

# CenterPoint Energy's (CNP) CEO Scott Prochazka on Q3 2019 Results - Earnings Call Transcript

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## Q3: 11-07-19 Earnings Summary

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EPS of \$0.53 beats by \$0.10 | Revenue of \$2.74B (23.96% Y/Y) misses by \$-164.36M

## Earning Call Audio

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CenterPoint Energy, Inc. (NYSE:CNP) Q3 2019 Earnings Conference Call November 7, 2019 10:00 AM ET

## Company Participants

David Mordy – Director-Investor Relations

Scott Prochazka – President and Chief Executive Officer

Xia Liu – Executive Vice President and Chief Financial Officer

Jason Ryan – Senior Vice President and General Counsel

## Conference Call Participants

Ali Agha – SunTrust

Michael Weinstein – Credit Suisse

Constantine Lednev – Guggenheim

Julien Dumoulin-Smith – Bank of America Merrill Lynch

Insoo Kim – Goldman Sachs

Chris Turnure – JPMorgan

Charles Fishman – Morningstar Research

Ashar Khan – Verition

Anthony Crowdell – Mizuho

**Operator**

Good morning and welcome to CenterPoint Energy's Third Quarter 2019 Earnings Conference Call with senior management. [Operator Instructions]

I will now turn the call over to David Mordy, Director of Investor Relations. Mr. Mordy, please go ahead, sir.

**David Mordy**

Thank you, Jumeirah. Good morning, everyone. Welcome to our third quarter 2019 earnings conference call. Scott Prochazka, President and CEO; and Xia Liu, Executive Vice President and CFO, will discuss our third quarter 2019 results and provide highlights on other key areas. Also with us this morning are several members of management, who will be available during the Q&A portion of our call.

In conjunction with our call, we will be using slides, which can be found under the Investors section on our website, centerpointenergy.com. For a reconciliation of the non-GAAP measures used in providing earnings guidance in today's call, please refer to our earnings news release and our slides on our website. Please note that we may announce material information using SEC filings, news releases, public conference calls, webcasts, and post to the Investors section of our website. In the future, we will continue to use these channels to communicate important information and encourage you to review our website.

Today, management will discuss certain topics that will contain projections and forward-looking information that are based on management's beliefs, assumptions and information currently available to management. These forward-looking statements are subject to risks or uncertainties. Actual results could differ materially based upon factors, including weather, regulatory actions, the economy, commodity prices and other risk factors noted in our SEC filings. We will also discuss guidance for 2019.

The 2019 guidance basis EPS range excludes variables as provided in our press release, including certain merger impacts such as integration and transaction-related fees and expenses, including severance and other costs to achieve; and merger financing impacts in January prior to the completion of the merger; and potential impacts of the pending Houston Electric rate case.

The 2019 guidance range considers factors described in our press release and slides, including operations and performance to date and assumptions for certain significant variables that may impact earnings such as normal customer growth, usage and weather, throughput, commodity prices, recovery of capital invested through rate cases and other rate filings but excluding any potential impact from the current Houston Electric rate case as well as the volume of work contracted in our Infrastructure Services business.

The range also considers anticipated cost savings as a result of the merger and assumes the lower end of Enable Midstream Partners' 2019 guidance range as provided on Enable's third quarter earnings call on November 6, 2019. In providing this guidance, CenterPoint Energy uses a non-GAAP measure of adjusted diluted earnings per share that does not consider other potential impacts such as changes in accounting standards or unusual items, including those from Enable; earnings or losses from the change in the value of ZENS and related securities or the timing effects of mark-to-market accounting in the company's Energy Services business, which, along with the certain excluded impacts associated with the merger and potential impacts of the pending Houston Electric rate case, could have a material impact on GAAP reported results for the applicable guidance period.

CenterPoint Energy is unable to present a quantitative reconciliation of forward-looking adjusted diluted earnings per share because changes in the value of ZENS and related securities and mark-to-market gains or losses resulting from the company's Energy Services business are not estimable as they are highly variable and difficult to predict due to the various factors outside of management's control.

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

### **Scott Prochazka**

Thank you, David, and good morning, ladies and gentlemen. Thank you for joining us today, and thank you for your interest in CenterPoint Energy. I'm very pleased to report we had an excellent quarter.

Turning to Slide 5, excluding merger impacts, this morning, we reported third quarter adjusted earnings on a guidance basis of \$0.53 per diluted share compared with \$0.39 in the third quarter of 2018. Given this strong performance, we expect full year guidance basis EPS to be near the upper end of our EPS guidance range of \$1.60 to \$1.70. Xia will cover our financials in greater detail shortly.

Turning to Slide 6, let me begin my update on Houston Electric by sharing what sets Houston Electric apart. Since the beginning of this decade, Houston Electric has added over 400,000 customers, an increase of more than 20%. To keep pace with this growth and address needs for enhanced reliability and resiliency, the utility has invested close to \$8 billion on transmission and distribution infrastructure, including approximately \$1.5 billion of investment that is serving customers today but is not yet in rates. We work hard to provide safe, reliable, value-added service for our customers every day, and we have helped the city of Houston weather numerous storms, including Hurricane Harvey.

In 2018, we were the recipient of the Edison Electric Institute's Emergency Recovery Award for our restoration efforts following Hurricane Harvey and other severe storm incidents. Our performance can be largely credited to the investments we have made to

harden and advance our system. Meanwhile, we've been able to keep rates low while achieving the highest residential customer satisfaction ranking among investor-owned utilities.

Moving now to the status of the Houston Electric rate case, let me comment on a proposal for decision, or PFD, put forward by the administrative law judges. This document is an interim step in the process, and the outcome will ultimately be decided by the commissioners of the Public Utility Commission of Texas or PUCT.

On Slide 7, we show the reduction in operating income and funds from operations, or FFO, as compared to our request and the amount we would have to write off from our rate base if the PFD were adopted in full. The proposed reduction in operating income of almost \$30 million compared to current rates and the reduction in FFO of over \$100 million was not anticipated in our prior 2020 EPS guidance nor our five-year earnings growth projection.

We expected a reasonable increase of operating income from today's rates and a full recovery of our capital investment. The proposed reduction in earnings is inconsistent with our rate filing, which was heavily driven by recovery of over \$1 billion in capital that has already been put in service for our customers through 2018 but is not yet being recovered in rates.

Let me remind you that the PFD is not an order from the PUCT. We have faith in the full regulatory process and remain hopeful the commissioners will make a balanced decision that will allow Houston Electric to recover all of its capital investments and maintain its credit quality, financial integrity and current high-quality operations and customer service. We look forward to a constructive resolution of this case.

Slide 8 outlines an estimated time line for the case going forward. We anticipate our case will initially be addressed at the next PUCT open meeting on November 14 and continuing, if necessary, at the December 13 open meeting. After the PUCT issues the final order, new rates will go into effect 45 days later. Our natural gas distribution businesses are also performing well.

Looking at Slide 9, since the beginning of this decade, CenterPoint Energy legacy gas utilities have increased customers by nearly 10% and invested over \$5 billion on infrastructure. In addition, we added over 1 million gas utility customers from the merger earlier this year. Today, as a combined gas utility, our expected investments for 2019 is over \$1 billion. We work hard to provide safe, reliable, value-added services to our customers every day. Additionally, we achieved the highest residential customer satisfaction ranking from J.D. Power among large southern region utilities and have kept rates low.

Our natural gas distribution, as shown on Slide 10, since the last call, we have received approval for an aggregate of \$41 million of annualized revenue increases. Specifically, we settled the Ohio rate case, receiving a \$23 million increase in the annual revenue requirement. We also received approval for our distribution replacement rider filing in Ohio and formula rate plan filing in Arkansas, resulting in annualized rate relief of \$11 million and \$7 million, respectively.

Additionally, a conservation incentive plan bonus of \$11 million was approved in Minnesota. Furthermore, we recently filed mechanisms in Indiana and Louisiana as well as a general rate case in Minnesota requesting a \$62 million increase in the annual revenue requirement and \$53 million for interim rates proposed to go into effect at the beginning of next year. Lastly, we anticipate filing a general rate case for our Beaumont/East Texas division later this year.

Turning to Slide 11, we are on track in Indiana with developing our Integrated Resource Plan, or IRP, and we continue to anticipate filing the plan during the second quarter of next year. We are eager to put forward a plan that reduces carbon emissions, maintains grid integrity and provides reasonable rates for customers. Following the completion of the IRP, we will submit a new investment request plan to the Indiana Utility Regulatory Commission that reflects the IRP outcomes.

On Slide 12, let me give you some highlights noted on Enable's earnings call yesterday. First, they are focused on executing growth projects, including Gulf Run and the Merge, Arkoma, SCOOP and STACK transportation project. Second, despite the decline in rig count, rig efficiencies continue to help support volumes. Third, Enable continues to

generate strong cash flows, and they forecast a strong distribution coverage for 2020. Lastly, Enable announced their 2020 guidance of \$385 million to \$445 million of net income attributable to common units.

On Slide 13, we show that since its formation, through our ownership of common units, Enable has provided approximately \$1.8 billion in cash distributions to CenterPoint, and we expect the total to – amount to grow to more than \$3 billion by the end of 2023. The distributions from Enable provide an efficient source of cash to support our utility infrastructure investments. Let me close by saying that I'm very pleased with our performance in the third quarter and anticipate a strong finish to 2019.

As noted on Slide 14, as part of our overall strategy to improve earnings quality through increased relative contribution from our utilities, we continue to focus on the areas I outlined on the last earnings call; executing on merger integration and regulatory proceedings, managing O&M and continuing to invest in our utilities. Our nonutility businesses continue to provide cash, which helps fund the investments needed to serve our regulated service territories. I look forward to continuing to provide updates on our merger progress and delivering on the financial goals we set forth.

Now let me turn to Xia for the financial update. Xia?

## **Xia Liu**

Thank you, Scott, and good morning, everyone. I will now turn to the consolidated quarter-over-quarter guidance basis EPS drivers on Slide 16. Excluding merger impacts, for the quarter, we delivered \$0.53 per diluted share compared with \$0.39 for the same quarter last year. Our utilities provided a \$0.23 positive variance.

I would like to highlight four areas which contributed to our utility's strong performance. First, operating income of the acquired Vectren utilities added \$0.10 for the quarter; second, O&M savings provided a positive variance of \$0.08; third, rate relief and customer growth provided a positive impact of \$0.05; lastly, warmer-than-normal weather in our Houston Electric service territory provided approximately \$0.03 of positive impact for the quarter. Our utilities continue to deliver strong results, and we are very pleased with their performance this quarter.

Our nonutility businesses provided a combined positive variance of \$0.10 quarter-to-quarter. Energy Services and Infrastructure Services performed as expected, providing a positive variance of \$0.11. Midstream Investments provided a \$0.01 negative variance. Merger financing and interest expenses are the primary drivers for the remaining negative variance of \$0.19 partially offset by a positive variance of \$0.03 driven by lower effective income tax rate.

Turning to Slide 17, let me provide you some additional color on our utility businesses' strong performance in the third quarter. Houston Electric added more than 48,000 customers year-over-year, which equates to approximately 2% growth. Our natural gas distribution business added more than 47,000 customers year-over-year in our legacy jurisdictions, which equates to approximately 1.4% growth. Including the over 1 million customers acquired from the merger, our natural gas distribution business is now the nation's second largest gas utility by customer count, serving more than 4.5 million customers. As Scott mentioned, we continue to see momentum from our focus on O&M management.

Looking at Slide 18, we are forecasting a positive year-over-year O&M variance of close to \$100 million for 2019 across all 15 regulated jurisdictions. This represents 6% year-over-year reduction. This is a combination of merger savings and our general O&M discipline efforts. This holistic expense management approach will continue to be our focus going forward.

In terms of utility capital investment, we expect full year 2019 to be approximately \$100 million higher than originally planned. The additional investment is related to system modernization at Houston Electric and increased pipeline replacement work for our natural gas distribution businesses. As discussed on our last call, we anticipate the overall amount of capital investment in utilities for the 2020 to 2024 period will be maintained at the levels from the previous five-year plan. Our capital planning process is in full swing, and we plan to provide a comprehensive update on our capital investment program on the fourth quarter earnings call.



We must become more efficient while maintaining our strong focus on safely operating our businesses and investing in infrastructure to provide clean, safe, reliable and affordable services to our customers. We will remain focused on managing expenses, efficiently allocating capital and earning close to our allowed ROEs.

Turning to Slide 19, you will see a breakdown of consolidated diluted guidance basis EPS and performance expectations for the remainder of 2019. On a guidance basis and excluding merger impacts, year-to-date through September, we have delivered \$1.34 per diluted share, \$0.10 higher compared to the same period the last year.

Looking forward to the end of the year, operating income from our utility businesses for the year is expected to be \$0.65 higher than 2018 driven by rate relief, customer growth, O&M management, weather as well as newly acquired jurisdictions. Operating income from Energy Services and Infrastructure Services is expected to be \$0.13 higher than last year, primarily driven by an \$0.18 increase from the newly acquired Infrastructure Services offset by a \$0.05 decrease from Energy Services.

We expect earnings from Midstream Investments to be \$0.06 short of the performance from last year, reflecting the lower end of Enable's earnings guidance for the year. The remaining \$0.63 negative variance is driven by \$0.65 attributable to merger financing impacts partially offset by a positive variance of \$0.02 as a result of interest expense and tax. In summary, excluding potential other variability, as noted on this slide, we expect to deliver full year 2019 guidance basis EPS near the top end of our \$1.60 to \$1.70 guidance range. I understand investors are eager to hear clarity around some of the developments surrounding our 2020 guidance and EPS growth forecast.

Slide 20 provides a high-level time line outlining several key activities over the next few months. Yesterday, Enable provided their 2020 earnings guidance. In the coming months, we expect clarity on the pending Houston Electric rate case, further refinement of the five-year capital plan, including technology integration costs and the resulting financing plan.

Let me share some thoughts on how we plan to provide guidance on the fourth quarter call. First of all, with respect to merger-related synergies, we're on track to exceed the \$50 million targeted for 2019. And given our year-over-year O&M reduction is approaching

\$100 million this year, we are already on target for our anticipated synergies for 2020. Following this year, we will focus on consolidated O&M management rather than discussing synergies separately from general O&M management.

Second, we're on track with respect to merger integration and expect total cost to achieve to be between \$210 million to \$230 million for 2019. We're in the process of finalizing our technology integration plans and expect to provide an updated estimate for cost to achieve beyond 2019 on the fourth quarter earnings call. Given that these costs are not reflective of ongoing earnings potential, we intend to continue to exclude cost to achieve from guidance going forward.

Third, we intend to provide 2020 earnings guidance for CenterPoint businesses excluding Enable earnings. Separately, we will provide an earnings range from Enable based on the public guidance they have provided. In addition, we plan to provide multiyear utility EPS growth targets. We believe this approach will better highlight many important aspects of our utility businesses, including capital expenditures, rate base growth rates as well as financing requirements associated with the capital programs.

While some issues are still open with respect to our 2020 outlook, let me remind you that our core business fundamentals are sound. Customer growth remained steady in our service territories. We continue to make capital investments in our utilities to address growth, safety, reliability, resiliency and customer service needs across our service territories. We continue to be committed to maintaining solid investment-grade credit quality as we firmly believe that a strong balance sheet is fundamental in providing long-term value to our customers and shareholders.

In conclusion, we delivered another strong quarter and remain confident in achieving near the top end of our 2019 guidance basis EPS range. We are executing our merger plan and achieving synergies. We are focused on driving efficiencies throughout our business. We're deploying significant capital to meet our customers' needs. We are using the cash from our nonutility businesses to partially fund utility capital needs. Finally, we anticipate utility earnings will make up approximately 75% of our overall earnings this year. This performance reinforces our commitment and ability to effectively manage the business and deliver on shareholder expectations.

I'll now turn it back to David.

**David Mordy**

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

### **Question-and-Answer Session**

**Operator**

[Operator Instructions] Thank you. Our first question is from Ali Agha and SunTrust.

**Ali Agha**

Thank you. Good morning.

**Scott Prochazka**

Good morning, Ali.

**Ali Agha**

Good morning. Scott, I believe it was as recent as the last earnings call at which you had reiterated a consolidated long-term growth rate of 5% to 7% for CenterPoint off the 2018 actual base. Is that no longer operative now?

**Scott Prochazka**

Ali, we have postponed talking about the growth rate until we get clarity on the earnings around the CEHE rate case. And I think Xia also indicated that going forward, we intend to talk about growth excluding Enable. So those are the two pieces that have entered into the equation now. But of those two, the biggest is really getting clarity on the Houston Electric rate proceeding.

**Ali Agha**

Okay. And on the rate proceeding, can you at least give us – I know you laid out some markers in the slide deck. But to put it in some context, can you give us some sense of – if this proposed decision does become final relative to expectations, how big of a negative it should be?

**Scott Prochazka**

Yes. It's – clearly, the PFD is not a good outcome. We've tried to communicate that. Maybe one way to think about it is relative to current rates, we've assumed that we would at least be recovering the additional investment, the over – the \$1 billion-plus of investment that we have already put in service that is not yet in rates. If we just recovered that piece, so that would be an increase, if you will, in rates from where we were, whereas the PFD has suggested a decrease. So that is a – that's a sizable or a notable difference. Additionally, the reductions in FFO were not anticipated as well.

We will be in a better position to describe the actual impacts of that as we get clarity. And I just want to reiterate, while the PFD is challenging, the commission has yet to weigh in on this, and we remain confident in the process and hopeful that the commission will reach a more balanced decision as they look at the facts.

**Ali Agha**

Right. And just one quick follow-up. Are you still committed to all the nonutility businesses? Are they still considered core as far as you're concerned?

**Scott Prochazka**

The nonutility businesses are a source of cash generation for us for our utilities. That's how we look at them. We mentioned on the last call, and I'll just reiterate, that our regular cadence of activity is to continually evaluate each of our businesses to figure out if they are providing the maximum value possible to shareholders, and we continue to do that on an ongoing basis.

**Ali Agha**

Thank you.

**Scott Prochazka**

Thank you, Ali.

**Operator**

Our next question is from Michael Weinstein and Credit Suisse.

**Michael Weinstein**

Hi, good morning.

**Scott Prochazka**

Good morning.

**Michael Weinstein**

Could you comment a little bit about your strategic plans for the nonregulated businesses, particularly the Infrastructure Services business going forward? Are you – do you intend to hold on to them long term? Or are we looking at a full divestiture at some point?

**Scott Prochazka**

I think the best way to answer that is maybe a reiteration of what I had just mentioned to Ali, and that is we see those businesses today as a source of cash for investment in our utility businesses. And as part of a regular course of management, we evaluate whether businesses are providing the maximum value to shareholders as they possibly can. And we look at that on a regular basis, as does our Board. So we continue to think about our businesses in that context with an eye towards value maximization.

**Michael Weinstein**

And for Xia, just wondering if – it looks like you found about \$100 million worth of O&M reductions so far. And I'm wondering if – just generally speaking ahead of the fourth quarter review, are you pleasantly surprised with what you're finding? Or are you optimistic about the future? Have you – how's the review going so far?

**Xia Liu**

It's going very well. The part of the \$100 million is what we expected, which is the synergies that we set forth a target of \$50-plus million this year. So we are ahead of that. I think the team has done a really good job from day one getting costs out and continue to focus on basically turning every rock to see where we can find additional synergies. So the team has done a really good job this year improving processes and achieving synergies. At the same time, we reiterated our focus on overall O&M efficiency focus.

So over the past several quarters, we have seen the results from the continued focus on that. I think all businesses have made their commitment in looking at the overall spending plan and make sure we are basically doing everything we can to become more efficient. So I'm very optimistic about the future, about our continued focus on that aspect. At the same time, I think it would allow us to continue to focus on capital deployment and grow our utility infrastructure.

**Michael Weinstein**

Thank you very much.

**Operator**

Our next question is from Shar Pourreza and Guggenheim.

**Constantine Lednev**

Hi, good morning. It's actually Constantine here for Shar. I just wanted to congratulate you guys on a good quarter.

**Scott Prochazka**

Hi, Constantine.

**Constantine Lednev**

A couple of questions here. Understanding that it's an early outlook on the capital plan, but can you kind of give a little bit of color on any moving pieces that you've kind of seen that you can address at this time versus prior expectations? And how does that early outlook

you can address at this time versus prior expectations? And how does that early outlook kind of correspond to keeping the utility growth intact? Or is there anything incremental?

**Xia Liu**

Yes. Sure. The – as I shared just now, we expect about – over \$100 million increase from – for 2019 compared to what we previously communicated with you for the year. And for the 2020 to 2024 period, we expect the overall aggregate amount to be similar to what we shared with you from the prior five-year plan. The timing of it could be different, and that one key factor is the IRP. We're finalizing the IRP in Indiana. So the timing of that will be incorporated as well as the continued need from our legacy utilities and from the new acquired gas. So I would say that overall, from an aggregate standpoint, we see we will maintain at a similar level for the next five years.

**Constantine Lednev**

And so kind of as this kind of plan gets formulated, can you give a little bit of color how it fits with the kind of strategic objectives that you outlined of kind of growing the utility earnings? Does that have a kind of a purely organic objective at this point?

**Xia Liu**

Yes. Grow utilities, continuing to focus on O&M management and try to be smart about allocating capital and try to achieve closer to our allowed ROEs.

**Constantine Lednev**

And just one quick follow-up on that. So with kind of the O&M management kind of that you highlighted on the call, so it looks like some pretty good numbers from kind of where we're sitting. Is there kind of specific programs going forward that you see going on? And kind of how deep do you see that pool? And just if you can, any kind of statements on the kind of recurring nature of the savings program kind of moving past 2020?

**Xia Liu**

I think the best way to answer that is we're very pleased with where we are so far, and we're pleased about the projected year-end numbers. And we think that will be a good starting point going forward. And as we apply a similar discipline, we expect the

starting point going forward, and as we apply a similar discipline, we expect the momentum to continue into the future years.

**Constantine Lednev**

Perfect. Thanks.

**Operator**

Our next question is from Julien Dumoulin-Smith and Bank of America Merrill Lynch.

**Julien Dumoulin-Smith**

Hey, good morning team.

**Scott Prochazka**

Good morning, Julien.

**Julien Dumoulin-Smith**

So a couple of follow-ups here. On the strategic decisions here, how do you think about the balance sheet into 2020 and potential needs to raise capital against? Also, I think if I can square it, your slides also specifically say a five-year utility outlook, obviously ex Enable. But I just want to make sure I understand. I mean are we to think about the other ex Enable businesses being potentially on the table here to address balance sheet needs? Or how are you thinking about them at this point? And then I have a follow-up.

**Scott Prochazka**

So Julien, the way I would think about it is what I've said earlier, right? Today, we – the nonutility businesses and the non-Enable nonutility businesses are a source of cash for us today. So when we talk about providing a look going forward, it would be for the portfolio excluding Enable. That's one way to think about it. You had another part to your question.

**Xia Liu**

The balance sheet

**Scott Prochazka**



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The balance sheet. I'll let Xia talk to the balance sheet portion.

**Xia Liu**

Yes. Julien, the CEHE rate case will be a very important component of that decision. And that's part of the reason why we are not ready to share the equity financing number yet because like Scott mentioned, the FFO reduction, that in itself would impact the financing needs to maintain similar credit metrics. So we're not quite ready to address that yet, but we're fully aware that maintaining our credit quality is very important. Continuing to find ways to strengthen the balance sheet is another priority.

**Julien Dumoulin-Smith**

Got it. All right. Fair enough. And then, again, kudos on the cost cuts this year indeed. Can you talk briefly about how you think about that going forward? I mean, obviously, we've got a big pending rate case. I understand that. At the same time, how do you think about narrowing that gap going forward? How do you think about earned returns across the utility business this year and into next and potentially continuing to narrow that gap?

**Scott Prochazka**

Yes. Julien, I'll start and maybe Xia may want to add. We had every intention of continuing our discipline around expense management. I would say the driving force that allowed us to make a sizable move this year was the merger, but we think of the savings that we have today as a new starting point from which to manage our expense equation going forward. And we will continue to be very focused on managing expense. The actual numbers associated, we're still working those out, but we see the gains that we've made to date as establishing a new level from which to work.

**Julien Dumoulin-Smith**

But to clarify briefly, if you can, what kind of gap are we talking about today versus prospectively that we can achieve, if you will?

**Scott Prochazka**

From an O&M perspective?

from an earned perspective:

**Julien Dumoulin-Smith**

Yes. As in – or from an earned return perspective, how much of a gap is there to narrow in your mind, given some of the cost reduction that we're talking about?

**Xia Liu**

Yes, Julien, trying to – I think this year, we are – we closed some of the headroom related to – from the expected returns versus the allowed returns, so – particularly our natural gas businesses are doing a really good job. And just focusing on every dollar isn't the same. So where do we deploy – make sure that we provide safety, reliable service, at the same time, being really smart about where to deploy the next incremental dollars. At CEHE, the – you know the timing of filing TCOS and DCRF, that in itself will continue to have a lag.

For instance, the time you file TCOS versus the time we receive the revenues, there is a three-month delay. And DCRF is filing in April and getting rates in September. So the inherent regulatory lag will continue to be there. At the same time, I think the continued focus on O&M will give us some ability. I don't think we could close completely the gap to the allowed ROE, but that definitely is a focus for us going forward.

**Julien Dumoulin-Smith**

Got it. All right. Fair enough guys. Thank you.

**Scott Prochazka**

Thanks, Julien.

**Operator**

Our next question is from Insoo Kim and Goldman Sachs.

**Insoo Kim**

Thank you. Maybe starting with the CEHE rate case. I understand there's a lot of moving parts that'll go into the 2020 guidance that'll be provided in February. But Scott, when you mentioned that – just when we're trying to put some pieces together, your original

guidance, which had the \$182 million midpoint, had about, I guess, the \$1 billion or spend that you weren't getting the recovery and return on, and the PFD would result in \$27 million of operating income decrease from the current rates. If I just take the rate base math of the \$1 billion and then also the small difference in the operating income in the PFD, that would – I would calculate something like a \$0.12, \$0.13 difference. All else being equal, is that the way I should think about just how CEHE was included in the original guidance and what the PFD would imply?

### **Scott Prochazka**

Insoo, I think the math and the way you're thinking is the right line of thinking. A couple of things, though. That doesn't include the impacts associated with the reduction in FFO. That's just the – kind of the earnings side. Xia talked earlier about a significant reduction in FFO could accelerate the needs for equity, for example, to maintain the current metrics. So it doesn't include that nor does it include what I would consider management response because depending on the outcome, we would consider what actions we can take to help mitigate the negative effects of an outcome.

But that's why I said there's a lot of moving parts here. And while we're trying to provide clarity about what the PFD says, I just want to reiterate the process isn't over, and the commissioners have not yet opined on this. And we are very hopeful that the commissioners will have a different view of what's appropriate.

### **Xia Liu**

Insoo, I'll just add quickly, in the original guidance, we also had expectations on Enable and the other nonutility businesses. And you're aware about the development particularly related to the Enable. They guided to the lower end of this year, and they just issued their 2020 guidance. That was another component in the original guidance range.

### **Insoo Kim**

Yes. I totally understand all the other moving parts. I just didn't want to open up a little can of worms on all the moving pieces. Appreciate that. Maybe secondly, related to – sticking with CEHE. If the results of the PFD do hold with the associated disallowances, how does

that impact your thoughts going forward on future capital spend at the utility? And what type of investments you may make or may not make, given the current rate case decision?

**Scott Prochazka**

Well, I'd say, look, we still have an obligation to serve the customers in our service territory, and the needs of our customers ultimately are the ones that drive our thinking about capital. There is a little bit of discretionary capital from a timing perspective. But by and large, the capital we spend is needed to serve the needs of the community. So we would have to – for example, if there were disallowances upheld, we would have to get clarity on views around what is acceptable spend before we go down the path of making the spend. That's one example of some management action that we need to take here. But the capital itself would be driven by – primarily by – it's going to be driven by the needs of the community as opposed to the – necessarily the outcome of the proceeding.

**Insoo Kim**

Understood. Thank you very much.

**Scott Prochazka**

Thank you.

**Operator**

[Operator Instructions] Our next question is from Chris Turnure and JPMorgan.

**Chris Turnure**

The only question that I had left for you guys was on kind of where you're at right now with Houston Electric credit metrics, just kind of where they're at, including outlooks. When you last got an update from the agencies? And if these have been part of the discussion at all with the interveners so far in Texas?

**Xia Liu**

Our rating agencies are fully aware of where we are from the CEHE rate case standpoint. We keep the communication very transparent and open with them. I think they are, just like us, eager to find out what the final outcome will be from the PUC ruling. So one thing is that we are aware of the PFD recommendations. But the other thing, like Scott said a couple of times, we remain hopeful that the final outcome is more balanced and constructive outcome. So depending on the outcome, I think the rating agencies will communicate again with the rating agencies about where we are.

**Scott Prochazka**

Chris, I would also add, I think the interveners are certainly very aware of the views of the rating agencies, about the condition that CEHE's in relative to the rate proceeding as well as the commission and others is – the information and views around this have – and concerns, quite frankly, have been shared as part of the process.

**Chris Turnure**

Okay. Because certainly, some of your peers have had that as part of their discussions in recent rate case processes there around the authorized equity layer and other things.

**Scott Prochazka**

Yes, it's absolutely part of our discussion.

**Chris Turnure**

Okay. So it sounds like certainly part of the discussion, but also nothing has changed there in terms of the focus or lack of focus on that versus prior discussions for other rate cases in Houston.

**Scott Prochazka**

Well, again, the only information we have so far is the judge's view of PFD. That's the only piece of information that's come out about how to think about this. The commission has yet to weigh in on this particular issue. But we made it very clear, going into the rate case

and throughout the periods in which we can respond to comments and provide our own comments, of the issues associated with this subject around credit metrics is caused by different factors. So everyone is very – all the key parties are very aware of this issue.

**Xia Liu**

Chris, to your point, the recommendations from the ALJ didn't take that into consideration.

**Chris Turnure**

Okay. Helpful color. Thank you guys.

**Operator**

Our next question is from Charles Fishman and Morningstar Research.

**Charles Fishman**

Scott, on Slide 8, you seem to imply a decision might not be reached next week. But it seems like everything is queued up for the commission to make that decision. Is there something they're still waiting on? Or what is your – why might they not make a decision next week?

**Scott Prochazka**

Well, it could be a number of things. It could be that they – there's a number of issues that we're asking them to opine on. There's a full agenda, for example, at the meeting on the 14th. There are just a number of things going on. And while we would perhaps like them to work through every one of our issues and debate and make a decision, it may be, from a timing standpoint, that they don't get through everything, and it just gets pushed to the following meeting. They're not obligated to kind of make a decision at this upcoming meeting. So that's why we think it's possible they could begin dialogue and push it to another meeting. It is also possible they could get to an end point, but nothing other than just the number of issues to be debated and the size of the agenda that will make us think it would be pushed.

**Charles Fishman**

Sounds like administrative then more than any technical thing.

**Scott Prochazka**

Yes. That's the way to think of it

**Charles Fishman**

And then a second question. On Slide 24, I – first nine months on the operating earnings or guidance basis earnings, \$0.29 from the utilities – positive from the utilities acquired in the merger, \$0.14 from the Energy Services business. If my math is right, that's \$0.43 and yet \$0.48 negative from the merger financing. Is that being unfair to say this transaction looks pretty dilutive for the first nine months? Or should some of that \$0.07 O&M management be credited towards the merger?

**Xia Liu**

Yes. Some of the O&M management should be credited towards the merger. I think the merger financing itself is around \$0.48. If you add the pickup from the acquired jurisdictions, Indiana Electric year-to-date added \$0.16, legacy Vectren gas added \$0.13, the Infrastructure Services added \$0.14, and then some of the O&M management should be credited to the variance. You should compare those moving parts to the merger financing.

**Charles Fishman**

Okay. So at this point, at least through the first nine months, if I take some credit for the O&M management, the transaction is roughly breakeven.

**Xia Liu**

Yes. That's a good way to think about it.

**Charles Fishman**

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

**Operator**

Operator:

Our next question is from Ashar Khan and Verition.

**Ashar Khan**

Good morning. Good earnings. Can I just ask that you said you will be providing the CAGR for the utility business based on the forecast for this year 2019? And if we can assume we are at the upper end, how much would utility earnings come out to be in that scenario? I wanted to start off with the base and just wanted to get a good idea. So under your current guidance for 2019, what would the utility guidance be?

**Xia Liu**

It's – roughly 75% of the – of our earnings is expected to be from the utilities. Keep in mind, there are several moving parts in there. We had some favorable weather in there, and we also had favorable income tax items that might not necessarily repeat itself. But roughly, the way to think about it is the utility is 75% of the earnings expectations. And that's based on today's CEHE regulatory construct. So the outcome...

**Ashar Khan**

Okay. So if I take 75% of \$1.70, it's \$1.27. And how much would you say is weather and the tax items? Could you just quantify those year-to-date, how much would those be?

**Xia Liu**

Yes. Yes, happy to. So year-to-date, weather, roughly \$0.03 positive, a little over \$0.03.

**Ashar Khan**

Okay.

**Xia Liu**

And the favorable tax item for this year alone is roughly \$0.05.

**Ashar Khan**



Okay. So we are running approximately \$1.20 base this year normalized for taxes and weather as – it's for the utility. Would that be a fair number?

**Xia Liu**

Yes, close to.

**Ashar Khan**

Okay. Thank you so much.

**Operator**

Our last question is from Anthony Crowdell and Mizuho.

**Anthony Crowdell**

Hey. Good morning. Hopefully an easy question. What's the process on the motion for rehearing in Houston, like the time frame? And how long – like I guess the clarity on the motion for hearing?

**Scott Prochazka**

Jason, do you want to come down here and answer this for me?

**Jason Ryan**

Sure.

**Scott Prochazka**

I'm going to bring our regulatory expert down here to make sure he doesn't have to correct me on the timing.

**Jason Ryan**

Good morning. It's Jason Ryan. So the process for rehearing is that a couple of weeks after the order issued by the commission, motions for rehearing are due. And then the commission has up to 100 days from the date of their order to rule on motions for

rehearing or they're just overruled by the passage of time.

**Anthony Crowdell**

Do you have any like historical preference in Texas of maybe when orders have been changed through rehearing? Is that something you guys have or can disclose?

**Jason Ryan**

So motions for rehearing are granted and denied depending on the issues that they raise. Sometimes the motions for rehearing are granted to correct a purely administrative item versus changing a substantive ruling sometimes there are changes at the substantive rulings.

**Anthony Crowdell**

Does – on Slide 8, you stated that the you stated the new rates going into effect 45 days after the PUCT order becomes final. If you file for a motion for rehearing, when is that final date? When the motion for rehearing is either granted or denied, is that the final date?

**Jason Ryan**

Yes.

**Anthony Crowdell**

Got it. That's all my questions. Thank you.

**Operator**

And at this time there are no further questions. I will now turn it back over to David Mordy for any closing remarks at this time.

**David Mordy**

Thank you everyone for your interest in CenterPoint Energy. We look forward to seeing many of you at the Edison Electric Institute Conference shortly. We will now conclude our third quarter 2019 earnings call. Have a great day.

## **Operator**

This concludes CenterPoint Energy's third quarter 2019 earnings conference call. Thank you for your participation. You may now disconnect.