Q3 2016 Earnings Call

Company Participants

- David Mordy, Director-Investor Relations
- Joseph B. McGoldrick, Senior VP & President-Gas Operations Division
- Scott M. Prochazka, President, Chief Executive Officer & Director
- Tracy B. Bridge, Executive VP & President-Electric Division
- William D. Rogers, Chief Financial Officer & Executive Vice President

Other Participants

- Abe C. Azar, Analyst, Deutsche Bank Securities, Inc.
- Ali Agha, Analyst, SunTrust Robinson Humphrey, Inc.
- Charles Fishman, Analyst, Morningstar, Inc. (Research)
- Durgesh Chopra, Analyst, Evercore Group LLC
- Greg Gordon, Analyst, Evercore Group LLC
- Insoo Kim, Analyst, RBC Capital Markets LLC
- Lasan Johong, Analyst, Auvila Research Consulting
- Neel Mitra, Analyst, Tudor, Pickering, Holt & Co. Securities, Inc.
- Nick S. Raza, Analyst, Citigroup Global Markets, Inc. (Broker)
- Noah Pierce Hauser, Analyst, Nuveen Asset Management LLC

MANAGEMENT DISCUSSION SECTION

Operator

Good morning and welcome to the CenterPoint Energy's Third Quarter 2016 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 managements' remarks.

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

David Mordy {BIO 20391499 <GO>}

Thank you, Phia. Good morning, everyone. Welcome to our third quarter 2016 earnings conference call. We recognize this is a busy day for earnings calls, so we especially appreciate your interest in CenterPoint. Scott Prochazka, President and CEO; Tracy Bridge, Executive Vice President and President of our Electric Division; Joe McGoldrick, Executive Vice President and President of our Gas Division; and Bill Rogers, Executive Vice President and CFO, will discuss our third quarter 2016 results and provide highlights on other key areas.

In conjunction with the call today, we will be using slides, which can be found under the Investors section on our website, centerpointenergy.com. For a reconciliation of the non-GAAP measures used in providing earnings guidance in today's call, please refer to our earnings press release and our slides, which, along with our Form 10-Q, have been posted on our website.

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

We will also discuss our guidance for 2016. The guidance range considers Utility Operations performance to-date and certain significant variables that may impact earnings such as weather, regulatory and judicial proceedings, throughput, commodity prices, effective tax rates and financing activities.

In providing this guidance, the company uses a non-GAAP measure of adjusted diluted earnings per share that does not include other potential impacts such as changes in accounting standards or unusual items, earnings or losses from the change in the value of the Zero-Premium Exchangeable Subordinated Notes, or ZEN securities, and the related stocks, or the timing effects of mark-to-market accounting in the company's Energy Services business.

The guidance range also consider such factors as Enable's most recent public forecast and effective tax rates. The company does not include other potential impacts such as any changes in accounting standards or Enable Midstream's unusual items.

Before Scott begins, I would like to mention that this call is being recorded. Information on how to access the replay can be found on our website. And with that, I will now 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. We will begin on slide 4. This morning, we reported third quarter 2016 net income of $179 million or $0.41 per diluted share, compared with a loss of $391 million or loss of $0.91 per diluted share in the same quarter of last year.

The 2015 loss is inclusive of impairment charges related to Midstream investments. On a guidance basis, third quarter 2016 adjusted earnings were $177 million or $0.41 per diluted share, compared with adjusted earnings of a $146 million or $0.34 per diluted share in the same quarter of last year.

Utility Operations and Midstream investments both performed well this quarter. We had strong contribution from Houston Electric during their peak season as well as solid results from gas distribution and energy services.

On a guidance basis, Utility Operations contributed $0.31 per diluted share in the third quarter of 2016 compared to $0.24 per diluted share in the same quarter of last year, improving $0.07 per share. Our strong third quarter Utility performance was driven by a number of factors. We continue to see solid customer growth in both our electric and gas utilities. Combined, our Utilities added over 86,000 metered customers during the last 12 months.

Capital expenditures remained strong as we invest to meet growth, safety and reliability needs within our service territories. Rate relief, driven by capital investment, continues to be an important contributor to earnings growth. Tracy and Joe will provide additional regulatory updates for their business segments later in the call.

Slide 5 provides some of the highlights from Enable's third quarter results. Midstream Investments contributed $0.10 per diluted share for both the third quarter of 2016 and the same period of last year. On their third quarter call Wednesday, Enable guided to the midpoint of their previous 2016 guidance for net income attributable to unitholders. This equates to the high end of our guidance range for Midstream Investments. For the first three quarters of 2016, Enable has achieved a coverage ratio of 1.26 times. Enable also provided an initial estimate for 2017 net income attributable to unitholders, which represents notable growth over their estimate for 2016. Their 2017 forecast is driven by several favorable developments. Rig counts continue to increase.

The number of rigs contractually dedicated to Enable rose more than 13% during the last quarter. Enable also signed a new 10-year gathering and processing agreement in the STACK, replacing an existing percent-of-proceeds contract and adding 61,000 additional gross dedicated acres to their STACK footprint. The terms of the contract increases their fee-based margin and reduces their commodity exposure. We're very pleased to see these improvements and the positive impact it has on their 2017 forecast.

On Monday, we announced the purchase of Atmos Energy marketing from Atmos Energy. Our gas marketing and sales business continues to be a steady contributor to earnings growth and is a valuable complement to the organic growth of our natural gas utilities. Joe will share more about this purchase in his remarks.

As most of you are aware, in February, we announced our intention to evaluate strategic alternatives for our Midstream Investments segment. Our objective is twofold. First, explore ways to reduce CenterPoint share price volatility caused by commodity price impacts on Enable's earnings and unit price.

And second, only take action, if we can create sustained value for our long-term shareholders. The options open for consideration are a sale, a spin of a new company containing CenterPoint stake in Enable, or keep our current stake in Enable and work to reduce exposure to commodity price influences. That process continues and Bill will provide more detail on the sale evaluation process and tax considerations in connection with a spin.

Turning to slide 6, given the year-to-date performance and outlook for both Utility Operations and Midstream Investments, we are updating our 2016 full year earnings guidance to a $1.16 to a $1.20 per diluted share. Our investors value consistent steady growth and we continue to target 4% to 6% annual earnings growth through 2018.

Tracy will now update you on Houston Electric.

Tracy B. Bridge {BIO 17360316 <GO>}

Thank you, Scott. I am pleased with Houston Electric's operational and financial results this quarter. Starting on slide 8, core operating income in the third quarter of 2016 was $234 million, compared with $219 million for the same period last year. The business benefited from rate relief, customer growth and higher equity return, primarily related to true-up proceeds. These benefits were partially offset by higher depreciation and other taxes.

By the time we have our next earnings call, Houston will have hosted Super Bowl 51. It's great to see Houston getting ready with enhancements throughout the city. Houston's growing economy continues to require substantial electric infrastructure improvements and capital investment. Through the end of the third quarter, we've invested $638 million in capital and our media count is up 2% from the third quarter of 2015. As a reminder, 2% customer growth equates to approximately $25 million to $30 million of incremental revenue annually.

O&M expense in the third quarter of 2016 was 1.7% higher than the same period last year excluding certain expenses that have revenue offsets. We continue to focus on keeping annual O&M growth under 2%.

Slide 9 provides an overview of regulatory developments year-to-date. Our regulatory strategy remains on track. Since the last earnings call, we received approval for our July transmission cost of service or TCOS filing. Adjusted rates from our TCOS filing, as well as our April distribution cost recovery factor or DCRF filing went into effect in September. Additionally, we recently received approval for our $10.6 million energy efficiency performance incentive and we will recognize those earnings in the fourth quarter.

Joe will now update you on the results for natural gas operations.

Joseph B. McGoldrick {BIO 5483407 <GO>}

Thank you, Tracy. Our natural gas operations, which includes both our natural gas distribution business and our non-regulated energy services business has strong third quarter.

Turning to slide 11. Natural gas distributions third quarter operating income was $22 million, compared to $11 million for the same period in 2015. Operating income was higher due to several factors, including rate relief, revenue from decoupling mechanisms, lower bad debt expense, and lower sales and use tax.

These increases were partially offset by a higher depreciation and labor and benefits expense. We continue to see solid natural gas distribution customer growth of approximately 1%, having added nearly 35,000 customers, since the third quarter of 2015.

O&M expenses were approximately 1.5% higher in the third quarter of 2016, compared to the same period last year, excluding certain expenses that have revenue offsets. Despite the quarter-to-quarter variability, that can occur, O&M expense discipline remains a priority.

We continue to benefit from our longstanding regulatory strategy of utilizing constructive rate mechanisms, like the decoupling mechanisms in Arkansas and Minnesota, that contributed to earnings this quarter.

For a complete overview of regulatory developments this year, please see slides 12 and 13. I will speak to a few of the highlights. In September, we received a final order for our Arkansas rate case which provided for an annual increase of $14.2 million. This increase implemented in September, reflects the 9.5% ROE. It also established the formula rate tariff, which allows rates to be adjusted based on a plus or minus 50 basis point banded ROE approach and a projected test year.

In Minnesota, the $12.7 million Conservation Improvement Program incentive, which we filed in May 2016 was approved by the Minnesota commission and recognized in the third quarter of this year.

Later this month, we plan to file a Houston and Texas Coast rate case that seeks to combine two rate jurisdictions that are operationally and geographically aligned. We are required to follow rate case in our Houston jurisdiction, and once finalized, this case will reset rate base and allow us to utilize the GRIP mechanism in the future.

We do not anticipate receiving incremental GRIP revenues in these two jurisdictions while the case is active. Because we have not filed the rate case yet, we cannot share any further details at this time.

Turning to the slide 14, operating income for our Energy Services business was $7 million for the third quarter 2016, compared with $2 million for the same period last year, excluding a mark-to-market loss of $2 million and a gain of $5 million respectively.

As announced on Monday, we have signed an agreement with Atmos Energy to acquire the retail energy services business, Atmos Energy marketing or AEM. This business is complementary to our existing energy services business and will allow us to grow our customer base and revenues, while maintaining a low wire operating model and cost-effective organization.

This deal will increase our scale, geographic reach and expand our capabilities. We are particularly excited about AEM's impressive large industrial customer mix, and they're talented and experienced employees. Energy Services continues to be a steady and growing contributor for CenterPoint's earnings growth.

I'll close by pointing out that in addition Houston Electric being a host of Electric Utility serving the upcoming Super Bowl. Gas Distribution will also be serving a Super Bowl in Houston as well as Super Bowl 52 in Minneapolis at U.S. Bank Stadium.

I'll now turn the call over to Bill, who will cover financial performance and forecasts.

William D. Rogers {BIO 15746544 <GO>}

Thank you, Joe and good morning everyone. I will begin on slide 16. Today, we reported third quarter 2016 earnings of $0.41 per diluted share. On a guidance basis, earnings were also $0.41 per diluted share versus $0.34 for third quarter of 2015. Guidance basis earnings per share increased $0.07 for our Utility Operations segment, compared to last year. Our Midstream Investments segment was $0.10 per share for this quarter and for third quarter 2015.

As Tracy and Joe discussed, combined core operating income improved $31 million excluding mark-to-market adjustments. Year-to-date, we have delivered $0.90 in guidance basis EPS, consisting of $0.68 in Utility Operations earnings and $0.22 in Midstream Investment earnings. We are updating our full year 2016 EPS guidance range to $1.16 to $1.20. Based on the strength of our combined performance year-to-date, our expectations for the fourth quarter and Enable's recent confirmation of its 2016 guidance.

We are also confirming our year-over-year EPS growth target of 4% to 6% in 2017 and 2018. Dividend increases will come with earnings growth at a rate that will allow us to gradually move our payout ratio lower. As Scott and Joe have mentioned, we announced an agreement to purchase Atmos Energy Marketing on Monday. We plan to finance this, through internally generated cash flow and/or debt financing. We expect this acquisition to be modestly accretive in 2017 after costs associated with the acquisition and integration into CES.

As Joe reviewed in our second quarter call, we are forecasting that our CES business will provide $45 million to $55 million in operating income in 2017. We expect AEM to be additive to this forecast. As previously disclosed, in 2017 we expect to benefit of approximately $12 million in net income from a full year of our investment in Enable's preferred securities and from interest expense savings.

Slide 17 details our expected financing plans, interest expense and effective tax rate. Cash from operations remained strong. Therefore, we continue to believe we will not meet equity in either 2017 or 2018. Further, we foresee modest incremental debt requirements in those years. We are committed to strong credit metrics with a target consolidated FFO debt metric of 18% to 20%. As of the third quarter, we are well above that target credit metric.

Additionally, we expect our effective tax for the full year 2016 to be 37% due to the one-time recognition of deferred tax for Midstream segment income in the second quarter. On a going forward basis, we expect the effective tax rate to be 36%.

Finally, I'll take a moment to expand on the Enable's strategic review. We recognize this process is taking longer than expected. We continue to explore three options; sale, spend or keep. You can review our objectives for a potential transaction on slide 18. Our criteria for considering of a sale or spend include comparable earnings and dividends per share, improved visibility and certainty of future earnings and lower volatility from our midstream investments. We would seek to meet these criteria without a change to our credit ratings. With respect to the sale option, we continue our discussions with third-parties that have an interest in our midstream investments. Should those discussions continue past mid-January, the partnership agreement requires at least submit a Right of First Offer, or ROFO notice to OG&E to continue such discussions. Due to the confidential nature of our discussions, we are not providing any further comment at this time.

With respect to the spin option, we are working to gain certainty regarding the tax characteristics of a spend and confirmation of minimal tax leakage that may occur as a result of a spend. Further, we continue to research capital market considerations with our existing investors and others, including whether the resulting entity from a spin would be an attractive security for our portfolio managers. Let me conclude by reminding you that our board of directors declared a $0.2575 dividend per share on October 27 payable on December 9.

And with that, I will 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. Sophia?

Q&A

Operator

At this time, we will begin taking questions. Thank you. Please hold for the first question. The first question will come from Greg Gordon with ISI.

Q - Durgesh Chopra {BIO 20053859 <GO>}

Hey. Good morning, guys, it's actually Durgesh on for Greg. Can you hear me?

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

Yes. Good morning, Greg, we can here you.

Q - Durgesh Chopra {BIO 20053859 <GO>}

Hey. Good morning. So just, the question was related to...

Q - Greg Gordon {BIO 1506687 <GO>}

Yes, actually I'm here Durgesh. I've got it. Thanks. Sorry.

So our question is, given the significant improvement in the outlook at Enable, why are you not reassessing sort of the consolidated 4% to 6% growth rate in the context of a sort of a no transaction scenario? I mean, it seems that your expectations that underpin 4% to 6% would be a scenario where Enable would be sort of range bound in terms of its earnings and cash flow contribution, and it appears that there are poised to see significant potential growth in earnings and distributions.

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

Yeah. Greg, I would say the answer to this is more of a timing issue than anything. We are going through now the process of finalizing our own plan for the utilities, as we speak. Our Board approves our financial plan in December as we get near the end of the year. Our time for providing updated forecast will be at our fourth quarter call, but I think your observations are valid certainly and what we've seen from Enable as well as the work we're doing with our utilities will be reflective in the new guidance that we provide on the fourth quarter call.

Q - Greg Gordon {BIO 1506687 <GO>}

Thank you very much. Have a great day.

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

Yeah.

Operator

The next question will come from Insoo Kim with RBC Capital.

Q - Insoo Kim {BIO 19660313 <GO>}

Hey. Good morning, everyone.

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

Good morning.

Q - Insoo Kim {BIO 19660313 <GO>}

Just first, given you comment on the spin option, are you currently awaiting a response from the IRS? And if so, do you have any expectation on the timeframe as to whether you will get a confirmation that will be a largely tax free transaction?

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

Insoo, good morning, its Bill. We have not shared whether or not we have filed or will file with the IRS. What we have shared in my comments in the call is, we must confirm that we have minimal tax leakage associated with a spin should we continue down that path.

Q - Insoo Kim {BIO 19660313 <GO>}

Understood. And then the third option of keeping Enable – and I think you've mentioned reducing the volatility associated with that, does that – would that just involve Enable or working with Enable to increase their fee-based contract structures?

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

Yeah. It is working with Enable. The dialog between governance and management is a constructive one and management's focused on this is, as evidenced by the renegotiation of some contracts that they've been working on to accomplish that. So that comment about trying to reduce commodity exposure is with what management will do at Enable.

Q - Insoo Kim {BIO 19660313 <GO>}

Understood. And finally, just regarding the Atmos Energy Marketing acquisition. Is the strategy for the Energy Services business to continue to make ongoing acquisitions to grow that business?

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

Yeah. Let me characterize the strategy this way, we see it as an important part of our business mix. It's a great complement to our gas utilities, and we continue to – we will continue to look for opportunities organically through the management team for growing that business just as we're growing our Utilities. I would characterize any thoughts around M&A as opportunistic as oppose to a stated strategy in that direction. Our goal, though, is to continue to grow that business just as we're growing our Utilities.

Q - Insoo Kim {BIO 19660313 <GO>}

Got it. Thank you. And I'll see you in a few days.

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

Yeah.

Operator

The next question is from Abe Azar with Deutsche Bank.

Q - Abe C. Azar {BIO 18846367 <GO>}

Good morning.

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

Good morning.

Q - Abe C. Azar {BIO 18846367 <GO>}

Is your new 2016 guidance – is that the new base for the 46% growth from here?

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

Yes, it is.

Q - Abe C. Azar {BIO 18846367 <GO>}

Okay. And can you comment a little bit more on the dividend growth? I heard you mentioned the goal to decrease the payout ratio. Is there any targets for dividend growth from here?

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

There are no specific targets with respect to dividend growth. And, of course, at the end of the day, it's Board of Directors' responsibility to review a number of factors prior to their declaration of a dividend. Having said that, we do intend to grow the dividend, it just may not be at the same robust pace of our earnings growth. And this will allow us to grow the dividend and bring down the payout ratio at the same time.

Q - Abe C. Azar {BIO 18846367 <GO>}

Right. Okay, that's it.

Operator

The next question is from Ali Agha with SunTrust.

Q - Ali Agha {BIO 1509168 <GO>}

Thank you. Good morning.

A - Operator

Good morning.

Q - Ali Agha {BIO 1509168 <GO>}

Scott, I just wanted to clarify, in the past you had mentioned that your plans for what you want to do with Enable, you'd firm them up and communicate to us in the second half of this year. Am I hearing it right that the time may slip given some of these things playing out and maybe it's more early next year we will hear from you, or is it still by the end of this year we should definitely hear from you?

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

Yeah. Ali, as Bill said, the process is taking a little bit longer than originally anticipated. I can't tell you when the process will specifically end. As Bill said, we still are in conversations with third parties. And should those dialogs continue past the end of the year, then I guess, it's technically possible that it goes on into the following year. But as long as, we're having these dialogs, the process will continue.

Q - Ali Agha {BIO 1509168 <GO>}

I see. And second question, just so that we're clear on the conversion from the Enable numbers to yours, I know, there's basis differential, et cetera. But if you just took their 2017 net income guidance. What is that translate into for CenterPoint, just taking their numbers as they publically stated those?

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

Ali, this is Bill. They confirmed that, you know, around the midpoint of their guidance, and that number would translate into $0.21 per share for us on an annual basis plus another $0.07 due to the accretion for a total of $0.28. That's why in our prepared remarks, we said, we should be at the high-end of the guidance that we have provided.

Q - Ali Agha {BIO 1509168 <GO>}

Right. But they've also put out their 2017 net income number as well, I was more focused on that?

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

So they've put out their 2017 net income number. We have not translated what that might mean into earnings per unit, and from that, earnings per share of CenterPoint.

Q - Ali Agha {BIO 1509168 <GO>}

Okay, but the basis differential, well, we should assume is roughly the same as it is for 2016?

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

That will be unchanged.

Q - Ali Agha {BIO 1509168 <GO>}

Okay. Thank you.

Operator

The next question will come from Neel Mitra with Tudor, Pickering.

Q - Neel Mitra {BIO 16431920 <GO>}

Hi. Good morning.

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

Good morning, Neel.

Q - Neel Mitra {BIO 16431920 <GO>}

How do we look at the sale option for Enable after the 120-day period has passed since you rejected OGE or its partner's offer. At that point, would you preclude the option of the sale or would you restart the process and how would that work?

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

Neel, good morning. It's Bill. I think to be clear, we haven't commented on OG&E's offer. What we said in our prepared remarks is we remain in discussions with other parties and should those discussions continue past mid January then for our partnership agreement we would need to give OG&E another right of first offer or ROFO.

Q - Neel Mitra {BIO 16431920 <GO>}

Got it. Okay. And, you know it seems like you're evaluating the possibility of a spend more. And it seems you're getting a little bit more comfortable with that, if I'm reading right. How do you consider the possibility of that trading as a standalone C corp versus the MLP aspects that OGE and the public cloud would own?

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

All right. So, when we announced the strategic review process, we said we would be on concurrent paths of thinking about either a sale or a spend. So, I wouldn't want to imply that we're weighing one or of those more heavily than the other. We are attentive to what I refer to as capital markets considerations, including where -- how that C corp would trade and how portfolios mangers would think of it as a security.

Q - Neel Mitra {BIO 16431920 <GO>}

Okay. Thank you.

Operator

The next question will come from Nick Raza with Citigroup.

Q - Nick S. Raza {BIO 20528692 <GO>}

Thank you, guys. Just a couple of quick clean up questions on the Atmos acquisition. Are we to assume that it's a similar multiple as the prior acquisition of the Continuum acquisition?

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

So, when we take a look at the internal rate of return, and the return on equity from the total investment...

Q - Nick S. Raza {BIO 20528692 <GO>}

Okay.

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

...so that's why we evaluate them. With respect to a multiple we haven't disclosed that, but it's $40 million for their business plus working capital.

Q - Nick S. Raza {BIO 20528692 <GO>}

Okay. And then in terms of just coming back to your response on Enable about managing the commodity volatility, and sort of working with Enable to essentially to fix some other contracts, is there sort of an appetite to get rid of some of that volatility by doing more preferred issuances?

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

Well, I think that's probably a question better set for Enable than for us. Are you asking about it from our perspective?

Q - Nick S. Raza {BIO 20528692 <GO>}

Yes.

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

Yeah. We – our – the preferred investment we made was essentially taking an amount of money that we had invested as debt and investing it as preferred at a time when that would helpful for Enable. Our stated objective as we have stated for quite some time is that we see Enable as a source of cash rather than a use of cash and I think that general theme still holds.

Q - Nick S. Raza {BIO 20528692 <GO>}

Okay. Fair enough. Thanks guys.

Operator

The next question will come from Charles Fishman with Morningstar.

Q - Charles Fishman {BIO 4772353 <GO>}

Hi. Good morning. Tracy, I didn't, unless I missed it, I didn't hear you mention Right-of-Way revenue which is always a nice little earnings stream in your segment. Can you like update that?

A - Tracy B. Bridge {BIO 17360316 <GO>}

Good morning, Charles. We anticipate for 2016 that our miscellaneous revenue including Right-of-Way will be in the range of $10 million.

Q - Charles Fishman {BIO 4772353 <GO>}

Okay. So, it's continuing to have that lower trajectory, as you stated in the past, correct?

A - Tracy B. Bridge {BIO 17360316 <GO>}

That's correct.

Q - Charles Fishman {BIO 4772353 <GO>}

Okay. And then the second question I had on the Atmos acquisition, I assume just because Atmos is based up in Dallas, that maybe their concentration of customers was heavier in the Dallas and North Texas area than your existing business, is that what made it such a good fit?

A - Joseph B. McGoldrick {BIO 5483407 <GO>}

This is Joe. Actually, they are based in Houston for this business and they have two primary offices: Houston, Texas and Franklin, Tennessee. So we have some overlapping service territories, but in this acquisition we would pick up six additional states with new customers and they have a pretty heavy concentration in the Tennessee, Kentucky area. So, that's a nice complement to our existing portfolio.

Q - Charles Fishman {BIO 4772353 <GO>}

So, it's almost non-Texas stuff that maybe was the benefit on this?

A - Joseph B. McGoldrick {BIO 5483407 <GO>}

That's clearly part of it, yes.

Q - Charles Fishman {BIO 4772353 <GO>}

Okay. Thank you. That's all I had.

Operator

Thank you for your corporation. The next question will come from Lasan Johong with Auvila Research.

Q - Lasan Johong {BIO 4135934 <GO>}

Thank you. On the acquisition, could you talk about the differences in margin, unit margins between your existing retail business and the Atmos acquisition?

A - Joseph B. McGoldrick {BIO 5483407 <GO>}

This is Joe again. We don't give comments on unit margins by type of customer, but I will say that they definitely have a bigger mix of industrial, large industrial customers. So almost 400 Bcf of throughput on approximately 1,000 customers. So that's a much higher use customers than we currently have in our portfolio. So we actually like that aspect of it, but we don't comment on specific unit margins by customer type.

Q - Lasan Johong {BIO 4135934 <GO>}

Okay. Then given your comment just now, is there a preference of which way CenterPoint is leaning more towards the small commercial and residential or to the larger customers?

A - Joseph B. McGoldrick {BIO 5483407 <GO>}

We like the addition that this gives us but we'll concentrate on all of our customer segments and make sure we provide them with great service, but we think this complements our portfolio nicely and it gets us into, as I mentioned earlier, some additional markets where we didn't have a presence.

Q - Lasan Johong {BIO 4135934 <GO>}

Got it. And one follow up on Enable. What is the point of trying to convert, and I'm not saying one is better than the other, but trying to convert a racehorse into a farm horse when you're talking about pulling back on the commodity volatility, maybe the whole point of owning something like an Enable is to gain that upside into commodities?

A - Joseph B. McGoldrick {BIO 5483407 <GO>}

Well, I think the way to think about it is there is a – the actions we were talking about earlier about reducing volatility have to do with the structure of the contract, not the pace at which Enable may pursue opportunities and grow. So, it has to do with reducing volatility, not taking away from the growth possibilities of that segment.

Q - Lasan Johong {BIO 4135934 <GO>}

I think I understand. Okay. Thank you very much.

Operator

The final question will come from Noah Hauser.

Q - Noah Pierce Hauser {BIO 16863816 <GO>}

Hi. Thanks, guys.

A - Joseph B. McGoldrick {BIO 5483407 <GO>}

Good morning.

Q - Noah Pierce Hauser {BIO 16863816 <GO>}

During the September conference season, you gave some drivers of 2017 for our utility net income. Are those drivers still intact or how should we be thinking about that now?

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

Noah, this is Bill. Those drivers are intact, and we will be updating all of that in our year end conference call after we have a board approval for our budgets and our capital expenditures for the 2017 year.

Q - Noah Pierce Hauser {BIO 16863816 <GO>}

Is there anything else aside from the MS acquisition that would presumably be additive to that, or is there anything else we should be focused on that could have changed?

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

I would say only on the margin.

Q - Noah Pierce Hauser {BIO 16863816 <GO>}

Okay. Thank you.

A - David Mordy {BIO 20391499 <GO>}

Thank you, everyone for your interest in CenterPoint Energy. We look forward to seeing you at EEI. We will now conclude our third quarter 2016 earnings call. And have a nice day.

Operator

This concludes CenterPoint Energy's third quarter 2016 earnings conference call. Thank you for your participation. You may now disconnect.