, and you show some modest investment from the calendar 2020. Just looking at that 44 million in cost cuts over the near-term, can you just gave elaborate on your comments that you may convert some of that savings into capital? And then theoretically, you could unlock over 700 million of or more of capital with your longer-term savings target as a book and without impacting customer rates, so maybe just some thoughts on O&M versus CapEx ratio.

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

Sure. I now -- let me just give a bit of an editorial comment, they are near and dear to my heart and Jason's heart and everyone else's heart in addition to Tom. But I'll let Jason answer the specific question.

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

Thanks, Shar, and good morning. Obviously we're incredibly pleased with the continued performance of the O&M discipline here. The team has really embraced continuous improvement delivered well last year and that's carrying through our first quarter results.

In terms of the enhanced capitalization that's referenced on the slide, I think that's sort of a natural byproduct of the increase in our capital investment plan that we announced as part of the Analyst Day presentation where we signaled $3 billion of incremental capital over the five year plan, effectively that gives us the opportunity to allocate more overhead to capital than expense, just given sort of the ratio of capital O&M. And so, I wouldn't fundamentally see that category significantly changing, it might modestly change as we pull some of the capital investment opportunities that Dave has been alluding to in, but where our focus really is beginning to look at the execution of our core work really driving first time quality and I think that's where we'll see beginning of the material opportunities in front of us from a continuous improvement standpoint.

Q - Shar Pourreza

Terrific. Thank you, guys. Congrats on the execution.

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

Thanks.

Operator

Your next question comes from the line of Steve Fleishman with Wolfe Research. Steve, your line is open.

Q - Steve Fleishman {BIO 1512318 <GO>}

Yes. Thanks. Good morning. So just on the gas LDC sales, I'm not sure you can give this color. But just would you say that there was a lot of bitters that were kind of close to the range of the outcome such that this is not kind of like a fluke price so to speak that there were several other bidders above the range that you had been targeting.

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

Yes, I'll answer it. Let Jason throw anything on. There were a number of bidders that were right on top of each other and it was a difficult decision for us. But in the end, we thought Summit was the right answer, because of price and certainty of close and all the other things you typically would look at in a transaction. But this was clearly not an outlier.

Q - Steve Fleishman {BIO 1512318 <GO>}

That's very helpful. Thank you. And then on the just in thinking of your talk of a future sale, obviously being tied to having something to redeploy the money in. Is there -- are there some other rate base opportunities beyond that billion dollar kind of increment that are starting to come into any view or would have to be an acquisition or some other just more maybe extending the plan in the future that would drive that?

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

I don't ever want to rely on having to do M&A to drive your business and grow your business. It is a way to grow a business in my view because of the premium you typically have to pay. It's an inefficient way. And I think that we see sufficient capital spend opportunities out there. While you were asking the question, Jason was smiling and nodding his head.

So I will let him answer it from here.

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

Yes. Thanks. Thanks, Dave. Obviously, we're pleased with the organic growth opportunities that are present here. You know, we've talked a lot about this billion dollars of incremental capital that we have. But there are to your point Steve, other opportunities that may materialize. I think -- as I think the State of Texas here looks at different ways to minimize the risk of a future winter storm, there's been a lot of focus on great resiliency, things like introducing economic criteria for building incremental electric transmission lines, things like making sure that there's greater levels of grid control in the event that there are outages and helping minimize the impact of extended outages to communities.

I think to the extent that those bills are passed by the state legislature and signed into law, I think that could create incremental capital opportunity for us to redeploy in. And then we continue to look at the coal transition in Indiana as a possibility for owning incremental amounts of renewables as opposed to securing that transition through a power purchase agreement. So I think on top of the billion dollars that we've been discussing, we do have the potential for increased capital deployment opportunities.

Q - Steve Fleishman {BIO 1512318 <GO>}

Okay. And then just one more tied to the last comment Indiana. That directors letter that you got, could you just give a little more color on that and the better visibility you have into doing the renewables program there?

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

Yes. We were pleased with that recent letter by the Director there and the commission the -- effectively, we had received some feedback on our original integrated resource plan that had asked us to consider sort of morph diversity of fuel sources, sort of more clarity on anticipated electric demand, proposing a smaller percentage of natural gas fire facilities. And we incorporated that feedback earlier this year as we mentioned, filed it into the directors report that you're alluding to, I think acknowledged the clear progress that we have made in being responsive both to the commission feedback as well as the broader community and customer feedback in Indiana.

And so, I think it's a reflective of the fact that we feel that there is strong support for the coal transition plan that we have outlined previously.

Q - Steve Fleishman {BIO 1512318 <GO>}

Okay. Great. Thanks so much.

Operator

Your next question comes from the line of Durgesh Chopra with Evercore ISI. Durgesh, your line is open.

Q - Durgesh Chopra {BIO 20053859 <GO>}

Hey. Thanks. Good morning, team. Thank you for taking my question. Dave, I was just going to curious your comments around some sort of, you're able to reduce the storm costs, I think you said 300 million by audits and some sort of looking at your records on the gas side of things. Could you just elaborate on that? I'm just wondering if that's an opportunity for some of your peers to do that as well.

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

Well, I don't know what the contracts that our peers have look like. What we're doing is we're focusing on the excess gas costs that we encouraged, because as I said earlier, they're passed due cost for us and we have an obligation to our customers to make sure that we're paying for per the contract, we're trying to negotiate, we're trying to do everything audit all the things that we listed, but we're doing them really to make sure that we are getting the best outcome for the customers, because as I said they're capacity cost.

Jason, I don't -- why don't you can add anything into that, but it probably covers it.

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

I think it's definitely contract specific. And as you can imagine many of the suppliers alleged throughout the event force major clauses. We challenged some of those, I think also some of the gas suppliers recognize the impact that this storm has had on sort of the broader communities, we have the impact to serve. And so, I think it was a collective effort of as we talk about sort of challenging some of maybe the contractual provisions, how that -- how the contract was interpreted, as well as sort of working to find a constructive solution again for all stakeholders. And I think that we're happy with the progress we've made and we'll continue to advocate on behalf of our customers.

Q - Durgesh Chopra {BIO 20053859 <GO>}

That's great guys. Excellent. Thank you for the color. Maybe just really quickly to the extent that you can on enable sort of exit here. Is it sort of a five-year plan or a 10-year plan? Just any color you can share there. Thank you.

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

I can guarantee you it's not a five or ten year plan. It's much more aggressive than amp at all. Jason's going to execute it for us. I'll let him answer it specifically. But do not even for a second have in your head is five or ten years.

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

Our strategy is to eliminate our exposure to midstream once the energy transfer enable merger closes. And we're still not providing a direct timeline. We want to be disciplined and efficient maximize the proceeds from the disposition, aggressively eliminate our exposure to midstream once the deal closes.

Q - Durgesh Chopra {BIO 20053859 <GO>}

Alright, guys. Thank you. Appreciate you taking my question. Thanks.

Operator

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

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

Hey. Good morning team. Actually, if I can stick with the last conversation in brief. Can you elaborate what other elements you could pursue here? I mean, we've seen some of your peers valuing litigation, et cetera. What's your sense of confidence to materially bring up that 300 million in reduced costs and bring down that 2.2 billion as you see it? Have you largely exhausted this or is there still a good chunk to go here?

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

I think we've seen probably the largest movement today. We are continuing to work with a handful of suppliers on what I would consider to be a much more narrow opportunity set. So I wouldn't look to see probably as significant reduction as we reported today, but we're also at the same time not done with those conversations. As I said, we'll continue to advocate on behalf of our customers, but I wouldn't expect it to materially change.

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

Got it. And then another little bit more of a detail here. You talked about reinvestment of O&M back in the utility assets. You talked about having a little bit more capital on hand. Can you elaborate a little bit more what we should be seeing here in terms of both the financial impact on '21 and '22 on a net EPS basis? But more importantly just timing on when you come back, just given that you're talking about something that's just so O&M here?

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

Yes I think -- let me again start by answering and throw it to Jason. I think it's -- you think -- you got think of sort of excess capital in two buckets here, one is the 300 million plus that we will get from the gas LDC sales.

Since we don't expect that transaction to close until about the end of the year or thereabout, that's really capital we can spend in '22, which will go into rate base and start impacting earnings in '23. We of course have a lot more optionality around the reinvestment of the O&M savings and I'll let Jason give a little color on how we're thinking about that, where we might spend it, how we might spend it.

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

Yes, but I think it's important maybe take a quick step back to and I mean, I think we feel like there's a privilege. We have a privilege to serve some of the most premium jurisdictions here in the U.S. and we have the privilege to have industry-leading rate base growth top of the industry earnings growth. That said, as we think about a premium valuation for the company, we think that really materializes with consistent delivery on our earnings. And so, in years where we may be accelerate some of the continuous improvement opportunities or we have better than expected weather, we will look to reinvest some of that savings back into the business for the benefit of our customers. We think long-term that creates the best possible service for our customers, and the path to a premium utility valuation.

And so, as we make progress on O&M, and if we are doing better than expected, we will likely as I said, reinvest that back in the business. As Dave mentioned, the capital investment opportunities, I really think about that as sort of more of a '23 earnings impact just given the time period between executing that capital and then putting it into rates for recovery. So hopefully that gives you a little bit of sense of how we're thinking about the O&M and capital opportunity progress.

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

Awesome. Indeed. Alright, well, best of luck. Congrats on all the progress thus far.

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

Thanks.

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

Thank you.

Operator

Your next question comes from the line of Michael Weinstein with Credit Suisse. Michael, your line is open.

Q - Michael Weinstein {BIO 19894768 <GO>}

Hey, good morning guys.

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

Good morning.

Q - Michael Weinstein {BIO 19894768 <GO>}

Hey, just to continue the conversation on capital opportunities. As you're especially as you're trying to go to net carbon zero, maybe you could talk a little bit about opportunities for with RNG investments and methane reduction, methane leakage reduction.

And then also anything on EV charging opportunities that maybe emerging and flushing out the plan? Is this something that these things they could become upside to your current plans?

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

You sound like you're sitting in our management committee room and so we're discussing all the great opportunities we have in front of us to get ahead of things on the journey towards net zero, but also be able to add to our rate base. And again, I'll let Jason give the details on what our thinking is there.

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

Yes, I think on the gas side, we're really fortunate to work as there are constructive jurisdictions. We've highlighted our green hydrogen pilot up in Minnesota, the work that we've done on the renewable natural gas tariff. We clearly see that as a start to what is a long-term focus. We are actively working to develop the next round of pilot projects to make sure that we can efficiently generate the hydrogen we can that our system responds well to that introduction. We are working with suppliers on the RNG front and I think the learnings that we have in Minnesota are certainly experiences that we can utilize more broadly in our gas footprint.

And so, I think that there are certainly more to come with respect to RNG in green hydrogen for the company. And as you said, we are incredibly excited about the opportunity to play a role in the electrification of the transportation sector. Thinking about here in Houston, it's obviously the fourth largest city in the U.S., but it is a very commuter focused city. And so, we see the opportunity to help with build out of distributed charging networks. That will help with the conversion of electric vehicles here in Houston and for that matter, hopefully up in Evansville. And so I don't see these as materially changing kind of our rate base profile in the next couple of years, but the work that we're doing to gain experience, understanding and the support of the regulators, I think will help support the long-term CapEx plan for the company. So there's certainly a lot more to come on these two fronts.

Q - Michael Weinstein {BIO 19894768 <GO>}

Great. And just one follow-up on cost savings. With $44 million identified this year, yes, how can we expect that to flow in? I guess the $16 million already flowing in first quarter. Is that going to be mostly in the summer? Or we're going to see that more evenly distributed throughout all four quarters?

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

I appreciate the question about time, and I think what's important to note is the company really embarked on a focus of continuous improvement, starting with the second quarter last year. And as you can imagine, it was sort of ramping up into sort of building that muscle over the course of the year. And so, quarter-over-quarter standpoint, we probably are seeing the largest variance here in the first quarter and that will likely reduce each subsequent quarter as we kind of build into what was sort of the ongoing run rate at the end of 2020. So again, this is probably the largest variance you'll see this year.

And then as I've mentioned a couple of times here to the extent that we continue to make incremental progress, I think it's a really good opportunity to reinvest that savings in the business for the benefit of our customers and we will look it to.

Q - Michael Weinstein {BIO 19894768 <GO>}

Okay. Great. Thanks very much.

Operator

Your next question comes from the line of Jeremy Tonet with JPMorgan. Jeremy, your line is open.

Q - Jeremy Tonet {BIO 15946844 <GO>}

Hi. Good morning, Dave.

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

Good morning.

Q - Jeremy Tonet {BIO 15946844 <GO>}

You've got quite the pick up with Jackie joining IR there. CenterPoint is lucky to have her, so I'd be remiss if I didn't say that. But let me just --

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

So now she's sitting right next to me with a big smile on her face to hear that.

A - Jackie Richert {BIO 19537654 <GO>}

Thanks, Jeremy.

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

We're thrilled to have her on the team.

Q - Jeremy Tonet {BIO 15946844 <GO>}

Maybe just a quick question here. You've talked a bit about the $1 billion CapEx. Wondering if you could drill down a bit more on this and what it could look like? What guardrails do you have here? Or what drivers or milestones could kind of make this real?

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

Well, I think, first of all it is real. I think if you go back to how we described it at our Analyst Day, I think that is still sort of that operative strategy. One is to deploy the capital efficiently and with the capital ramp-up that we have ongoing, it really is incumbent on us to make sure that we have the internal engineering resources, the project management resources, all of the sort of internal compliance guardrails you want to have around a fast increase in spend. So that when you spend a dollar, you're spending it wisely, you're spending it on behalf of your customer, as you put it into your rate base.

Second is, finding the sort of capital to spend that billion dollars on the LDC clearly helps there the O&M savings, help their with sort of the market reaction on the ET sale, enable sale to ET, there could be more proceeds there. So I really just want to reiterate something I said earlier and I hope you're getting a flavor for it here today, is we have great capital spending opportunities in front of us, which is why as we sort of accumulate capital, maybe above and beyond what we thought we would have in our Analyst Day to grow the company we're not forced toward doing M&A. We are going to be able to invest it on a one-time investment basis in our business, in our territories and grow and protect and serve our customers here.

So as I said a number of times, this is such a great position for us to be in, because you throw organic growth on top of all that, that's going to create additional capital spending opportunities. So, that's why in my view we're really sitting in the catbird seat here in terms of what we can do with this business going forward. Not sure that answered your question, but --

Q - Jeremy Tonet {BIO 15946844 <GO>}

That is helpful. Thank you for that. Maybe just a quick second one here. Just wondering broadly on tax mitigation strategies, you talked about the LDC here. But just wondering as it relates to enable ET if there's anything you can share there on that side?

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

That is right in the Jason's wheelhouse. So I'll let him answer that.

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

Thanks, Jeremy. One of the things that Dave and I took a look at when we joined was the fact that, on a relative basis, we were paying higher taxes than a number of our peers. And I think what has become obvious as we've dug into the situation is we have not necessarily availed ourselves of all of what I would say to be common utility deductions. So one classic example would be tax repairs where you have the opportunity to essentially expense or deduct immediately some investments that otherwise would have historically been capitalized.

I don't think we are fully taking advantage of that. We are currently in the process of conducting our study to support what would be a higher level of deductions. I'm confident it will result in a increase in available tax deductions for the company, not yet at the point where we're ready to quantify it as the study is not complete. But again just given the progress that we've made, we're confident that will meaningfully help reduce some of the tax burden that you mentioned from the ET sales. And so, we will likely provide a more fulsome update on opportunity on future earnings calls this year.

Q - Jeremy Tonet {BIO 15946844 <GO>}

Got it. That's helpful. I'll leave it there. Thanks.

Operator

This concludes our question-and-answer session. I will turn the call back over to Phil Holder for closing remarks.

A - Philip Holder {BIO 22115119 <GO>}

Thank you. Again thank you everyone for joining us today and for your interest in CenterPoint.

Operator

This concludes CenterPoint Energy's first quarter earnings conference call. Thank you for your participation. You may now disconnect.