



Second Quarter 2018 Earnings Conference Call  
August 3, 2018

**David Mordy – Director of Investor Relations**

David Mordy – Director of Investor Relations

Thank you, Ginger. Good morning, everyone. Welcome to our second quarter 2018 earnings conference call. Scott Prochazka, president and CEO, and Bill Rogers, executive vice president and CFO, will discuss our second quarter 2018 results and provide highlights on other key areas, including our pending merger with Vectren. 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. They have been posted on our website, as has our Form 10-Q.

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

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



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We will also discuss our guidance for 2018. The guidance range considers Utility Operations performance to date and certain significant variables that may impact earnings, such as weather, regulatory and judicial proceedings, throughput, commodity prices, effective tax rates, and non-merger financing activities. In providing this guidance, the company uses a non-GAAP measure of adjusted diluted earnings per share that does not include other potential impacts, such as changes in accounting standards or unusual items, earnings or losses from the change in the value of the Zero-Premium Exchangeable Subordinated Notes or ZENS securities and the related stocks, or the timing effects of mark-to-market accounting in the company's Energy Services business. The guidance range also considers such factors as Enable's most recent public forecast and effective tax rates.

During today's call and in the accompanying slides, we will refer to public law number 115-97, initially introduced as the Tax Cuts and Jobs Act, as TCJA or simply "Tax Reform."

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 – President & CEO**

Thank you, David and good morning ladies and gentlemen. Thank you for joining us today, and thank you for your interest in CenterPoint Energy. Since we have some potential new investors on this call, I would like to start with a brief overview of CenterPoint's vision and strategy. Later in the call, Bill will provide an overview of how we present our financial performance.



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Beginning on slide 5, CenterPoint has a long-standing vision to lead the nation in delivering energy, service and value. We are committed to leadership and have been recognized for our use of technology to improve operations and create a better service relationship with our customers. We have enjoyed these successes due to our simple strategy of Operate, Serve and Grow. These three elements keep us focused on safely and reliably maintaining and operating more than \$20 billion in assets, making sure our customers receive the benefits of our investments and product offerings and creating growth opportunities for our employees and our investors. This is done by making the right investments in our energy delivery systems, in the new technologies we introduce to improve efficiency and service quality, in our employees and in the communities we serve. The pending merger with Vectren is well aligned with our vision and strongly supports the elements of our strategy.

Next, I will cover the quarterly results, business unit highlights and full-year outlook. Turning to slide 6, this morning we reported a second quarter 2018 net loss of \$75 million, or 17 cents per diluted share, compared with net income of \$135 million, or 31 cents per diluted share in the same quarter of last year. This quarter includes a non-cash charge of 42 cents per share associated with our ZENS securities primarily as a result of AT&T's acquisition of Time Warner.

On a guidance basis, excluding \$34 million of pre-tax costs associated with the pending merger with Vectren, second quarter 2018 adjusted earnings were \$127 million, or 30 cents per diluted share, compared with adjusted earnings of \$125 million, or 29 cents per diluted share in the same quarter last year. Increases were associated with the lower federal income tax rate



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related to tax reform, rate relief, equity return primarily due to the annual true-up of transition charges, customer growth and midstream investments. These benefits were largely offset by higher operations and maintenance expense, depreciation and amortization and interest expense and certain timing impacts due to both the 2017 Texas Gulf rate order and the latest Arkansas decoupling mechanism.

Utility Operations and Midstream Investments both had a solid quarter. Our performance keeps us on track to achieve the high end of our \$1.50 - \$1.60 EPS guidance range, excluding costs associated with the pending merger with Vectren. Our business segments continue to implement their strategies, which are focused on safely addressing the growing needs of our customers, while enhancing financial performance.

Turning to slide 7, I will cover business highlights, starting with Houston Electric. Electric transmission and distribution core operating income in the second quarter of 2018 was \$167 million, compared to \$151 million in the same quarter last year. We see continued growth in our electric service territory, adding more than 34,000 metered customers since the second quarter of 2017.

On the regulatory front, we made a transmission investment recovery, or TCOS, filing in May requesting an annual revenue increase of \$41 million based on a \$285 million increase to rate base which is largely a result of completing the Brazos Valley Connection transmission project.

We plan to file a certificate of convenience and necessity, or CCN, with the Public Utility Commission of Texas, or PUCT, in September for our Freeport Master Plan Project. We



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anticipate a ruling from the PUCT in the third quarter of 2019. This project is currently included in our five-year plan at a cost of \$250 million as filed in our 2017 Form 10-K. We now anticipate this project will cost up to \$630 million and we will include this as part of our new 5-year capital plan in our 2018 Form 10-K. For a full regulatory update of our current filings, please see slide 24. Houston Electric is having a strong year and is performing ahead of our expectations for 2018.

Turning to slide 8, Natural Gas Distribution operating income in the second quarter of 2018 was \$7 million compared to \$42 million in the same quarter of last year. We continue to see solid customer growth with the addition of more than 29,000 customers since the second quarter of 2017. The variance for the quarter was largely driven by the timing elements I mentioned earlier and which Bill will discuss in more detail later. In short, Natural Gas Distribution is performing well and on target to meet our expectations for 2018.

Overall, CenterPoint is on track with our planned \$1.7 billion in capital expenditures for the year.

Energy Services' operating income was \$7 million in the second quarter of 2018, compared to \$10 million in the same quarter last year, excluding a mark-to-market gain of \$8 million and \$6 million, respectively. We continue to see value from our recent acquisitions and are reiterating Energy Services' core operating income target of \$70 - \$80 million for 2018.

As mentioned earlier, Midstream Investments contributed 10 cents per diluted share in the second quarter of 2018 compared to 9 cents per diluted share in the same period last year. On slide 9, we've captured some of the highlights from Enable's second quarter earnings call on



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August 2. Quarterly volumes of gas gathered and processed were at an all-time high since Enable's formation in May 2013. On their second quarter call, Enable stated they anticipated achieving for 2018 the midpoint or higher of their net income attributable to common units guidance of \$375 - \$445 million. We use this guidance as input for CenterPoint's EPS guidance.

Turning to slide 10, we continue to forecast strong earnings growth relative to 2017 and are excited about the second half of the year. Year-to-date for guidance EPS, we are 19 cents ahead of where we were at this time last year. We anticipate that utility rate relief and customer growth, contributions from Energy Services and earnings from Enable will continue to drive growth. We are reiterating our 2018 guidance EPS at the upper end of our \$1.50 - \$1.60 range, excluding costs associated with the pending merger with Vectren.

Regarding the merger, I am pleased with the integration planning work done to date and look forward to closing the merger with Vectren in the first quarter of 2019. Once merged, we will be better positioned as a leading U.S. energy delivery, infrastructure and services company. Over the past couple of months, I have had the opportunity to meet with many Vectren employees. I am excited by the enthusiasm they share to help build a company that is committed to common values, safety, customers, communities, reliable operations and growth. I have also met with stakeholders including regulators, customers and local officials in both Indiana and Ohio. I believe these stakeholders appreciate our values and the commitment we have to serving our customers.

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



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**Bill Rogers - CFO**

Thank you, Scott.

We recognize that there may be new analysts on this earnings call. Therefore, before I begin the quarter and year-to-date discussions, I want to provide an overview of how we present our financial performance as described on slide 12. I will start with a GAAP EPS versus guidance EPS when reporting our results. We have adjusted our GAAP EPS for two items to determine guidance EPS. Those adjustments are mark-to-market impacts at our Energy Services business and the net of the mark-to-market of assets and liabilities associated with our ZENS securities and related stocks. We do not adjust for timing related items, one-time items or Enable related mark-to-market impacts. For a detailed reconciliation, please see appendix slides 28, 29 and 30.

We have five business segments within our company. Those segments are Electric Transmission and Distribution, Natural Gas Distribution, Energy Services, Midstream Investments and Other Operations. The term Utility Operations in our EPS breakout includes the four business segments other than the Midstream Investments segment.

When we speak of Core Operating Income we exclude the transition and system restoration bonds from Electric Transmission and Distribution and the mark-to-market impacts from Energy Services. Core operating income does not provide any adjustments to the Natural Gas Distribution segment nor does it include Other Operations.

With that overview, I will now review the financial performance for the second quarter. On a GAAP basis we reported a second quarter 2018 loss of 17 cents per diluted share.



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Earnings included a non-cash charge of 42 cents per diluted share associated with our ZENS securities. This 42 cents is primarily due to the acquisition of Time Warner by AT&T whereby Time Warner stockholders received cash and AT&T stock. As with our ZENS accounting for Charter's acquisition and merger of Time Warner Cable in the second quarter of 2016, there were no cash flow or tax impacts as a result of this transaction. Further details are provided on page 22 of the slide deck as well as note 11 in our second quarter Form 10-Q.

In order to review our financial performance on a guidance basis, I will begin with quarter to quarter operating income walks for our Electric T&D and Natural Gas Distribution segments, then review EPS drivers for Utility Operations, and finish with our consolidated earnings on a guidance basis. My intent is to help investors understand the elements which give us confidence in achieving the high end of our 2018 guidance range, excluding costs associated with the pending merger with Vectren. As we noted in the first quarter, the adoption of the accounting standard for compensation-retirement benefits resulted in increased operating income for 2017 as it moved certain amounts below the operating income line.

As you can see on slide 13 Houston Electric performed well during the second quarter. While revenue and operating income decreased \$19 million as a result of tax reform, this decrease is offset by lower income tax expense when looking to the net income line. Rate relief translated into \$26 million favorable variance for the quarter and customer growth provided an \$8 million positive variance. Usage accounted for \$9 million favorable variance, primarily due to a return to more normal weather. Equity return, related to the true up of transition charges,



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increased \$14 million. We have provided an updated equity return amortization table in the appendix due to our recent non-standard true up filing. O&M accounted for an unfavorable variance of \$15 million. Excluding the equity return and the tax reform adjustment, Houston Electric's operating income increased by \$21 million on a quarter to quarter basis. Overall, Houston Electric is performing ahead of our expectations for 2018.

Turning to slide 14, Natural Gas Distribution operating income for the second quarter was \$7 million versus \$42 million for the second quarter of last year. This \$35 million decline was primarily attributable to three items. First, the recording of regulatory liabilities to reflect the decrease in the tax rate from tax reform has a corresponding decrease to revenue of \$5 million. As noted in the Houston Electric review, there is a corresponding offset in income tax expense. Second, the timing of a decoupling normalization accrual recorded in the second quarter of 2017 associated with warmer than normal weather during the 2016-2017 winter season accounted for a \$16 million benefit in 2017 that was not repeated in 2018. Third, in second quarter 2017, we had a one-time net benefit of \$10 million attributable to adjustments related to the Texas Gulf rate order. Operating income also included a \$7 million positive variance from rate relief, a \$2 million benefit from customer growth, and a \$11 million increase in O&M expense. The Natural Gas Distribution segment is performing well and is on track with our expectations for 2018.

Energy Services second quarter operating income, excluding mark-to-market adjustments, was \$7 million versus \$10 million in the second quarter of 2017. For this business segment, we are reiterating our operating income target for the full-year 2018 of \$70 to \$80



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million, compared to \$46 million for 2017, again excluding mark-to-market adjustments in both years.

Our quarter to quarter utility operations EPS walk on a guidance basis is on slide 15. We start with twenty cents and subtract two cents for core operating income inclusive of Energy Services and excluding equity return. This decrease is a result of items I noted in the operating income walk for Gas Distribution. Next, we had one cent for additional interest expense as a result of higher debt to fund capital investment. We also had additional interest expense connected with our bridge financing; however, that is included in merger-related expenses. Next, we add two cents of improvement from equity return and one cent of improvement for other. Other does include the benefit from a lower federal income tax rate. That brings us to twenty cents of utility operations EPS on a guidance basis, excluding six cents of merger-related expenses.

Our consolidated guidance EPS comparison is on slide 16 starting with 29 cents for the second quarter of 2017 and ending with 30 cents for the second quarter of 2018. In short, we were even quarter over quarter for utility operations. Midstream Investments, after a two cent market-to-market charge, had a one cent net EPS gain.

Slide 17 shows the year-to-date consolidated guidance comparison starting with 66 cents for the first half of 2017 and ending with 85 cents per share for the first half of 2018. Utility Operations has delivered sixteen cents of improvement year to date primarily due to the strong performance in our electric utility and in Energy Services. Midstream Investments, after a three cent mark-to-market charge year to date, has delivered a net three cent improvement.



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With this nineteen cents of total improvement year to date we are well on track to meet the high end of our 2018 guidance range.

Now turning to slide 18, we are providing an update as to key milestones in our pending merger with Vectren. Vectren shareholders will vote on the pending merger on August 28th. We made informational filings with the Indiana and Ohio commissions and a hearing is scheduled for Indiana on October 17th. There is no hearing scheduled in Ohio and no parties intervened or protested our FERC application.

Our plan of financing is unchanged since the first quarter update. We plan to finance the acquisition of Vectren common shares with a combination of \$2.5 billion dollars of CenterPoint common equity, mandatory convertibles or other high equity content securities. The remainder of the acquisition financing will be senior notes and/or commercial paper issued by our holding company and cash.

Additionally, the process for our internal spin of Enable is progressing well and is expected to be completed in 2018, prior to the Vectren merger close. As we have shared previously, we do not plan to sell Enable units to finance the merger.

Moving to slide 19, the plan of financing is based upon our objective to achieve a consolidated 15% adjusted funds from operation to debt as measured by rating agencies in 2020. We view that with our current business risk profile and this debt coverage we will achieve BBB or better credit quality for all of our rated debt securities upon the closing of the merger.



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I will conclude on slide 20 with our prospective combined company projected rate base. We created this combined rate base slide from year-end rate base estimates provided by us and Vectren's rate base estimates published yesterday in their earnings' call slides. CenterPoint's year end rate base estimates are consistent with the average rate base estimates that we provided on our February 22<sup>nd</sup> call. Added together, our investments produce a compound annual growth rate of 7.6% for the 2017 through 2022 period. We anticipate both companies will be updating their capital expenditure plans in their respective independent filings of their 2018 form 10-K's.

Finally, we'd like to note our recently declared dividend of 27.75 cents per common share. This is an approximate 4% increase relative to a year ago and consistent with our 4% annual increases in dividends over the last several years. I'll now turn the call back to David.

**David Mordy – Director of Investor Relations**

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...

(Operator instructions)

**Ali Agha:**

Good morning. My first question, Bill, I mean – I wanted to just get a sense any further thoughts that of the \$2.5 billion equity in terms of the mix that you're looking at, are we still thinking that the bulk of it will be common, as opposed to mandatory or some other form? And just some sense of how you're thinking about the timing.



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**Bill Rogers:**

Ali, good morning. It's Bill. I think you said it correctly. The bulk of it is \$2.5 billion and it's a combination of common equity, mandatory convertibles or other high-equity content securities.

With respect to the timing, we have said we intend to complete the permanent financing for the acquisition of Vectren common shares before we close on the merger.

**Ali Agha:**

Okay. And I guess my second question, Scott, to you, looking at the numbers you've given us on slide 20, which break out the rate base growth rates for each company separately, on a – if I look at just the CenterPoint component of it, you're growing at about 8.1%, the Vectren numbers are 6.6%, so the combined gets to 7.6% that you pointed out.

I guess the question being that on a stand-alone basis, so rate base growth, which is a good proxy for earnings growth, in my mind, is actually higher. So, again, I'm not quite clear what Vectren would bring to the table given that it's actually diluting your rate base growth rate.

**Scott Prochazka:**

Yeah, Ali, the way I would respond to that is they have – still have a very strong growth rate on their rate base given their capital plans. Their plans, as they have shared them, or their expectations involve growth in both their regulated businesses and their unregulated businesses. And when you look at the growth opportunities for that complete set, matched up with our set, we think they're nicely complementary to our growth rate. So this is just taking a look at the utility side.

I will also say that each year, both companies or all companies update their capital plans based on requirements going forward. But their – as you pointed out, their growth rate is technically lower than ours on the utility side, but they anticipate other growth in some of their non-regulated business units.

**Ali Agha:**

Thank you.

**Operator:**

Your next question is from Julien Dumoulin-Smith from Bank of America.

**Julien Dumoulin-Smith:**

Hey. So I wanted to follow up on the sale – well, basically the financing composition here. Can you perhaps elaborate a little bit on your latest thoughts on Enable just in the context of ongoing equity needs, independent of the sale, and also with respect to the sale, the composition of equity and equity units, if you have any further thought process in how exactly you want to structure it?

**Scott Prochazka:**

So, Julien, I don't think we have any more to share on the composition piece in terms of our equity other than what Bill just shared a minute ago. And with respect to Enable, look, right now, we are focused on the financing of this transaction. What we have said is following the transaction, we will have some modest equity requirements to fund the capital requirements of our businesses going forward. And at that time, Enable may be a source of funds for that. But at this point, we're focused on completing this transaction and the necessary financing for it.

**Julien Dumoulin-Smith:**

Got it. Understood. And can you elaborate a little bit – I mean, you just discussed a little bit already around the accretive nature to rate base of the Vectren acquisition. Can you comment a little bit more specifically around the electric versus gas versus non-reg contributions to that future rate base? Or let's keep it with electric versus gas, just to keep – keep the focus on rate base specifically. But altogether, I mean, I know that this is perhaps separate in the \$50 million to \$100 million pre-tax that you've talked about, but just getting a little bit more of a sense as you have had more time to look at the business.

**Scott Prochazka:**

Yeah, Julien, I don't think we're prepared at this point to comment on the rate base growth deltas by business unit at this point. We are, for context purposes, about three weeks into our integration planning exercise. So we are at the front end of understanding more information about the specifics that would – we will pursue once the deal is closed.

**Julien Dumoulin-Smith:**

Got it. Or maybe let me specify a little bit more carefully. Electric, on the Vectren side, historically, has seen a little bit more rate inflation and so, therefore, I suppose has had a little bit more of a difficult time accelerating their growth.

Could you see merger-related benefits accruing such that Electric could see a disproportionate growth again? Or are we talking principally about the sizable growth at gas and just continue to accelerate on that front?

**Scott Prochazka:**

Well, again, it's probably premature to be talking about their capital plans. But they do have appreciable spend in both their electric and their gas businesses, if that's helpful.

**Julien Dumoulin-Smith:**

All right. Fair enough. Thank you.

**Operator:**

Your next question is from Michael Weinstein from Credit Suisse.

**Michael Weinstein:**

Good morning. Could you talk a little bit about the Freeport plan and the reasons for the substantially increased costs? I mean, just looking at the 10-Q and I see that some of it's related to environmental, and I'm wondering if maybe Hurricane Harvey had something to do with that or – and then, also, as a part of this question, maybe address the – how you think regulators might react to this, to the extent that you've already talked to them about these increased costs.

**Scott Prochazka:**

So, Michael, to your first question, the driver for the increase from the original estimate of 250, that estimate was made early on when we were considering, at a high level, different routing options. During the time between that estimate and the one we just provided, we were able to do much more refined analysis about routing options and the structures needed to be able to withstand certain wind tolerances, as well as recognition of environmental wetland-type areas that are in this region of our service territory.

When you couple the design requirements, including all of those factors, we end up with a cost for this line that has gone up from the 250 up to the number that I specified at around 630. So that's really the driver. It's structure and environmental-related routing issues would be the short answer to that. Go ahead.



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**Michael Weinstein:**

Yeah. And regulatory commentary on this so far, I mean I'm presuming you've already had some talks?

**Scott Prochazka:**

Yeah. So this is something that is just now entering the process with the Commission. We will be presenting that to them as we make our filing. But one point to note, this is an investment that was deemed necessary by ERCOT as a result of reliability needs in the region. So, we still see this as a solution to solve a reliability-related design issue and still believe it's the most cost-effective solution available.

**Michael Weinstein:**

Okay. Great. Thank you very much.

**Operator:**

Our next question is from Michael Lapidés from Goldman Sachs.

**Michael Lapidés:**

Hey, guys. Thanks for taking my question. Just thinking about Texas and on the electric side, can you talk to us a little bit about demand trends that you're seeing specifically – weather normalized, obviously – but specifically across the customer classes, what's coming in a little bit higher than maybe what you had baked in? What's coming in a little bit lower than maybe what you anticipated and maybe what the drivers are?

**Scott Prochazka:**

So Michael, good morning. What we're noticing around the Texas area is really strong ongoing demand in the commercial and the industrial sectors. That's what tends to be driving overall throughput along the system as well as some weather-related. But you asked for kind of weather normalized; those two segments tend to be weather normalized automatically.

We still continue to see strong demand with our residential sector. They are essentially on a use per customer basis holding flat, which is what we've seen for several years now. We will note that we have seen a slight downturn in the growth rate associated with residential addition. We believe that's associated with Hurricane Harvey and the impacts that had on

residential meters. And I think we're going to see noise in that growth rate until we pass the period in which Harvey occurred which would be in the fall. So, that's creating some noise.

We also had a surge in the most recent period of completing multiple multi-family units. And multi-family unit construction has slowed now while the inventory is being consumed. But our additions in, say a more of a suburban setting continue to be strong. One of our indications for that is we have joint trench crews. These are crews that go out and put in the infrastructure ahead of development build. These crews are operating at a level that is higher than last year, for example. So we see good fundamentals that even though the residential count is lower that the residential demand is still very strong.

**Michael Lapidés:**

Got it. Can you talk to us a little bit about what is your kind of all-in demand growth that you embed in your multi-year guidance?

**Scott Prochazka:**

We think about 2% overall.

**Operator:**

Your next question is from Greg Gordon from Evercore.

**Greg Gordon:**

Two questions. One, it doesn't seem that – like that big of an issue, but there was a \$3 million delta quarter-over-quarter in the Energy Services businesses. Now, you're obviously still pointing to confidence in your guidance range for the year, so I'm sure it's intra-quarter volatility. But can you just go into little more detail as to what would cause that?

**Scott Prochazka:**

Yeah, Greg. There was a little bit of volatility in the quarter. But as you pointed out, it's a low quarter anyway, so any amount of volatility gets exacerbated. We did – we made some adjustments. There were some adjustments that we made on the balance sheet that had an effect and fairly minor in nature. But again, since the number is small on this quarter, it got amplified.



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**Greg Gordon:**

Okay.

**Scott Prochazka:**

The fundamentals – I'll just say the fundamentals remain very strong in this business. Customer count is up. Our throughput is up. Margin is staying very healthy. So, we're still very bullish on this space.

**Greg Gordon:**

Okay. That's the answer. There was no shift in underlying fundamental trends in the business.

**Scott Prochazka:**

No, there was not.

**Greg Gordon:**

Second question is, unless I'm mistaken, I don't think you've announced the full suite of who's going to be your senior management for the pro forma company other than you definitively being CEO. Is that correct? And if that is, when will we get a fuller sense of who the management team is going to be?

**Scott Prochazka:**

That is correct. I have not announced it. And as for timing, waiting until later in the process. I'd like the decision making to be informed by our integration planning process. So, it will be a little later on the process before I get to that point.

**Operator:**

Your next question is from Zack Prince from Merrill Lynch.

**Antoine Aurimond:**

Hey guys. It's Antoine actually. How are you?



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**Scott Prochazka:**

Good morning, Antoine. We're fine. Thank you.

**Antoine Aurimond:**

Quickly on the – and apologies if I missed it, but where you guys are in the restructuring of CERC.

**Scott Prochazka:**

I will let – I'll let Bill answer this.

**Bill Rogers:**

Antoine, good morning. As we said, we should be completing that at year-end this year where our investments in Enable Midstream that are held at the CERC level get moved to a separate entity. We call it CenterPoint Midstream. And then we put leverage against those investments, and the use of the proceeds from those borrowings will be to pay down debt at CERC and to pay down debt at the holding company.

**Antoine Aurimond:**

Got it. And for CERC, there will be – supposedly to reach the debt-to-capital ratio?

**Bill Rogers:**

Yes, the target debt-to-capital ratio for CERC is the weighted average debt-to-capital ratio that we have for the Utilities in CERC.

**Antoine Aurimond:**

Got it. And would Energy Services be included in that?

**Bill Rogers:**

For this time, Energy Services will remain part of CERC.



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**Operator:**

Please remember if you wish to ask a question, press star one. Our next question is from Steve Fleishman from Wolfe Research.

**Steve Fleishman:**

Old investor, not new investor. So just on Enable, so if you go back to the last 12 months or so, obviously, it's been a tough environment and you've mentioned a few times in terms of thinking about monetizing. There have been some signs of that changing. So maybe just from that standpoint, is that - ignoring that you don't need it for the merger - or just is there a better environment now for you to think about monetization of some of the stake?

**Scott Prochazka:**

Well, clearly, Steve, with the strengthening in the market, that space, that is a positive sign. We like to see that. We continue to monitor that market for strength of investors. But I would answer the question by saying, look, our near-term focus is around financing the acquisition and keeping our attention on that. And then to the extent that there would be opportunities for Enable, it would be down the line when we're looking at equity requirements for our ongoing growth capital.

**Steve Fleishman:**

Okay. And then one other question on just the 2018 guidance, I wanted to clarify you're still using the midpoint of the Enable range. And also, did you – are you including any of the good July weather, which I guess we pay attention to on the power side?

**Bill Rogers:**

Steve, it's Bill. Our guidance at the high end of our \$1.50 to \$1.60 incorporates Enable's guidance when they say they're at their midpoint or higher. With respect to July weather, yes, it's been somewhat warmer-than-normal weather. But to date, we haven't updated for third quarter activities. This is just through second quarter.

**Operator:**

There are no further questions in the queue. I would like to turn it over to the leaders for any closing remarks.



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**Dave Mordy:**

Thank you, everyone, for your interest in CenterPoint Energy. We will now conclude our second quarter 2018 earnings call. Have a great day.

**Operator:**

This concludes CenterPoint Energy's second quarter 2018 earnings conference call. Thank you for your participation.

CenterPoint Energy, Inc., headquartered in Houston, Texas, is a domestic energy delivery company that includes electric transmission & distribution, natural gas distribution and energy services operations. The company serves more than five million metered customers primarily in Arkansas, Louisiana, Minnesota, Mississippi, Oklahoma and Texas. The company also owns 54.0 percent of the common units representing limited partner interests in Enable Midstream Partners, a publicly traded master limited partnership it jointly controls with OGE Energy Corp. Enable Midstream Partners owns, operates and develops natural gas and crude oil infrastructure assets. With more than 8,000 employees, CenterPoint Energy and its predecessor companies have been in business for more than 150 years. For more information, go to [www.CenterPointEnergy.com](http://www.CenterPointEnergy.com).

This document includes forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements are based upon assumptions of management which are believed to be reasonable at the time made and are subject to significant risks and uncertainties. Actual events and results may differ materially from those expressed or implied by these forward-looking statements. Any statements in this document regarding future earnings, and future financial performance and results of operations, including, but not limited to earnings guidance, targeted dividend growth rate and any other statements that are not historical facts are forward-looking statements. Each forward-looking statement contained in this document speaks only as of the date of this release.

*Risks Related to CenterPoint Energy*

Important factors that could cause actual results to differ materially from those indicated by the provided forward-looking information include risks and uncertainties relating to: (1) the performance of Enable Midstream Partners, LP (Enable), the amount of cash distributions CenterPoint Energy receives from Enable, Enable's ability to redeem the Series A Preferred Units in

certain circumstances and the value of CenterPoint Energy's interest in Enable, and factors that may have a material impact on such performance, cash distributions and value, including factors such as: (A) competitive conditions in the midstream industry, and actions taken by Enable's customers and competitors, including the extent and timing of the entry of additional competition in the markets served by Enable; (B) the timing and extent of changes in the supply of natural gas and associated commodity prices, particularly prices of natural gas and natural gas liquids (NGLs), the competitive effects of the available pipeline capacity in the regions served by Enable, and the effects of geographic and seasonal commodity price differentials, including the effects of these circumstances on re-contracting available capacity on Enable's interstate pipelines; (C) the demand for crude oil, natural gas, NGLs and transportation and storage services; (D) environmental and other governmental regulations, including the availability of drilling permits and the regulation of hydraulic fracturing; (E) recording of non-cash goodwill, long-lived asset or other than temporary impairment charges by or related to Enable; (F) changes in tax status; (G) access to debt and equity capital; and (H) the availability and prices of raw materials and services for current and future construction projects; (2) industrial, commercial and residential growth in CenterPoint Energy's service territories and changes in market demand, including the demand for CenterPoint Energy's non-rate regulated products and services and effects of energy efficiency measures and demographic patterns; (3) timely and appropriate rate actions that allow recovery of costs and a reasonable return on investment; (4) future economic conditions in regional and national markets and their effect on sales, prices and costs; (5) weather variations and other natural phenomena, including the impact of severe weather events on operations and capital; (6) state and federal legislative and regulatory actions or developments affecting various aspects of CenterPoint Energy's and Enable's businesses, including, among others, energy deregulation or re-regulation, pipeline integrity and safety and changes in regulation and legislation pertaining to trade, health care, finance and actions regarding the rates charged by our regulated businesses; (7) CenterPoint Energy's expected timing, likelihood and benefits of completion of CenterPoint Energy's pending merger with Vectren Corporation (Vectren), including the timing, receipt and terms and conditions of any required approvals by Vectren's shareholders and governmental and regulatory agencies that could reduce anticipated benefits or cause the parties to delay or abandon the pending transactions, as well as the ability to successfully integrate the businesses and realize anticipated benefits, the possibility that long-term financing for the pending transactions may not be put in place before the closing of the pending transactions and the risk that the credit ratings of the combined company or its subsidiaries may be different from what CenterPoint Energy expects; (8) tax legislation, including the effects of the comprehensive tax reform legislation informally referred to as the Tax Cuts and Jobs Act (which includes any potential changes to interest deductibility) and uncertainties involving state commissions' and local municipalities' regulatory requirements and

determinations regarding the treatment of excess deferred income taxes and CenterPoint Energy's rates; (9) CenterPoint Energy's ability to mitigate weather impacts through normalization or rate mechanisms, and the effectiveness of such mechanisms; (10) the timing and extent of changes in commodity prices, particularly natural gas, and the effects of geographic and seasonal commodity price differentials; (11) actions by credit rating agencies, including any potential downgrades to credit ratings; (12) changes in interest rates and their impact on CenterPoint Energy's costs of borrowing and the valuation of its pension benefit obligation; (13) problems with regulatory approval, construction, implementation of necessary technology or other issues with respect to major capital projects that result in delays or in cost overruns that cannot be recouped in rates; (14) local, state and federal legislative and regulatory actions or developments relating to the environment, including those related to global climate change; (15) the impact of unplanned facility outages; (16) any direct or indirect effects on CenterPoint Energy's or Enable's facilities, operations and financial condition resulting from terrorism, cyber-attacks, data security breaches or other attempts to disrupt CenterPoint Energy's businesses or the businesses of third parties, or other catastrophic events such as fires, earthquakes, explosions, leaks, floods, droughts, hurricanes, pandemic health events or other occurrences; (17) CenterPoint Energy's ability to invest planned capital and the timely recovery of CenterPoint Energy's investment in capital; (18) CenterPoint Energy's ability to control operation and maintenance costs; (19) the sufficiency of CenterPoint Energy's insurance coverage, including availability, cost, coverage and terms and ability to recover claims; (20) the investment performance of CenterPoint Energy's pension and postretirement benefit plans; (21) commercial bank and financial market conditions, CenterPoint Energy's access to capital, the cost of such capital, and the results of CenterPoint Energy's financing and refinancing efforts, including availability of funds in the debt capital markets; (22) changes in rates of inflation; (23) inability of various counterparties to meet their obligations to CenterPoint Energy; (24) non-payment for CenterPoint Energy's services due to financial distress of its customers; (25) the extent and effectiveness of CenterPoint Energy's risk management and hedging activities, including but not limited to, its financial and weather hedges and commodity risk management activities; (26) timely and appropriate regulatory actions, which include actions allowing securitization, for any future hurricanes or natural disasters or other recovery of costs, including costs associated with Hurricane Harvey; (27) CenterPoint Energy's or Enable's potential business strategies and strategic initiatives, including restructurings, joint ventures and acquisitions or dispositions of assets or businesses (including a reduction of interests in Enable, if any, whether through CenterPoint Energy's decision to sell all or a portion of the Enable common units it owns in the public equity markets or otherwise, subject to certain limitations), which CenterPoint Energy cannot assure will be completed or will have the anticipated benefits to us or Enable; (28) acquisition and merger activities involving CenterPoint Energy or its competitors, including the ability to successfully



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complete merger, acquisition or divestiture plans; (29) CenterPoint Energy's or Enable's ability to recruit, effectively transition and retain management and key employees and maintain good labor relations; (30) the outcome of litigation; (31) the ability of retail electric providers (REPs), including REP affiliates of NRG and Vistra Energy Corp., formerly known as TCEH Corp., to satisfy their obligations to CenterPoint Energy and its subsidiaries; (31) the ability of GenOn Energy, Inc. (formerly known as RRI Energy, Inc., Reliant Energy and RRI), a wholly-owned subsidiary of NRG Energy, Inc. (NRG), and its subsidiaries, currently the subject of bankruptcy proceedings, to satisfy their obligations to CenterPoint Energy, including indemnity obligations; (33) changes in technology, particularly with respect to efficient battery storage or the emergence or growth of new, developing or alternative sources of generation; (34) the timing and outcome of any audits, disputes and other proceedings related to taxes; (35) the effective tax rates; (36) the effect of changes in and application of accounting standards and pronouncements; and (37) other factors discussed in CenterPoint Energy's Annual Report on Form 10-K for the fiscal year ended December 31, 2017, CenterPoint Energy's Quarterly Report on Form 10-Q for the quarters ended March 31, 2018, and June 30, 2018, and other reports CenterPoint Energy or its subsidiaries may file from time to time with the Securities and Exchange Commission.

*Risks Related to the Merger*

Important factors that could cause actual results to differ materially from those indicated by the provided forward-looking information include risks and uncertainties relating to: (1) the risk that Vectren may be unable to obtain shareholder approval for the proposed transactions, (2) the risk that CenterPoint Energy or Vectren may be unable to obtain governmental and regulatory approvals required for the proposed transactions, or that required governmental and regulatory approvals or agreements with other parties interested therein may delay the proposed transactions or may be subject to or impose adverse conditions or costs, (3) the occurrence of any event, change or other circumstances that could give rise to the termination of the proposed transactions or could otherwise cause the failure of the proposed transactions to close, (4) the risk that a condition to the closing of the proposed transactions or the committed financing may not be satisfied, (5) the failure to obtain, or to obtain on favorable terms, any equity, debt or other financing necessary to complete or permanently finance the proposed transactions and the costs of such financing, (6) the outcome of any legal proceedings, regulatory proceedings or enforcement matters that may be instituted relating to the proposed transactions, (7) the receipt of an unsolicited offer from another party to acquire assets or capital stock of Vectren that could interfere with the proposed transactions, (8) the timing to consummate the proposed transactions, (9) the costs incurred to consummate the proposed transactions, (10) the possibility that the expected cost savings, synergies or other value creation from the proposed transactions will not be



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realized, or will not be realized within the expected time period, (11) the risk that the companies may not realize fair values from properties that may be required to be sold in connection with the merger, (12) the credit ratings of the companies following the proposed transactions, (13) disruption from the proposed transactions making it more difficult to maintain relationships with customers, employees, regulators or suppliers, and (14) the diversion of management time and attention on the proposed transactions.

**Use of Non-GAAP Financial Measures by CenterPoint Energy in Providing Guidance**

In addition to presenting its financial results in accordance with generally accepted accounting principles (GAAP), including presentation of net income and diluted earnings per share, CenterPoint Energy also provides guidance based on adjusted net income and adjusted diluted earnings per share, which are non-GAAP financial measures. Additional Non-GAAP financial measures used by the Company include utility earnings per share and core operating income. Generally, a non-GAAP financial measure is a numerical measure of a company's historical or future financial performance that excludes or includes amounts that are not normally excluded or included in the most directly comparable GAAP financial measure. CenterPoint Energy's adjusted net income and adjusted diluted earnings per share calculation excludes from net income and diluted earnings per share, respectively, the impact of ZENS and related securities, mark-to-market gains or losses resulting from the company's Energy Services business and adjustments for impairment charges. The Company's utility earnings per share calculation includes all earnings except those related to Midstream Investments (but includes the Enable Series A Preferred Units). The Company's core operating income calculation excludes the transition and system restoration bonds from the Electric Transmission and Distribution business segment, the mark-to-market gains or losses resulting from the Company's Energy Services business and income from the Other Operations business segment. CenterPoint Energy is unable to present a quantitative reconciliation of forward looking adjusted net income and 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.

CenterPoint Energy's management evaluates CenterPoint Energy's financial performance in part based on adjusted net income, adjusted diluted earnings per share, utility earnings per share and core operating income. CenterPoint Energy's management believes that presenting these non-GAAP financial measures enhances an investor's understanding of CenterPoint



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Energy's overall financial performance by providing them with an additional meaningful and relevant comparison of current and anticipated future results across periods. The adjustments made in these non-GAAP financial measures exclude items that CenterPoint Energy's management believes does not most accurately reflect the Company's fundamental business performance. These excluded items are reflected in the reconciliation tables of this release, where applicable. CenterPoint Energy's adjusted net income, adjusted diluted earnings per share, utility earnings per share and core operating income non-GAAP financial measures should be considered as a supplement to, and not as a substitute for, or superior to, net income and diluted earnings per share, which respectively are the most directly comparable GAAP financial measures. These non-GAAP financial measures also may be different than non-GAAP financial measures used by other companies.

#### **Additional Information and Where to Find It**

This communication may be deemed to be solicitation material in respect of the merger of Vectren into CenterPoint Energy. In connection with the pending transactions, Vectren filed a definitive proxy statement with the SEC on July 16, 2018, which was mailed or otherwise provided to its shareholders. **INVESTORS ARE URGED TO READ THE PROXY STATEMENT AND THESE OTHER MATERIALS FILED WITH THE SEC CAREFULLY BEFORE MAKING ANY VOTING OR INVESTMENT DECISION BECAUSE THEY CONTAIN IMPORTANT INFORMATION ABOUT THE PENDING MERGER.** Investors can obtain free copies of the proxy statement and other documents filed by Vectren with the SEC at <http://www.sec.gov>, the SEC's website, or from Vectren's website (<http://www.vectren.com>) under the tab, "Investors" and then under the heading "SEC Filings." Security holders may also read and copy any reports, statements and other information filed by Vectren with the SEC, at the SEC public reference room at 100 F Street, N.E., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 or visit the SEC's website for further information on its public reference room.

#### **Participants in the Solicitation**



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CenterPoint Energy, Vectren and certain of their respective directors, executive officers and other persons may be deemed to be participants in the solicitation of proxies from Vectren's shareholders with respect to the pending transactions. Information regarding the directors and executive officers of CenterPoint Energy is available in its definitive proxy statement for its 2018 annual meeting, filed with the SEC on March 15, 2018, and information regarding the directors and executive officers of Vectren is available in its definitive proxy statement for its 2018 annual meeting, filed with the SEC on March 22, 2018. More detailed information regarding the identity of potential participants, and their direct or indirect interests, by securities, holdings or otherwise, is set forth in the proxy statement and other materials filed with the SEC in connection with the pending transactions.