Q4 2015 Earnings Call

Company Participants

- David Mordy
- Joseph B. McGoldrick
- Scott M. Prochazka
- Tracy B. Bridge
- William D. Rogers

Other Participants

- Ali Agha, SunTrust Robinson Humphrey, Inc.
- Andrew M. Weisel, Macquarie Capital (USA), Inc.
- Charles Fishman, Morningstar Research
- Faisel H. Khan, Citigroup Global Markets, Inc. (Broker)
- Jeremy B. Tonet, JPMorgan Securities LLC
- John Edwards, Credit Suisse Securities (USA) LLC (Broker)
- Kamal B. Patel, Wells Fargo Securities LLC
- Michael Lapides, Goldman Sachs & Co.
- Neel Mitra, Tudor, Pickering, Holt & Co. Securities, Inc.
- Paul Patterson, Glenrock Associates LLC
- Steve Fleishman, Wolfe Research LLC

MANAGEMENT DISCUSSION SECTION

Operator

Good morning, and welcome to CenterPoint Energy's Fourth Quarter and Full Year 2015 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, Ginger. Good morning, everyone. Welcome to our fourth quarter 2015 earnings conference call. Thank you for joining us today. 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 Chief Financial Officer, will discuss our fourth quarter 2015 results and provide highlights on other key areas. We also have with us other members of management who may assist in answering questions following the prepared remarks.

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 earnings guidance provided in today's call, please refer to our earnings press release and our slides, which along with our Form 10-K 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 we 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 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 utility operations guidance range considers performance to date and certain significant variables that may impact earnings, such as weather, regulatory and judicial proceedings, volumes, commodity prices, ancillary services, tax rates, interest rates and financing activities.

In providing this guidance, the company does not include other potential impacts, such as changes in accounting standards, the value of ZENS securities and the related stocks, or the timing effects of mark-to-market and inventory.

In providing midstream investments guidance related to the company's 55.4% limited partner ownership interest in Enable, the company takes into account such factors as Enable's most recent public forecast, effective tax rate, the amortization of our basis difference in Enable, and other factors. The company does not include other potential impacts such as changes in accounting standards, impairments, 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. 2015 was a strong year for CenterPoint. Our utility operations performed well, helping us to achieve our earnings objective on a guidance basis by earning at the top end of our guidance range.

Enable made a strong contribution to our earnings as well, falling in the middle of the guidance range we had provided at the start of 2015. Using the same basis that we use when providing guidance, full-year adjusted earnings were $475 million or $1.10 per diluted share. During 2015, we were focused on creating shareholder value through sustainable earnings growth. Our intention remains to grow annual EPS 4% to 6% through 2018. Given the reduction in Enable's unit price throughout the year, we recorded non-cash impairment charges in both the third and fourth quarters of 2015. As a result, this morning we reported a loss of $692 million, or a loss of $1.61 per diluted share for 2015, compared with net income of $611 million or $1.42 per diluted share in 2014. Bill will discuss more about the impairments later in the call.

Slide four highlights several of the components that drove our 2015 performance. We continue to see strong customer growth in both our electric and gas utilities. Combined, our utilities added nearly 80,000 new customers in 2015. Our collective rate base grew 10%. We obtained $90 million in annualized rate relief, excluding $48 million of interim rate relief in Minnesota that will be decided upon in 2016. Further, we continued to focus attention on O&M and financing costs. The collective impact of these components led to 2015 utility operations earnings of $0.79 per diluted share, compared with baseline 2014 utility earnings of $0.70 per share, an increase of nearly 13%.

Each year we conduct an annual assessment and prioritization of capital needs driven by requirements around safety, growth, maintenance and reliability. As you will see in Tracy's and Joe's slides, our planned capital expenditures for the upcoming years, while remaining well above historic levels, will be down from the peak expenditure level of 2015. Associated with this reduction, we anticipate our utility rate base growth will more closely track utility earnings growth, allowing us to maintain our 4% to 6% earnings growth target for CenterPoint Energy as a whole. Our plan assumes we maintain ROEs at or near our allowed returns.

On slide five, you can see EPS on a guidance basis for last year, as well as our target for 2016. The percentage of earnings from our utilities is expected to increase from about 65% in 2014 to 75% to 80% in 2016. Also, the utilities provided over 80% of the cash flow in 2015. As our utilities continue to grow, they provide a larger ballast that can help mitigate additional commodity-driven earnings challenges that may impact Enable.

Our 2016 EPS guidance of $1.12 to $1.20 represents solid growth following a very strong performance in 2015. We anticipate this growth will be built upon many of the same factors that drove us forward in 2015: growing service territories, management of capital, and timely recovery on and of our investments. These factors will continue to be aided by ongoing attention to financing and operating costs.

Turning the midstream investments, we believe continued focus on Enable's financial performance and balance sheet strength translates into value for CenterPoint Energy shareholders. Despite the commodity environment, Enable remains financially sound with solid fundamentals and encouraging operating statistics. I have noted some of the key takeaways from Enable's call last week on slide six.

Producers remain active within Enable's footprint. Currently there are 28 rigs drilling wells to connect to Enable System in Anadarko basin. Enable's processing and transportation volumes are up over 2014, and their Bear Den system in the Bakken has increased volumes by 6,500 barrels per day in the fourth quarter of 2015, compared to the third quarter of 2015. From a financing perspective, Enable will have no debt maturities due this year or in 2017, and as of year-end 2015, reported $1.2 billion available under their credit facility.

CenterPoint's core strategy remains to operate, maintain, and invest in our current utility service territories, deploying capital to address needs for system growth, maintenance, reliability, safety and customer interactions. Beyond our core strategy, we continue to look for additional opportunities to grow earnings.

On slide – as shown on slide seven, we recently announced two transactions that demonstrate our commitment to pursuing sustainable earnings growth. First, we announced we would be using funds paid to us by Enable for outstanding debt to invest in a preferred security at Enable. This is an accretive investment for CenterPoint shareholders with a return of 10%.

Additionally, we announced an earnings-accretive acquisition of Continuum's retail energy business, which expands our profitable low-risk energy services business. As for our announcement about strategic reviews, over the past 12 to 18 months, we've been asked by many investors about two topics: Enable's fit within our portfolio, and separately, whether we would consider forming a REIT for utility assets. In response, we have announced we will independently study each for sustainable value creation.

I want to stress that we are in the evaluation stage. Long-term shareholder value creation and long-term business model sustainability are top priorities in our evaluation process. We will not pursue actions that provide only short-term financial benefits or that will negatively impact our ability to serve our customers and address the growing needs of our vibrant service territories.

We do not plan to answer questions, as premature discussions could prove confusing and distracting to the process. We plan to share as we reach conclusions, and while we have no definitive timeline, we anticipate providing an update during second half of 2016.

Turning to slide eight, I will conclude my comments by acknowledging the commitment and accomplishments of our employees. Their dedication to our vision of leadership could be seen through the awards we have we received. For example, J.D. Power and Associates, which measures customer satisfaction, ranked each of our gas distribution companies in the top four in their respective regions. We ranked first in operational satisfaction in natural gas operations, and were named an Environmental Champion by Cogent Energy Reports in the Midwest.

Cogent also identified our electric utility as ranking number one in Texas for customer engagement. Effective customer service strengthens our relationships with our customers, and reinforces with regulators our commitment to provide reliable utility service to the communities we serve.

In closing, let me reiterate that we remain committed to our vision to lead the nation in delivering energy service and value. We will continue to invest in our energy delivery systems to better serve our customers, and to seek timely recovery of those investments. Tracy will now update you on electric operations.

Tracy B. Bridge {BIO 17360316 <GO>}

Thank you, Scott. 2015 was another strong year for Houston Electric. Slide 10, core operating income was $502 million in 2015, compared to $477 million in 2014, representing a 5% increase. The business benefited from higher transmission- and distribution-related revenues, customer growth, and increased usage due to a return to more normal weather. These benefits were partially offset by lower equity return related to true-up proceeds, lower energy efficiency bonus (including the absence of a one-time energy efficiency bonus received in 2014), higher depreciation, and lower right-of-way revenues.

Turning to slide 11, Houston Electric added nearly 50,000 metered customers last year, which equates to 2% year-over-year growth. The Houston area added 27,000 net new jobs last year, and the Greater Houston Partnership is projecting approximately 22,000 net new jobs this year, mostly from the healthcare and construction industries. We anticipate approximately 2% metered customer growth in 2016. Recent monthly meter additions support that planned growth rate.

We continue to meet O&M expense management goals. Houston Electric held O&M expenses flat last year compared to 2014, excluding certain expenses that have revenue offsets. We will continue our efforts in 2016 as we work to keep annual O&M expense growth under 2%. Last year, Houston Electric received approval for approximately $67 million in annualized transmission- and distribution-related rate relief. About 90% of our capital investment is eligible for recovery using our annual cost recovery mechanisms: transmission cost of service, or TCOS, and distribution cost recovery factor, or DCRF. We expect to file DCRF in April and TCOS in the second half of this year. We do not anticipate a Houston Electric general rate filing in 2016, 2017 or 2018.

Turning to slide 12, Houston Electric invested $934 million of capital in 2015, which represents a 14% increase over 2014, primarily due to load growth investments. Our new five-year plan includes $3.7 billion of capital expenditures. This investment will be used to improve service reliability and system resiliency, and support load growth and ongoing system maintenance.

Right-of-way work has begun on the largest project in our capital plan, the Brazos Valley Connection. Last month the Public Utility Commission of Texas approved a certificate of convenience and necessity for Houston Electric to construct this project. We anticipate total capital spend of $270 million to $310 million, and completion by mid-2018.

As you all see on slide 13, rate base is projected to grow at a 5.2% compound annual growth rate through the five-year plan. I'm very pleased with Houston Electric's performance in 2015 and our forecast for 2016.

I'll now turn the call over to Joe McGoldrick for an update on natural gas operations.

Joseph B. McGoldrick {BIO 5483407 <GO>}

Thank you, Tracy. Natural gas operations, which includes both our natural gas utilities and our non-regulated energy services business, had another strong year. Natural Gas Utilities' operating income in 2015 was $273 million, compared to $287 million in 2014. As you will see on slide 15, $25 million of the decline in operating income is primarily due to a return to more normal weather in 2015 when compared to the extreme weather in the first half of 2014.

Rate release, customer growth, and other revenues added to operating income, but were partially offset by an increase in depreciation and other taxes. Customer growth remains strong at our utilities, having added nearly 30,000 customers since the fourth quarter of 2014, a 1% increase. The strongest growth occurred in Minnesota and Texas, and we expect similar customer growth of approximately 1% in the foreseeable future.

We managed operating costs effectively in 2015. O&M expenses were flat versus 2014, excluding certain expenses that have revenue offsets. We remain committed to disciplined O&M expense management.

We continue to invest in infrastructure and technology. For example, our natural gas utilities completed the deployment of drive-by meter reading technology to 3.4 million meters, and we continue with our pipeline replacement projects such as cast iron and bare steel in Arkansas and our Minnesota Belt Line project. These investments are improving the safety, reliability and efficiency of our gas distribution system.

We are also executing on our multi-jurisdictional regulatory strategy, filing base rate increase requests in Minnesota and Arkansas as well as annual GRIP filings and other annual mechanisms. In 2015, approximately 90% of our capital spend was eligible for recovery through a combination of annual mechanisms and forward test years.

The general rate case that was filed last year in Minnesota, requesting a $54.1 million annual increase, is on track and we expect a final order in third quarter of 2016. Interim rates of $47.8 million went into effect in October of last year. Additionally, we filed a general rate case in Arkansas in November of 2015. This is the first general rate filing we have made there since 2007, requesting $35.6 million in annualized rate recovery.

As part of the filing, we requested approval of a formula rate plan, as allowed by new legislation. The formula rate plan will allow our rates to be prospectively adjusted based on a banded ROE approach and a projected test year. We expect a final decision in new base rates to be implemented in the third quarter of 2016.

Turning to slide 16, we invested $601 million in our natural gas utilities last year, which represents a 14% increase over 2014. The increase was a combination of growth activity and public improvement projects, primarily in Minnesota and Texas, in addition to system maintenance activities across all jurisdictions. Our revised five-year capital plan includes $2.3 billion. We are prioritizing capital investments with a focus on safety, reliability and growth. And with our automated meter reading capital project now complete and public improvement expenditures expected to decline, our 2016 capital will return to a more normal level.

As you can see on slide 17, rate base is projected to grow at a 6.2% compound annual growth rate through the five-year plan. We anticipate that capital prioritization and effective implementation of our regulatory strategy will result in convergence of rate-based growth and operating income growth over the next five years.

On slide 18, you'll see that 2015 operating income for our energy services business was $38 million, compared with $23 million in 2014, excluding mark-to-market gains of $4 million and $29 million respectively. Our energy services business realized solid customer growth and has increased operating income substantially over the last two years. The business also benefited from improved margins, a reduction in O&M expense, and a lower inventory adjustment in 2015.

Energy Services is a profitable business segment that complements our gas distribution business and allows us to provide gas purchase options to CenterPoint customers across multiple states. We have worked hard to grow the commercial retail business within energy services, including by entering into an agreement to acquire Continuum's retail energy services business, subject to customary closing conditions.

With similar business models and a commitment to customer service, this transaction positions Energy Services to have access to more markets and efficiently grow our customer base by over 30% across 26 states. Moreover, our businesses share a common footprint and we expect to capture synergies and reduce G&A over time as we leverage economies of scale. The transaction is expected to increase annual gross margin by approximately 40%. With the addition of Continuum, we expect Energy Services to contribute $40 million to $50 million of annual operating income. Details for the transaction are provided on slide 19.

Our natural gas operations achieved strong operational and financial results in 2015. We are confident that our businesses will continue to grow in 2016 and beyond, as we continue to enhance service to our customers and communities and create long-term value for our stakeholders.

I will now turn the call over to Bill, who will cover financial activities.

William D. Rogers {BIO 15746544 <GO>}

Thank you, Joe, and good morning to everyone. I will begin by summarizing comments from Scott, Tracy and Joe to review the contributors to our utility operations performance from our baseline of $0.70 per share in 2014 to 79% [sic] $0.79 (20:47) per share delivered in 2015.

The primary contributors to this EPS growth were a $0.06 year-on-year improvement in Houston Electric and a $0.05 year-on-year improvement at Energy Services. These improvements were offset in part by higher income taxes. As noted by Tracy and Joe, holding O&M flat contributed to the year-on-year EPS performance at our utility operations.

As we have shared with you in the past several quarters, we are working on delivering consistent 4% to 6% annual EPS growth. On slide 21, you'll see a few points regarding our guidance. Our 4% to 6% growth target begins with the 2015 EPS on a guidance basis of $1.10

per share. The $0.02 net accretion from our investment in Enable Preferred, plus a net $0.04 from our combined utility operations and midstream investment, brings us to the mid-point of our 2016 EPS guidance.

The EPS from the utility operations is expected to increase, whereas the EPS from our midstream investment is expected to decline. As Scott noted in his comments, strong performance from utility operations, which is 80% of our EPS guidance, is expected to offset the anticipated decline in the EPS at midstream investments.

I will also provide some detail on the components of our EPS guidance. For utility operations, the midpoint of 2016's $0.88 to $0.92 EPS forecast relative to $0.79 in 2015 consists of $0.05 from operating income, $0.02 from lower interest expense and $0.04 from the dividend income associated with our recent preferred investment in Enable.

For our midstream investments, Enable provided their earnings forecast on their February 17, earnings call. This earnings forecast translated into $0.19 to $0.25 EPS for CenterPoint after accruing for income taxes. That forecast range, plus the accounting income of accretion, translates into our guidance of $0.24 to $0.28 for the midstream contribution to our combined 2016 EPS estimate.

There are certain factors which drive variation within the guidance range, which we have included in our disclosure and on page 21. Lower commodity prices are a primary example of this. If oil prices decline to $20 per barrel, we anticipate EPS from midstream investments would be at the low end of the $0.24 to $0.28 range. Similarly continued favorable interest rates versus the year-end forward curves, or exceeding our goals for Continuum integration and customer retention, could move our utility operations EPS to the high end of their range. As with 2015, we are confident in our ability to deliver within our guidance range under a variety of circumstances.

Turning to slide 22. CenterPoint's fourth quarter 2015 earnings reflects a pre-tax non-cash impairment charge of $984 million, all related to our investment in Enable Midstream. This impairment recognizes the decline in the estimated fair value of our balance sheet investment, which was $15.41 per unit as of September 30, 2015. With an Enable unit price of just over $9 at year end, it was appropriate for us to again review the investment for impairment.

With these non-cash charges, we have reduced our balance sheet investment in Enable Midstream from $3.6 billion to $2.6 billion. The new per-unit value of a $11.09 as of year-end is calculated using multiple methods, and includes the value of our limited partner common and subordinated units and our general partner and incentive distribution rights.

Importantly, these impairments do not affect the company's liquidity, cash flow, or compliance with debt covenants. After the impairment, the equity percentage in the capital structure is 36% at CenterPoint, and at the CERC level the impairment, along with a recent $363 million dividend from CERC to the holding company, provides a pro forma equity capital of 55% at CERC.

On slide 23 we provide a forecast of our financing plans. Importantly, we do not anticipate issuing equity in 2016. Part of the reason for this is the strength of our cash flow in 2015 and our expectations for similarly strong cash flow from operations in 2016. To illustrate this, in 2015 CenterPoint made record capital investments of nearly $1.6 billion. Our cash flow covered all capital expenditures in 2015. As a result, our net increase in borrowings were only $330 million. We anticipate continued strong cash flow in upcoming years, with forecasted net debt of only $150 million by year-end 2016. With this limited net increase in debt, our cash flow coverages and our balance sheet are projected to further improve relative to 2015.

During 2015 we worked to provide for a more flexible debt structure. This resulted in similar interest expense in 2015 relative to 2014 despite increased borrowings, and as I mentioned in previous comments, we anticipate continuing to lower interest expense in 2016. With respect to income tax provisions, slide 24 also notes our 2015 effective tax rates as well as the anticipated 36% effective tax rate for 2016.

I will close by reminding you of the $0.2575 per share quarterly dividend declared by our Board of Directors on January 20. This represents a 4% increase over the previous quarterly dividend and marks the 11th consecutive year we have increased our dividend.

With that, 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. Ginger?

Q&A

Operator

At this time, we will begin taking questions. Thank you. Our first question comes from Jeremy Tonet from JPMorgan.

Q - Jeremy B. Tonet {BIO 15946844 <GO>}

Good morning.

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

Good morning, Jeremy.

Q - Jeremy B. Tonet {BIO 15946844 <GO>}

Congratulations on the strong quarter. Just had a couple of questions, and I apologize in advance if I'm crossing the line here as far as the discussion that you want to have with the strategic review, but I was just curious if you could tell us whether the re – consideration is just with the electric assets, or is the gas assets part of that process? And is there anything that you could share with us as far as what steps or factors are being considered in this process, and how – any factors that you can share with us in the evaluation of the restructure?

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

Hey, Jeremy, I hate to disappoint you, but given that we're really at the front end of this evaluation, we're not really prepared to make comments on the strategic reviews at this time, but our plan remains to update everybody once we have something to share, or a little bit later in the year.

Q - Jeremy B. Tonet {BIO 15946844 <GO>}

Okay, great. I appreciate that. That's it from me. Thank you.

Operator

Our next question comes from Neel Mitra from 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>}

I was curious, the $3.7 billion capital spending plan at Houston Electric, how much of that is contingent upon the 2% customer growth that so for you've been seeing? If that customer growth does come down, is the capital plan affected meaningfully?

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

Neel, I'll make a quick comment, and then I'll ask Tracy to expand on it. The short answer to your question is it's not linked very heavily to the customer addition number that we've talked about. And that has to do with the various categories in which we are investing for growth, and it goes well beyond just the addition of new meters for the residential sector. Tracy, if you'd like to add to that?

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

I really don't have much to add to that, Neel. You know that we have to plan into the future for this, for this grid, and while we're fairly confident that we're going to continue to see strong customer growth, these capital numbers, as Scott said, are not directly linked to that.

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

Neel, for example, we're investing a lot in transmission-level infrastructure, substations, that type of thing, and those are not – that type of growth is not linked to a residential customer addition.

Q - Neel Mitra {BIO 16431920 <GO>}

Got it. And then, in regards to the strategic review, just a very general question. Is there a reasoning or thought process behind setting an expectation for the, specifically the second half of the year, for an update? Can you maybe provide any color on that?

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

We don't have a specific timeline, but we think that there is a reasonable window in which we would expect to get back to folks with some information or conclusions from the work they we're doing. So, we feel that towards the end of the year, we've got a high degree of confidence will be at least able to update, if not to provide conclusions.

Q - Neel Mitra {BIO 16431920 <GO>}

Okay, great. Thank you.

Operator

Your next question comes from Ali Agha from SunTrust.

Q - Ali Agha {BIO 20883367 <GO>}

Thank you. Good morning.

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

Good morning.

Q - Ali Agha {BIO 20883367 <GO>}

First question. Big picture, Scott, just to understand what you guys are looking at, the strategic review, are these mutually exclusive events, thinking about exit from Enable and the REIT? Are they somehow linked? And also, again big picture, consistently you've been telling us that the Enable exit is very complicated by the fact that there's a huge tax liability that would suddenly come due. Has that issue been resolved, or is that still part of this review?

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

So, Ali, going to your first question, these are independent analyses, first of all, so, to answer that. And then secondly, with respect to the question about the tax issue, the tax issue is still very much there and part of our consideration. Doug (32:40), I don't know if you want anything to that?

A - Operator

Ali, one way. I think, for you to think about the tax issue is to take a look at our deferred tax footnote in our 2015 Form 10-K, where you'll see an accrual estimate of a deferred tax liability of $1.2 billion. That's derived from our accrual balance sheet estimated value of Enable of $11.06, which we just described relative to the basis in Enable.

Q - Ali Agha {BIO 20883367 <GO>}

Okay.

A - Operator

So maybe that's more information than you wanted, but that's one way you can think through what that might be if we were sell the units for cash.

Q - Ali Agha {BIO 20883367 <GO>}

Right. That's helpful. But my second question, again, to the 4% to 6% EPS growth guidance, since you originally articulated that the Enable outlook has gotten worse, and I think your rate base growth numbers have come down as well from previous numbers, so what has incrementally gotten better that you are still in that same guidance with the lower rate base growth number and a worse outlook for Enable?

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

Bill, I'll ask you to answer this.

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

Certainly. So, I reviewed some of this in the prepared remarks earlier where we went from $0.79 to the mid-point of our $0.88 to $0.92 for the utility operations. The three components of that which I addressed were $0.05 better operating income, lower interest expense of $0.02, and $0.04 from the preferred. The operating income is achieved through increase in revenues associated with various rate filings as well as the O&M discipline, which both Tracy and Joe mentioned, but we're expecting a strong year out of both utilities. Tracy or Joe?

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

I think that's right Bill. We've had good track record in our gas utilities, and of course with the addition – or the better performance at CES over the last couple of years, and the hopefully closing on the Continuum acquisition, we continue to see growth in operating income at our gas business that is very close to the rate base growth.

A - Operator

Ali, suffice to say it one more time, this strength in the 80% of our business covers off the challenges in the 20% of our Enable Midstream portion of our business.

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

And Ali, I'll add one other comment, just remind you back when we were first talking about this growth rate, we had indicated that we had done our own evaluation in terms of stress testing, Enable's performance in our ability to hit that 4% to 6% growth rate under a number of conditions.

Q - Ali Agha {BIO 20883367 <GO>}

Great, Scott, but just to be clear, I mean your rate base growth numbers have come down. I was looking more in the five-year outlook, not just the 2016 outlook. So what has changed in your thinking that with a lower rate base growth, the release will actually grow at a faster pace than previously thought?

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

I think Ali, if you take a look at it, the rate base growth and the operating income and EPS growth are all converging together within that 4% to 6% range. So there are a variety of factors. One is thinking hard about the capital we invest after coming off of a record year and Joe and Tracy described why it was record year. The regulatory lag and the fact that in this current plan over five years, we see a very modest amount of equity as part of our capital formation.

Q - Ali Agha {BIO 20883367 <GO>}

Thank you.

Operator

Our next question comes from Steve Fleishman from Wolfe Research.

Q - Steve Fleishman {BIO 22027192 <GO>}

Hey, good morning, everyone.

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

Good morning, Steve.

Q - Steve Fleishman {BIO 22027192 <GO>}

Couple of questions. So first, just a clarification, Bill, on the comments from the 10-K on the Enable deferred tax of $1.2 billion.

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

Yes.

Q - Steve Fleishman {BIO 22027192 <GO>}

Pardon this, but just, is that basically your negative tax basis in Enable? Is that equivalent to that, or is that basic – yeah.

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

Right. So, I'll answer that Steve. So that number is derived from the accrual value that we have on our books, less our basis, which you're right to suggest that it's negative, and then multiplying by 35%.

Q - Steve Fleishman {BIO 22027192 <GO>}

Okay. Okay. And then just on the Texas economy and the impact of the energy collapse and all that stuff, obviously didn't seem to affect you at all in 2015, and so far things still seem to be growing. Can you just maybe give a little bit more color overall on just kind of whatever data points or color on how the economy is likely to hold up, given what you're seeing?

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

Steve, I'll give you one piece of color. It took me about an hour and 20 minutes to get into work this morning because of all the traffic, which is a one sign that the economy is still robust. But I'll ask Tracy to make some comments about what we look at it in terms of our views on how the economy is performing.

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

Good morning, Steve.

Q - Steve Fleishman {BIO 22027192 <GO>}

Good morning.

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

As I mentioned in my comments, the Greater Houston Partnership is projecting some 22,000 net new jobs this year. It's obviously not in the energy industry, but we realize and benefit from a more diversified economy than what we had 30 or 35 years ago, the healthcare, construction industries; if you see the Houston skyline, you still see cranes all around the downtown area.

So we still look at 2% growth this year. One of the notable metrics that I look at is, what are we doing with customers on a month-over-month basis, and then for January, we saw healthy residential customer growth, and that's a sign that, that the economy, while it may be slowing down a little bit, it's not appearing to slow down very much. So, the jury's still out, we still have 10.5 months to go, but so far so good in terms of what we're seeing with customer growth.

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

Steve, you've heard me comment and, I think Tracy's commented as well in the past about the number of crews that we have out putting infrastructure into subdivisions ahead of the builders coming in and building homes. We track those crews and that activity. This – right now, we have more crews working now than we did a year ago. And the – we also track housing inventory in the area, to see if there's a rise in the housing inventory, and that number has stayed very, very healthy at – being a low number, it's about three-and-a-half months of inventory against what many consider to be a more balanced market of about six months, and that number is really not changing that much either.

So, we're still seeing a lot of indicators that suggest the housing sector is still very strong and that we're not building up inventories of homes that are sitting around.

Q - Steve Fleishman {BIO 22027192 <GO>}

Okay. Great. And then just I guess lastly, just the – is the dividend strategy the same, to kind of tie into dividend growth to earnings growth, through 2018?

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

Yes. It is. Our messaging around this is that we're going to have dividends follow earnings, and our earnings growth target is, as we've shared with you, 4% to 6% over this period.

Q - Steve Fleishman {BIO 22027192 <GO>}

Okay. Great. Thank you.

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

Yup.

Operator

Our next question comes from Faisel Khan from Citigroup.

Q - Faisel H. Khan {BIO 20594264 <GO>}

Thanks. Good morning.

A - Operator

Good morning.

Q - Faisel H. Khan {BIO 20594264 <GO>}

Good morning. Just want to make sure I understood sort of the – sort of modest amount of equity needs with the growth in rate base. So it sounds like that could all be sort of taking care of, into the GRIP program, but does that also sort of – does it require the distributions from Enable, or is this sort of independent of the Enable distributions?

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

Faisel, it's Bill. So, I said modest over the five-year horizon. If you wanted to take today's equity market cap of CenterPoint and sort of derive what modest might mean, it would be low single-digits, as a percentage of today's equity market cap, over five years, so not in each of the five years, over five. To look at it in another way, if we were to use our GRIP program and other ongoing programs in any given year, if that were maxed out, that might be $200 million of equity. We didn't use it last year or prior year, nor are we looking at it this year.

With respect to how we think about distributions to Enable's and how that fits in, as Scott mentioned in his opening comments, Enable's contribution to our cash flow was less than 20%. So it's important to us, but it's not a driver in terms of our thinking about capital formation. Certainly if there were a reduction in that cash flow, we'd have to take a hard look at our credit metrics and see if it would be appropriate to issue a little bit more equity.

Q - Faisel H. Khan {BIO 20594264 <GO>}

Okay. That's very clear. Thank you guys. I appreciate the time.

Operator

Our next question comes from John Edwards from Credit Suisse.

Q - John Edwards {BIO 5223230 <GO>}

Yeah, good morning, everybody. And my parking garage in downtown Houston has more spaces than it did before, so anecdotally there's – looks like some impact, just to your comment earlier, but thank you for your commenting on the customer growth environment. So my question then would be just on Energy Services business, I'm just curious, how you envision the Continuum acquisition, how you envision leveraging that, maybe if you could give us a little color on the, kind of the longer term growth outlook and plans for that?

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

Joe, do you want to take this?

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

Sure. Yeah. John, we plan on integrating that business fairly quickly after we close, and as we've pointed out, it adds about 30% to our C&I customer base. Their business is in very similar service territories to what we have currently. So, we plan to take advantage of the scale and the reach that we would have by adding those customers, and continue to really deliver on what we've been delivering on, we feel, over the last few years in that business. And so that we – for example, we retained on average 92% of our customers over the last three years, and with the addition of Continuum's customers, we can offer better products and services, perhaps more competitive pricing to our customers, and just continue with the success that we've enjoyed the last few years.

So we're excited about this opportunity and think that the performance of the business in the last couple of years demonstrates our ability to continue to grow that business as a complement to our gas utility.

Q - John Edwards {BIO 5223230 <GO>}

Okay. That's helpful. Could you just comment on perhaps the kinds of additional products and services that you'd be contemplating?

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

Well, we have – we're going to get – once we get the business integrated, we're going to look at some of the things that they've been doing compared to some of the things that we've been doing, and just take the best of both in terms of giving additional services and pricing products to our customers. For example, in this low price environment, we're starting to see a lot of customers interested in locking these prices, given the low levels, and so with the bigger size of the business and some of the things that both companies have been doing, we will take advantage of that and stabilize those margins over an extended period of time.

Q - John Edwards {BIO 5223230 <GO>}

Okay, that's helpful. Thank you. That's it for me.

Operator

Our next question comes from Michael Lapides from Goldman Sachs.

Q - Michael Lapides {BIO 6317499 <GO>}

Hey, guys. Thank you for taking my question.

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

Good morning, Michael.

Q - Michael Lapides {BIO 6317499 <GO>}

Just want to – I 'm thinking about the utility in the parent EPS growth for 2016 from 2015, and then longer term. Because the growth from 2015 to 2016, going from $0.79 to almost $0.90, if I use your 4% to 6% EPS growth longer term, that implies a much lower growth rate after 2016. I'm just kind of doing back-of-the-envelope math. Am I missing something here, or is that or is that fundamentally the way we should be thinking about this? Right, because 2015 to 2016 is almost 10% growth, so I'm just trying to think about what the growth rate is beyond that?

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

Right. So Michael, it's Bill. I'll start with that, and Scott may have additional comments. We – first, the income from the preferred investment, that should continue on. The savings from lower interest expense, that should continue on, and in fact there are more opportunities in 2017 and 2018 to take a look at interest expense management. And finally and most importantly, I think you'll see an acceleration of the – or could see an acceleration of the year-on-year operating income delivered by electric and gas, as they execute on the strategies, which Joe and Tracy has mentioned and as the rate base comes into revenue requirement.

Q - Michael Lapides {BIO 6317499 <GO>}

But why wouldn't that lead to a higher growth rate, if you're doing 10% in the first year? Because you're capturing the benefit of a lot of that stuff, the financing – the initial financing savings, the Enable preferred, you're capturing that in a10% growth this year. I'm just curious why it wouldn't, if there are other incremental things that are going to happen in 2017 and beyond, and you are doing 10% in the first year, why your long-term growth rate wouldn't have been a higher number?

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

Michael, I think one way you can think of this is, the items that have – that we've executed, like the preferred for example, that just provides a step change that continues going forward. But the base business, we're still committing to a 4% to 6% growth. So if you've had some things in here that provide a step change like a Continuum or like a – like the preferred, then we would intend to grow off of that higher base that's established by those new levels of earnings, or those new earnings amounts.

Q - Michael Lapides {BIO 6317499 <GO>}

Got it. One another thing just on cash flow, when I think about the CenterPoint dividend, how much of that dividend comes from cash that is being up-streamed by either the Houston Electric T&D business or the gas distribution or Energy Services business, and how much of that dividend is either coming from the Enable contributions or from things like parent debt or other items?

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

Right. Michael, that would vary from year to year, beginning with a recognition that the cash distributions from Enable come into CERC, which owns the LDCs as well as our CES, CIP business, and Enable. So when we take a look at CERC's balance sheet and determine what's the appropriate strength of that balance sheet and through its earnings, cash flow, determine how much we would dividend out of CERC in any given year. We could – as I said, after the impairment and then pro forma for the dividend distribution associated with Enable's paying down debt owed to CERC, their balance sheet is at 55%.

So we'll start with that balance sheet. On the Houston Electric side, again, it depends upon their sources and uses of cash, as well as their earnings for the year, but we target to maintain a 45% equity of the capital, and then dividend funds after that. Now, going to the dividend, which clearly is paid out of the holding company, the sort, the – whether there's borrowings from the holding company or whether it's fully sourced from CERC and Houston Electric will depend on how much dividends they make and the borrowings that the holding company make after that.

Q - Michael Lapides {BIO 6317499 <GO>}

Got it. Yeah. I just – I asked that question only because if I look at what happened in the MLP world over the last six months to nine months, the dividend yields of certain stocks sometimes send a signal to the market implying a potential dividend cut of the MLP. And what I'm just trying to think about, and I look at this across all the utilities we cover that own MLPs right now, is there the risk that if there is a distribution cut at the MLP level, what that means for the utility holding company's dividend level?

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

Well, Scott mentioned this, and I included it as a response to an earlier question. Remember that Enable is less than 20% of the cash flow of CenterPoint. Our utilities are strong and increasing their cash distributions. Second point I pointed out is that I mentioned really very little in the way of net incremental debt in 2016, and that's associated again with the strong cash flow of our utilities.

So while, if you're suggesting that there is going to a change in the distribution from Enable, if that were to happen, I don't think it has a meaningful impact on us in the near term, given the relative amount of that cash flow and the strength of our balance sheet.

Q - Michael Lapides {BIO 6317499 <GO>}

Got it, Bill. Thank you. I appreciate your taking the time and going to that level of detail with us, and I'll follow up afterwards.

Operator

Our next question comes from Andrew Weisel from Macquarie.

Q - Andrew M. Weisel {BIO 15194095 <GO>}

Hey, good morning.

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

Good morning, Andrew.

Q - Andrew M. Weisel {BIO 15194095 <GO>}

Just to follow up on that last line of questioning, if you were to divest or spin off your stake in Enable, how would you think about the dividend under that scenario?

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

If something like that were to happen, I think you'd have to rethink the whole picture. But again, it's too early to really provide any thoughts or any commentary on what that would look like, other than to say you would have to reconsider it in a more broad base.

Q - Andrew M. Weisel {BIO 15194095 <GO>}

Okay. Well, let me ask it this way then. Could the CenterPoint Energy without Enable support the current dividend, and maybe would you consider taking on additional debt or use potential cash proceeds to sustain the current dividend?

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

Andrew, I think there's a lot of theoreticals there. So without Enable contemplates we've done something with our Enable ownership, but doesn't yet contemplate what the use of proceeds from that might be.

Q - Andrew M. Weisel {BIO 15194095 <GO>}

Well, I guess it's essentially what I'm asking.

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

And as Scott has said, we will be back to you as we conclude these reviews in the second half of this year.

Q - Andrew M. Weisel {BIO 15194095 <GO>}

Okay. Understood. My other question is, it looks like the 2016 through 2019 CapEx plan has come down quite a bit from what you guided to a year ago. That, in addition to the bonus depreciation, is obviously what's driving the lower rate base numbers, but on the CapEx itself, can you give us some commentary as to why the forecast has come down so sharply?

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

I'll give you some commentary. I'll ask these other gentlemen here, if they would like to add into that. Each year we sit down and go through an exercise to assess how much capital is needed in the out years, and 2015 was a very high year. Some of the spend that was perhaps looked at for outer years had been pulled forward. And we've had reductions in other areas, public improvement, that type of thing, and then Joe mentioned earlier, we have completed some projects that are no longer going to continue into the future years.

So it's really driven by the needs of the system, and I will say that as you look further out, there's less clarity about what that specific value looks like, as you get out towards the end of the plan. And as we update the needs on an annual basis, you could see that number out there fluctuating based on needs for the system. Joe, Tracy, do you want to add any color to that?

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

Andrew, I'd point you to pages 27 and 32 in the appendix. I think those are the best graphical representations with the answer to your question, and to make a more complicated story shorter and more digestible, two categories stand out. They are the categories in the red and the categories in the blue. They are the public and system improvements, and load growth, and both of those represent the majority of the change in the capital structure. And I would just point out that it's not that all the rest of the years are anomalous, it's that 2015 was unusually high, the way I see it. So, I think that's the best answer to the question, but Joe may have additional to share.

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

Andrew, a very similar answer for gas. 2015, there was almost $70 million in there between our advanced – the completion of our Advanced Meter project, public improvement that we don't expect to continue at that level, and other expenditures such as some work we're doing on our new facilities at our Porcaro Tech Leak Detection technology, et cetera. So, 2015 was somewhat of an anomaly from the standpoint of the level of CapEx, and we'll go back to more normal levels.

In addition to, we've done a good job and have worked hard to prioritize our capital, especially in the near term, but we're meeting all of our needs in terms of integrity management, CapEx, et cetera, and have an aggressive strategy still to replace cast iron with bare steel and so on.

A - Operator

Andrew, it's also – it also can be very difficult, both of these gentlemen mentioned, it can be very difficult to forecast public improvement dollar spend, as that's something that is influenced by other activities around us. So that's certainly one of the categories. I do want to highlight too, though, that while the spend is reduced from prior plans, and the rate base growth is impacted by not just the spend but by bonus deprecation, we are essentially working hard to optimize and maintain the earnings at prior levels that we've been talking about.

Q - Andrew M. Weisel {BIO 15194095 <GO>}

Got it. That makes a lot of sense. Thank you.

A - Operator

Yup. Thank you.

Our next question comes from Charles Fishman from Morningstar.

Q - Charles Fishman {BIO 4772353 <GO>}

If I could just follow up on the last question though, I mean, yes, 2015 is higher, but if I can compare your new five-year plan with the old five-year plan, 2016 through 2019, the CapEx numbers for both T&D and gas distribution are down 15%, 20%. So is that all coming from this public improvements area? I haven't had time to look at those slides in the appendix.

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

Charles, those are major contributors to it, but they are not the only, there is also some reductions as our folks look at the system, particularly on the electric side; some reduction is associated with estimates around the growth capital that's needed to fill the needs of the system over this period. And Joe, was there another – was there any other point for the gas business, other than the public improvements?

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

I think as we've looked at prioritizing that capital, and especially replacing old pipe and old infrastructure, part of what we are doing is taking advantage of our risk-based system that we've had in place in the past, but really fine-tuning it to be very systematic in the way we go about that. So in other words, we want to replace the riskiest pipe first, and so as we've gotten more clarity around how that occurs, it's actually – we've actually determined that it doesn't need to be as much capital as we thought just a year ago. So that's another factor in our budget.

Q - Charles Fishman {BIO 4772353 <GO>}

Scott, when you went into the annual planning process, did you ask your key people, because we're not as certain about what's going to happen with distributions to Enable, to reduce -- to essentially extend out some of these projects that you had originally planned a year ago? Is that some what's going on?

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

No, this is driven primarily by the assessments that boil up from the organization about the CapEx that's needed for things like maintenance, reliability, growth. And those requirements and those inputs change year-to-year as the engineers are looking at the demands on the system and projects that are coming and going, where they're being sited. And as you look further out, I think it becomes less clear as to exactly what's going to occur in those particular years, and as we revise this again this coming year, you could see some fluctuations in those out years just like we've seen here. But we build this based on the operators' input of what's needed to run these systems safely and reliably.

Q - Charles Fishman {BIO 4772353 <GO>}

Well your plan going forward, then, is to update the five-year plan every year, just once a year?

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

Yes that's been our practice.

Q - Charles Fishman {BIO 4772353 <GO>}

Okay. Thank you.

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

Yep.

Operator

Our next question comes from Kamal Patel from Wells Fargo.

Q - Kamal B. Patel {BIO 5937987 <GO>}

Good morning, everyone. First of all, thanks for adding slide 33. Provides some clarity on the rate case timeline. Bill, this question is probably more for you. Trying to get an idea of some of these debt numbers, the refi of $600 million at Houston, I'm guessing that's refi'ing of short-term debt? And then the debt maturities at CenterPoint and CERC, is that going to be refi'ed or is that pending some clarity on the strategic review?

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

Sure. So, right. Today, we have approximately $1 billion in short-term debt outstanding, against just over $6 billion in total debt. So we have a conservative interest rate risk profile. Having said that, we recognize at Houston Electric, it's appropriate to term out some of that debt. So the $600 million that we're terming out is just that, it's largely terming out existing short-term borrowings, plus Houston Electric will be a borrower this year; it has a sizable CapEx program.

And then the maturities, we have one maturity this year at CERC, and then we have maturity next year at CERC and at the holding company. We'll take a look at how those might be refinanced as they come due and in the context of our balance sheet. As I said in my prepared remarks, inclusive of our pending acquisition of Continuum, we only expect to have incremental borrowings this year of $150 million. Does that help?

Q - Kamal B. Patel {BIO 5937987 <GO>}

Okay. Thank you.

Operator

Our last question comes from Paul Patterson from Glenrock Associates.

Q - Paul Patterson {BIO 1821718 <GO>}

Good morning.

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

Good morning, Paul.

Q - Paul Patterson {BIO 1821718 <GO>}

You know, you guys have answered a lot of questions. I really have one very simple one, and I apologize for not getting this clear. But the $2.6 billion of – that's associated with the current carrying value at Enable. What is the tax basis on that, if you could – I mean, if you break that down to me, what would be the equivalent tax basis vis-à-vis the $11.06 or $2.6 billion?

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

Paul, this is Bill. Just to clarify are you working to connect the impartment relative to the tax?

Q - Paul Patterson {BIO 1821718 <GO>}

I'm working to sort of figure out what you guys are currently carrying at Enable, in terms of – on a tax basis, if you were to actually do a taxable transaction associated with it?

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

Okay. Got it. So the impairment of our investment in Enable is related to taxes that we might pay, should we sell Enable for cash, in that they are accrual estimates, right? So that we took an impairment charge based upon year-end factors and brought down the balance sheet investment in Enable to $11.06, and then when we took down that balance sheet investment, it was – we needed to update, and within our deferred taxes, what that deferred tax would be. So both are accrual estimates, and the deferred tax estimate is based both upon the balance sheet number, as well as our current tax basis in Enable. And on an earlier call we were asked if that's negative, in fact it is.

And we can help you through that math, but those are the factors. The actual tax obligation, should we consider a cash sale, would be based upon the proceeds at that time, and the basis at that time.

Q - Paul Patterson {BIO 1821718 <GO>}

And the tax basis is what?

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

The current tax basis?

Q - Paul Patterson {BIO 1821718 <GO>}

Yeah.

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

The way to derive that is, again, take the $11.06, the $1.2 billion in the tax footnote, and 35%, you can derive a tax basis that is negative several hundred million dollars.

Q - Paul Patterson {BIO 1821718 <GO>}

Okay. Okay. Thanks so much.

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

Okay, Paul.

Q - Paul Patterson {BIO 1821718 <GO>}

Sorry for the clarification request. Thanks so much.

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

I believe that was our final question. Thank you everyone for your interest in CenterPoint Energy. We now conclude our fourth quarter 2015 earnings call. Have a nice day.

Operator

This concludes CenterPoint Energy's Fourth Quarter and Full Year 2015 Earnings Conference Call. Thank you for your participation. You may now disconnect.