First Quarter 2023 Earnings Conference Call
April 27, 2023

<u>Jackie Richert – VP, Investor Relations and Treasurer</u>

Good morning, everyone. Welcome to CenterPoint's earnings conference call. Dave Lesar, our CEO and Jason Wells, our President and COO, will discuss the Company's first quarter 2023 results.

Management will discuss certain topics that will contain projections and other forward-looking information and statements that are based on management's beliefs, assumptions, and information currently available to management. These forward-looking statements are subject to risks or uncertainties. Actual results could differ materially based upon various factors, as noted in our Form 10-Q, other SEC filings and our earnings materials. We undertake no obligation to revise or update publicly any forward-looking statement.

We will be discussing certain non-GAAP measures on today's call. When providing guidance, we use the non-GAAP EPS measure of adjusted diluted earnings per share, on a consolidated basis, referred to as "non-GAAP EPS."

For information on our guidance methodology and reconciliation of the non-GAAP measures used in providing guidance, please refer to our earnings news release and presentation, both of which can be found under the Investors' section on our website. As a reminder, we use our website to announce material information.

This call is being recorded. Information on how to access the replay can be found on our website. Now, I'd like to turn the discussion over to Dave.

Dave Lesar – CEO

Good morning and thank you to everyone joining us for our first quarter 2023 earnings call.

Although it's only been a few short months since our last call, we continue to see exciting developments here at CenterPoint…

First and foremost, the first quarter of 2023 represents yet another quarter of execution – now our 12th consecutive quarter, of meeting or exceeding. expectations. This morning, we announced first quarter non-GAAP EPS of $0.50 per share. In addition, we are also reaffirming our 2023 non-GAAP EPS guidance target of $1.48 - $1.50 per share, which represents an 8% growth over last year's actual non-GAAP EPS. As a reminder, we grew non-GAAP EPS 9% in both 2021 AND 2022. Additionally, we aim to grow at 8% in 2024 and at the mid-to-high end of 6% - 8%, annually thereafter, through 2030.

Additionally, we continue to execute on our long-term capital plan for the benefit of both customers and investors. During the quarter, we deployed approximately $1B of the $3.6B capital we have planned for this year – a great way to start to the year. Jason will say more on this a bit later.

As we continue on our path of executing for the benefit of both customers and investors, I want to highlight that we are now in the third year of consistently delivering under this management team. This has resulted in increasing investments to further the safety, reliability, and resiliency of our systems to benefit our customers. It's also provided consistent execution and growth for our investors. We are proud of this effort and look to extending this performance well into the future.

Along with another quarter of execution, we announced a new CFO a few weeks ago. A little over two years ago, I had the pleasure of announcing Jason Wells as CenterPoint's CFO. Since that time, Jason has not only been a key contributor in developing what we believe is one of the industry's best growth plans, but he's also been a driving force behind its execution. Now, as Jason continues his management progression in his role as President, I'm excited to introduce Chris Foster as CenterPoint's next Chief Financial Officer. Chris, of course, is well known to most of you. And while we had many quality candidates, we undoubtedly believe we found the right person for this important job.

Throughout the search process, Chris continued to impress us with his strong reputation with investors, deep industry knowledge, and his passion for delivering for customers. In fact, my discussions with Chris reminded me of ones I had with Jason during our interview process a couple of years ago.

Chris will shortly join the leadership team to help continue the execution of our premium growth plan for years to come. He will also add depth to an already very strong management team. . Chris is with us here today and sitting in on this call. So, while we can't give him a speaking role, he is clearly getting ready to hit the ground running. I hope you all will all join me in welcoming Chris to CenterPoint.

Lastly, I wanted to touch on a couple constructive regulatory outcomes we had in our Texas gas and electric jurisdictions…

Starting with Texas Gas…

During the quarter, we received approximately $1.1 billion of securitization proceeds related to the extraordinary gas costs incurred in Texas during Winter Storm Uri in 2021. As a reminder, these bonds are issued by the state of Texas and are not on our balance sheet. Although the receipt of these proceeds was delayed longer than we had initially anticipated, we are grateful for the diligent work and careful consideration by all stakeholders to reach this constructive resolution for the benefit of both Texas gas customers and Texas LDC operators.

With relation to our Houston Electric business, the PUCT approved our first application for the recovery of the costs incurred in 2021 on our leased emergency temporary mobile generation units during its open meeting on March 9th. The PUCT's approval of the use of these units is a great result for our Houston-area customers as it highlights the Commission's awareness of the important role this critical tool can play to help mitigate the number and duration of customer outages during extreme weather events.

We at CenterPoint also understand the need for a resilient grid as we hear from stakeholders throughout our Houston Electric service territory about the continued importance of reliable energy…and for very good reason.

As economic data from 2022 continues to come in, one thing is clear: Houston's economic engine continues to run at a blistering pace. After recovering from the economic impact of Covid, the greater Houston area GDP in 2022 was approximately $482 billion, or over $1.3 billion per day, up nearly 4% from 2021. The greater Houston area was also the second fastest growing metropolitan area in the US last year.

While many may think that Houston's economic growth is primarily driven by the 24 Fortune 500 companies headquartered here, Houston's small business community is also a significant contributor to its nation's leading growth rate. Last month marked the fifth consecutive quarter that Houston topped the Paychex Small Business Employment Watch Index.

This consistent job creation and wage growth continues to attract new talent from all over the United States. This only further fuels the strong organic growth in our Houston Electric service territory. According to U-Haul relocation data, unsurprisingly, last year, Texas was the number one destination for people moving residences and it has been for 5 out of the last 7 years.

Outside of Texas, cities in our Indiana service territory continue to thrive as well. Lafayette, Indiana, which is in our North Indiana gas service territory, topped last years' Wall Street Journal's Emerging Housing Market Index, which identifies top metro areas for home buyers seeking an appreciating housing market, a strong local economy and appealing lifestyle amenities. The Lafayette area is a manufacturing hub and home to Purdue University.

Our portfolio of premium jurisdictions and strong organic growth, O&M discipline and securitization charges rolling off of our Houston Electric customers' bills enable us to invest in industry leading growth for the benefit of our customers while keeping charges at or below the historic level of inflation of 2%. In fact, over the last 10 years, Houston Electric customer charges have increased less than 1% per year on average, well below the rate of inflation during that same period. And, although there may be certain periods when the increase in charges out-paces the historic level, we believe our charges will continue to stay inline or below inflation over the long-term.

Although we feel confident in our plan we've outlined through 2030, we certainly recognize and are dealing with the headwinds our industry has faced over the past several quarters. These include higher interest rates, inflation and, specific to this quarter, milder winter weather. However, we believe we have the right team in place to successfully manage through these headwinds that we are currently facing today.

In Closing…

The first quarter of 2023 was a great start to the year as the non-GAAP EPS of 50 cents that we announced this morning represents over a third of our full year 2023 earnings guidance, at the midpoint. We believe this sets us up for a great year as we reaffirm our 2023 non-GAAP EPS guidance range of $1.48 - $1.50. With that being said, we remain committed to focusing on execution for 2023 and beyond for the benefit of both our customers and our investors.

With that, I'm going to turn the call over to Jason who for the last time he has to wear his CFO hat.

Jason Wells – President & COO

Thank you, Dave and thank you to all of you for joining us this morning for our first quarter call.

Before I get into the financial results for the quarter for the final time wearing, what Dave refers to as my "CFO hat", I want to join him in welcoming Chris Foster as he assumes his new role. As I'm sure many of you know, I've known Chris for a number of years, and I have no doubt that he will be an excellent addition to an already strong management team here at CenterPoint. I look forward to his official start date and partnering with Chris to continue to execute on what we believe is one of the most tangible long-term growth plans in the industry.

Now, turning to the first quarter financial results shown on Slide 5

On a GAAP EPS basis, we reported 49 cents for the first quarter of 2023. Our non-GAAP EPS excludes small trailing earnings impacts of previous divestitures.

On a non-GAAP basis, we reported 50 cents for the first quarter of 2023 compared to 47 cents in the first quarter of 2022. As Dave mentioned, this accounts for over a third of our full year guidance, at the mid-point.

Growth and rate recovery contributed 9 cents, largely driven by our electric distribution capital tracker filed last year, the DCRF mechanism, and our electric transmission tracker, the TCOS mechanism at Houston Electric.

In addition, we continue to see strong organic growth in the Houston area continuing the long-term trend we've observed over the last three decades of 2% average annual growth.

Additionally, O&M was 2 cents favorable when compared to the first quarter in 2022 as we continue to find ways to operate more efficiently to meet our goal of reducing O&M 1% - 2% per year on average while remaining focused on meeting our customers' needs.

Lastly, other items such as miscellaneous revenue from non-regulated businesses, tax benefits, and other items were another 2 cents favorable when comparing the first quarter of 2023 and the first quarter of 2022.

These favorable drivers were partially offset by a 6 cent increase in interest expense due to rising interest rates and higher average floating rate debt balances. However, as, I will discuss in a minute, we have reduced our floating rate debt considerably since the end of 2022.

In addition, as has been a common trend for our industry during the quarter, weather and usage was 4 cents unfavorable when compared to the same quarter of 2022, driven by a colder first quarter in 2022 as compared to the more milder winter weather in 2023, primarily in our Texas Gas, Houston Electric and Indiana electric service territories this quarter.

Looking at the heating degree days during the quarter, there were approximately 350 fewer heating degree days below normal in our Texas Gas and Houston electric service territories and approximately 550 fewer heating degree days below normal in our Indiana Electric service territory, when compared to first quarter of 2022.

Fortunately, in our other jurisdictions, they are either fully decoupled or have a comparable weather normalization mechanism that helps mitigate the impact of the milder weather.

As Dave mentioned, we are reaffirming our full year 2023 guidance range of $1.48 to $1.50 of non-GAAP EPS, which reflects 8% growth over full year 2022 non-GAAP EPS of $1.38, when using the midpoint. This of course comes on the heels of two straight years of 9% growth.

Beyond 2023, we continue to expect to grow non-GAAP EPS 8% in 2024 and target the mid to high end of 6% - 8% annually thereafter through 2030. Our focus continues to be on delivering strong, industry leading, growth each and every year.

Capital investments

Turning to capital investments on Slide 6 …

To benefit our customers, during the quarter, we invested $1B across our various service territories. This represents over a quarter of our 2023 annual target of $3.6B. We continue to make progress towards our long-term goal of investing $43B of capital through 2030 to provide safe, reliable, and resilient energy to all customers throughout all our service territories.

We have previously mentioned that we plan to formally incorporate up to $3B of additional identified capital opportunities when we believe we can operationally execute it, efficiently finance it, and efficiently recover it. The decision as to when to deploy this capital is still in front of us and we will include it when we feel it's right. As we've said before, this management team will not commit to something unless we believe we can deliver.

Moving to a broader regulatory update on Slide 7

Since the start of the year, we've had a number of regulatory filings, primarily in our Texas gas and Houston electric jurisdictions. Starting with Texas Gas, we filed our annual GRIPs, in which we requested an increased revenue requirement of $60 million. This filing seeks to recover on the capital investments we made in 2022 which were primarily related to system safety and support our ever-growing service territories in and around Houston. It is anticipated that customer rates will be updated to reflect this investment sometime in June.

Additionally, Houston Electric filed capital trackers for both its investments in transmission and distribution made in 2022. The transmission filing, often referred to as TCOS was filed in early March and requested a revenue requirement of approximately $40 million. If approved, it is anticipated this filing will be incorporated into customer rates in May.

With respect to our distribution filing, we filed our annual capital tracker known as "DCRF" in the first week of April, requesting a revenue requirement increase of approximately $85 million. And in addition to the DCRF and TCOS, we filed for the remaining recovery of our leased temporary mobile generation units under a temporary emergency electric energy facilities mechanism referred to as "TEEEF" with a revenue requirement of $188 million. As a reminder, the DCRF and TEEEF are filings that represent nearly $1.4B of capital deployed in

2022 in our Houston Electric Service territory. They will not go into rates until September 1st which skews incremental earnings towards the latter part of the year.

We continue to invest for the benefit of customers while remaining cognizant of bill impacts. We've been able to invest over the last 10 years while keeping customer charge increases below the average rate of inflation during that time. In fact, since 2014, Houston Electric customer charges have increased less than 1% annually on average, and we anticipate being able to execute our long-term capital plan with customer charges increasing at or below the historic level of inflation. Again, we will be able to achieve this through leveraging the continued organic growth of Houston, O&M discipline, and securitization charges rolling off our customers' bills.

During the quarter, the PUCT approved our first application for recovery related to our temporary emergency mobile generation units as Dave mentioned earlier. I want to echo his sentiment regarding what we think is an overwhelmingly positive outcome for our customers. Using the last couple years as an example, the Houston area is subject to extreme weather events that can adversely impact service to our customers. The commissioners' decision not only reflects their deep understanding of the need for increased power resiliency during these extreme weather events but also their pragmatic approach to allowing utilities to use available tools designed to help mitigate its impacts on energy service for those living in the Houston area.

Lastly I'd like to cover some Credit related topics –

As of the end of the first quarter, aligning with Moody's methodology, our FFO/Debt as reported was over 14%. We continue to trend well in this area and fully expect to be in our annual target range of 14% - 15% throughout 2023. We ended the first quarter at 16% floating rate debt outstanding, down $1.9 billion from the end of 2022. A few actions have led to this significant reduction.

First, as Dave mentioned, during the quarter, we received securitization proceeds related to Winter Storm Uri which we used to pay down some and floating rate notes. We have now collected approximately 90% of the $2.1 billion extraordinary gas costs incurred during Winter Storm Uri with approximately $230 million left to be collected in our Minnesota gas business.

Second, we issued nearly $2.3 billion of fixed rate debt at our operating company level in the first quarter, including our first ever green bond issuance at Houston Electric. Some of these issuances were used to refinance a certain amount of outstanding floating rate debt from year-end that was undertaken for incremental investments that were made in the fourth quarter of 2022. We were able to successfully issue this debt despite the disruption in the banking sector. We believe this reflects investors' confidence in the strength of our balance sheet, long-term growth, and this management team's ability to execute.

As I touched on last quarter, we exited 2022 with an elevated amount of floating rate debt, some of which was driven by the cold December weather during which we purchased more gas at higher prices than we had forecasted. With that being said, this balance has been reduced as we collect from customers - albeit it somewhat slower due to the milder winter. We anticipate collecting the majority of these gas costs by the end of second quarter and we will continue to pay down floating rate debt as we recover these costs.

These are my updates for the quarter. As we continue to express, we take our commitment to be good stewards of your investment very seriously and realize our obligation to optimize stakeholder value.

I'll now turn the call back over to Dave.

Dave Lesar – President & CEO

Thank you, Jason. As you heard from us today, we now have 12 straight quarters of meeting or exceeding expectations. We are a pure-play, regulated, premium utility, and on a course to continue to deliver on incremental long-term growth opportunities to support our customers.

Jackie Richert VP of Investor Relations and Treasurer

[GO TO LIVE] Thank you, Dave. We will now turn to Q&A.

Q&A

Operator

Thank you. At this time we will begin taking questions. [Operator Instructions] Thank you. Our first question is from Shahriar Pourreza with Guggenheim Partners. Your line is open.

Shahriar Pourreza

Hey, guys. Good morning.

Dave Lesar

Hey, Shar.

Jason Wells

Good morning.

Shahriar Pourreza

Yes. Perfect. Now, that was good. It was a bit of a dead spot there. Just a quick question on Texas. The Texas legislature, there's obviously been, you know, several regulatory update bills making traction at the legislature. I mean, including, you know, some of the around employee costs, approval of CPC and storm cost, interim recovery mechanisms. I guess how do we think about some of these, Jason and Dave, in the context of your longer term plan, you're six to eight. What should we really be focused on? And could any of these sort of unlock some of that $3 billion of incremental capital opportunity that's been out there? Thanks.

Dave Lesar

Yeah -Let me . Yeah. Let me take the first shot of that and then Jason can come in as he likes. First of all, I don't want to front run anything that might come through the legislative process. There's still about a month to go and a lot can happen. But saying that, we are really appreciative of the support we're getting in the legislative process in this session do really benefit all Texans and certainly the customers of CenterPoint. So, there are some bills out there that I think would benefit customers. I think it's important to keep in mind thou that our – that 6% to 8% growth we have out there really is predicated on the status quo. So, I think as any of these things work their way through, it certainly will benefit customers primarily, but also CenterPoint.

Jason Wells

Shar, I would just add to your comment about the ability to unlock the $3 billion of incremental capital. A handful of these bills are credit accretive to our current plan. More timely recovery of some of our critical infrastructure related investments would allow us to continue to accelerate or fold in some of that $3 billion that we've identified but not incorporated in the plan. So, some of these bills not only give us the opportunity to recover that capital more timely, but to enhance our capital spend for the benefit of our customers. So as Dave said, we are following the legislative process. We're appreciative that the legislature is taking up these critical issues for all utility stakeholders. But, we're not going to provide any specific update until the legislature is over and the governor's had time to evaluate any bills that are passed.

Shahriar Pourreza

Perfect. And then lastly was – I mean obviously was a clean quarter and seems like you guys are offsetting some of the pressures like weather and interest rates, despite some reliance on floating rate debt which obviously in your prepared remarks it's been stepping down. I guess how do we think about sort of the rest of the year, especially some of the near-term headwinds, [indiscernible]. How much of that sort of contingency have used up like O&M, especially in light of the inflationary pressures out there? Thanks

Jason Wells

Thanks Shar. You know, I continue to think we have more tailwinds. And when you have headwinds, you know. Obviously, interest on a Q-over-Q basis stood out but as I mentioned on the fourth quarter earnings call, we made a conservative assumption around interest expense in the 2023 plan and current interest rates are at or below the interest assumptions we have in our plan. So, I don't see interest as is as significant a headwind to 2023, even though it will be a year-over-year variance. We continue to feel confident in the continued growth we're seeing, you know, a steady trend of continued 2% customer growth here in the Houston area. You know, we still have significant opportunities with respect to O&M and as I mentioned in my prepared remarks, we have a number of capital trackers pending in front of us in many of our jurisdictions that will provide enhanced earnings power for the company in the latter half of the year. So, we continue to feel, as I said, more tailwinds than headwinds and that's why we're reaffirming our guidance on today's call.

Shahriar Pourreza

Perfect. And then, Jason, congrats to you and Chris on phase two. It's a big one for CenterPoint. Thanks, guys.

James M. Thalacker

Good morning and thank you for taking my question. Can you guys hear me?

Dave Lesar

Yeah.

Jason Wells

Yeah, good morning, Jim.

James M. Thalacker

Hey. Good morning. Hey. I was just curious with the conclusion of the Sempra Oncor rate case whether or not the outcome of that case had, sort of, you know maybe informed your thinking incrementally on how you might approach your upcoming general rate case later this year in the state.

David Lesar

Well, certainly, you know, you take the lessons learned by watching the interaction with the PUCT, watching the strategy that they use. But, you know, Oncor's Oncor and we're CenterPoint and so, you know, we have, and we have sort of different needs, we have different outcomes. We have set of different experiences. So, I think we use it as a data point. But I think all in all we've got a great story to put forward in front of the PUCT. We're an entirely -- we're in an entirely sort of different climate than the Oncor territory is. But as I said, we'll take the lessons learned and use them and we'll put the best foot forward to show what a great company CenterPoint is and what we -- what we've done for customers with our investments over the past few years.

Jason Wells

Jim, if I can add, you know, I want to reemphasize the point that I made on the fourth quarter call. I think we're in a pretty unique position here at CenterPoint, given the team’s strong work around O&M discipline, such that as we look forward to filing this case later this year, we will likely file a relatively flat revenue requirement increase despite advocating for a higher cost of capital to attract the critical investment that's needed here in Texas. And so, I think we're in a pretty unique position, having driven cost out of the business to be able to kind of advocate for benefits for all stakeholders

James M. Thalacker

Great. Thanks so much, guys. Appreciate it. And congratulations on a good quarter.

David Lesar

Thanks, Jim.

Julien Dumoulin-Smith

Hi. Good morning to you all. Thank you very much. Appreciate it and congrats Chris.

Chris Foster

Thanks, Julien.

Julien Dumoulin-Smith

Absolutely. So just pivoting here. What do you think about the ability to maintain that 14% FFO/debt metric beyond 2023 year? Obviously, some slight tweaks and replies here. Can you elaborate a little bit about how you're thinking about the balance sheet here today, considering kind of the status quo? Obviously, we saw from the recent headlines around potential recycling. I'll let you elaborate, as you see fit, and then related perhaps, how do you think about funding that $3 billion CapEx upside and the timing there and considering what could be a protracted process for really kind of recycling?

Jason Wells

Yeah. Thank you and appreciate the questions. There's no fundamental change in our view of the balance sheet. We've worked hard over the last several years to improve the cushion between where FFO to debt metrics actually stands at our downgrade threshold as I've indicated on previous calls. I believe it running about 150 basis point cushion at a minimum to remove any equity overhang risks. And I think under the current plan that we are able to achieve that. We made a lot of progress reducing parent company debt as it relates to the percentage of total company debt. And as I mentioned in my prepared remarks, we've taken pretty substantial steps in this first quarter to reduce our variable rate exposure. So, I continue to remain happy with sort of our trajectory. There are a handful of things that could potentially be credit accretive or referenced in, in some of the comments around the legislative process here in Texas. You know, we're not going to formally update anything until we see the conclusion of those efforts. But the potential of recovering capital faster is, you know, both a benefit to the company, but also our customers in terms of moderating any rate impacts. So more to come on that front as the Texas legislature winds down. You know, in terms of your question around some of the rumors, obviously we don't comment on market rumors. I just want to reemphasize a couple of points, you know, our current $43 billion CapEx plan through 2030 does not require any incremental equity. So, we don't need to sell any of our businesses. That said, we've got a great set of assets and routinely receive unsolicited interest. That's why we have continued to emphasize that we believe that the market for gas holdings remains strong. I think this management team has demonstrated routinely that we will always look to maximize ways for shareholder value. And so, as it relates to your last point on the $3 billion of capital spend, I think that really is going to come down to finding ways to efficiently fund it and recover it. We're entering a period of time with these rate cases where we will likely not have access to some of our capital trackers as we prosecute those rate cases. But something that we're mindful of as we think about increasing our CapEx plan. But equally, we want to be able to fund it efficiently for our stakeholders and so that could come in the form of, as I said, maybe some of the credit accretive opportunities in the legislative session or potential outcomes in upcoming rate cases. So, we've got a great plan in front of us and we continue to look at ways to potentially enhance it.

Julien Dumoulin-Smith

Excellent. Thank you. for clarification sir. And then if I can quickly to follow up on the last one here on the legislative budget, can you clarify a little bit on the timeline here? I mean, obviously, you've got a little bit of time to the end of the session here, but you've got certain perhaps threshold that you've got to achieve here to move different bills, et cetera, you need to see them move. Can you -- can you clarify a little bit on what we should be seeing or expecting in terms of like this in your timeline to get some progress.

Jason Wells

Yeah. I appreciate the question, Julien. I mean, I don't think there's any sort of definitive timelines. You know, it's an important part to see kind of bills moving. Obviously, the House and Senate are doing that. There's still more than 30 days left in the session and so I think all eyes are just -- there's a number of bills outside of those focus just on utility related issues. And we're just trying to work constructively with legislators and key stakeholders to advocate on behalf of our customers. But, you know, there's probably not any specific deadlines that I would -- I would point to at this -- at this moment.

Julien Dumoulin-Smith

Got it. Thank you very much.

Jason Wells

Thanks, Julien.

Jeremy Tonet

Hi. Good morning.

Dave Lesar

Good morning, Jeremy.

Jason Wells

Good morning, Jeremy

Jeremy Tonet

Just want to revisit some of the local economic trends you referenced in the script. Just wondering how are these trends across your service story relative to growth expectations coming into the year? Any deviations from original expectation?

Dave Lesar

I think that if you look back over the say last 30 years, the Houston area has sort of grown consistently 2% a year and we even saw that growth continue through COVID.

So I think right now that we're really seeing more of the status quo. This is a really happening area in terms of attracting jobs. It's got a relatively low residential housing costs. You obviously have the tax advantages you have in Texas with no state income tax, you have low energy prices. So, all of that adds up to continue, I think, to develop an ecosystem here in Houston that will continue to drive, you know, approximately 2% growth. And that's really what we have in our plan. So, we're not planning for any more or any less at this point.

Jeremy Tonet

Got it. That's helpful there. Thanks. And you also – you mentioned continued feedback on resiliency needs. Could you speak a bit more about your thinking here, how it's evolved, if at all? Does the current capital plan fully tackled what you'd like to prioritize on the resiliency front or is there any potential here covered in the $3 billion incremental capital upside you've spoken to?

Jason Wells

Yeah, Jeremy. I appreciate the question, I think. You know, we've ramped up capital pretty considerably. A significant portion of that incremental capital is really dedicated to enhancing reliability and resiliency, you know, helping kind of make the grid a little smarter, a little more self-healing to improve reliability, a little bit harder to withstand the impact of severe weather. I think that $3 billion is largely oriented to incremental resiliency work that we would like to fold into the plan when we can, you know, efficiently execute, and efficiently recover it and efficiently fund it. So, we'll continue to find ways to incorporate that enhanced resiliency spend over the coming years.

Dave Lesar

For those of you that are wondering, that rumbling in the background is it's a terrible weather day here in Houston with lots of thunder and lightning. So, hope it's not impacting the quality of the call here.

Jeremy Tonet

You guys coming through loud and clear. So, thank you for that.

Dave Lesar

Okay, good.

Jackie Richert

Great. Well, operator, I think that's going to conclude our call today. Appreciate everyone that's dialed in and look forward to catching up with everyone soon. Take care.

Operator

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

Forward-Looking Statements

This document contains "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. All statements other than statements of historical fact included in this document are forward-looking statements made in good faith by CenterPoint Energy, Inc. ("CenterPoint Energy" or the "Company") and are intended to qualify for the safe harbor from liability established by the Private Securities Litigation Reform Act of 1995, including statements concerning CenterPoint Energy's expectations, beliefs, plans, objectives, goals, strategies, future operations, events, financial position, earnings and guidance, growth, costs, prospects, capital investments or performance or underlying assumptions and other statements that are not historical facts. You should not place undue reliance on forward-looking statements. You can generally identify our forward-looking statements by the words "anticipate," "believe," "continue," "could," "estimate," "expect," "forecast," "goal," "intend," "may," "objective," "plan," "potential," "predict," "projection," "should," "target," "will," or other similar words. The absence of these words, however, does not mean that the statements are not forward-looking.

Examples of forward-looking statements in this document include statements about capital investments (including with respect to incremental capital opportunities, deployment of capital, renewables projects, and mobile generation spend), the impacts of the February 2021 winter storm event on our business and service territories, the recovery and timing of recovery of associated gas costs and litigation, the recovery and timing of recovery for all of CenterPoint's mobile generation spend, the timing of and projections for upcoming rate cases for CenterPoint and its subsidiaries, future earnings and guidance, including long-term growth rate, customer charges, operations and maintenance expense reductions, financing plans (including the timing of any future equity issuances, securitization, credit metrics and parent level debt), the impact of disruptions to the global supply chain on our business, including our generation transition plan and our capital plan, the Company's 2.0% Zero-Premium Exchangeable Subordinated Notes due 2029 ("ZENS") and impacts of the maturity of ZENS, tax planning opportunities (such as any potential use of the repairs expense deduction), future financial performance and results of operations, including with respect to regulatory actions and recoverability of capital investments, customer rate affordability, value creation, opportunities and expectations, and ESG strategy, including our net zero and carbon emission reduction goals. We have based our forward-looking statements on our management's beliefs and assumptions based on information currently available to our management at the time the statements are made. We caution you that assumptions, beliefs, expectations, intentions, and projections about future events may and often do vary materially from actual results. Therefore, we cannot assure you that actual results will not differ materially from those expressed or implied by our forward-looking statements.

Some of the factors that could cause actual results to differ from those expressed or implied by our forward-looking statements include, but are not limited to, risks and uncertainties relating to: (1) CenterPoint Energy's business strategies and strategic initiatives, restructurings, joint ventures and acquisitions or dispositions of assets or businesses, including the completed sale of our Natural Gas businesses in Arkansas and Oklahoma, the exit from midstream, and the internal restructuring of certain subsidiaries which we cannot assure you will have the anticipated benefits to us; (2) industrial, commercial and residential growth in CenterPoint Energy's service territories and changes in market demand; (3) CenterPoint Energy's ability to fund and invest planned capital, and the timely recovery of its investments; (4) financial market and general economic conditions, including access to debt and equity capital, inflation, interest rates and instability of banking institutions and their effect on sales, prices and costs; (5) continued disruptions to the global supply chain and increases in commodity prices; (6) actions by credit rating agencies, including any potential downgrades to credit ratings; (7) the timing and impact of regulatory proceedings and actions and legal proceedings, including those related to Houston Electric's mobile generation and the February 2021 winter storm event; (8) legislative decisions, including tax and developments related to the environment such as global climate change, air emissions, carbon, waste water discharges and the handling of coal combustion residuals, among others, and CenterPoint Energy's net zero and carbon emissions reduction goals; (9) the impact of pandemics, including the COVID-19 pandemic; (10) the recording of impairment charges; (11) weather variations and CenterPoint Energy's ability to mitigate weather impacts, including approval and timing of securitization issuances; (12) changes in business plans; (13) CenterPoint Energy's ability to execute on its initiatives, targets and goals, including its net zero and carbon emissions reduction goals and operations and maintenance goals; and (14) other factors discussed in CenterPoint Energy's Annual Report on Form 10-K for the fiscal year ended December 31, 2022 and CenterPoint Energy's Quarterly Report on Form 10-Q for the quarter ended March 31,2023, including under "Risk Factors," "Cautionary Statements Regarding Forward-Looking Information" and "Management's Discussion and Analysis of Financial Condition and Results of Operations — Certain Factors Affecting Future Earnings" in such reports and in other filings with the Securities and Exchange Commission ("SEC") by the Company, which can be found at www.centerpointenergy.com on the Investor Relations page or on the SEC website at www.sec.gov.

This document contains time sensitive information that is accurate as of the date hereof (unless otherwise specified as accurate as of another date). Some of the information in this document is unaudited and may be subject to change. We undertake no obligation to update the information presented herein except as required by law. Investors and others should note that we may announce material information using SEC filings, press releases, public conference calls, webcasts and the Investor Relations page of our website. In the future, we will continue to use these channels to distribute material information about the Company and to communicate important information about the Company, key personnel, corporate initiatives, regulatory updates and other matters. Information that we post on our website could be deemed material; therefore, we encourage investors, the media, our customers, business partners and others interested in our Company to review the information we post on our website.

Use of Non-GAAP Financial Measures

In this document, CenterPoint Energy presents, based on diluted earnings per share, non-GAAP income, non-GAAP earnings per share ("non-GAAP EPS"), as well as non-GAAP funds from operation / non-GAAP rating agency adjusted debt ("FFO/Debt") which are not generally accepted accounting principles ("GAAP") financial measures. 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.

2022 and 2023 non-GAAP EPS excluded and 2023 non-GAAP EPS guidance excludes: (a) Earnings or losses from the change in value of ZENS and related securities, (b) (for 2022) Gain and impact, including related expenses, associated with Arkansas and Oklahoma gas LDC sales, (c) (for 2022) Income and expense related to ownership and disposal of Energy Transfer common and Series G preferred units, and a corresponding amount of debt related to the units and (d) (for 2023) Gain and impact, including related expenses, associated with mergers and divestitures. In providing this guidance, CenterPoint Energy does not consider the items noted above and other potential impacts such as changes in accounting standards, impairments or other unusual items, which could have a material impact on GAAP reported results for the applicable guidance period. The 2023 non-GAAP EPS guidance range also considers assumptions for certain significant variables that may impact earnings, such as customer growth and usage including normal weather, throughput, recovery of capital invested, effective tax rates, financing activities and related interest rates, and regulatory and judicial proceedings. To the extent actual results deviate from these assumptions, the 2023 non-GAAP EPS guidance range may not be met or the projected annual non-GAAP EPS growth rate may change. CenterPoint Energy is unable to present a quantitative reconciliation of forward-looking non-GAAP diluted earnings per share because changes in the value of ZENS and related securities, future impairments, and other unusual items are not estimable and are difficult to predict due to various factors outside of management’s control.

Funds from operations excludes from net cash provided by operating activities accounts receivable and unbilled revenues, net, inventory, taxes receivable, accounts payable, and other current assets and liabilities, and includes certain adjustments consistent with Moody’s methodology, including adjustments related to total lease costs (net of lease income), Series A preferred stock dividends, and defined benefit plan contributions (less service costs). Non-GAAP rating agency adjusted debt adds to Total Debt, net certain adjustments consistent with Moody’s methodology, including adjustments related to Winter Storm Uri debt, Series A preferred stock, pension benefit obligations, and operating lease liabilities. CenterPoint Energy is unable to present a quantitative reconciliation of forward-looking FFO/Debt because certain adjustments and other unusual items are not estimable and are difficult to predict due to various factors outside of management's control.

A reconciliation of income (loss) available to common shareholders and diluted earnings (loss) per share to the basis used in providing guidance, as well as a reconciliation of net cash provided by operating activities / total debt, net to FFO/Debt is provided in the appendix of CenterPoint Energy’s slide presentation used to present its first quarter earnings information.

Management evaluates the Company’s financial performance in part based on non-GAAP income, non-GAAP EPS and long-term FFO/Debt. Management believes that presenting these non-GAAP financial measures enhances an investor’s understanding of CenterPoint 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 Management believes do not most accurately reflect the Company’s fundamental business performance. These excluded items are reflected in the reconciliation tables, where applicable. CenterPoint Energy’s non-GAAP income, non-GAAP EPS and non-GAAP FFO/Debt financial measures should be considered as a supplement to, and not as a substitute for, or superior to, income available to common shareholders, diluted earnings per share (in the case of non-GAAP EPS) and net cash provided by operating activities to total debt, net 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.

Net Zero Disclaimer

Our **Scope 1 emissions** estimates are calculated from emissions that directly come from our operations. Our **Scope 2 emissions** estimates are calculated from emissions that indirectly come from our energy usage, but because Texas is in an unregulated market, our Scope 2 estimates do not take into account Texas electric transmission and distribution assets in the line loss calculation and exclude emissions related to purchased power between 2024E-2026E. Our **Scope 3 emissions** estimates are based on the total natural gas supply delivered to residential and commercial customers as reported in the U.S. Energy Information Administration (EIA) Form EIA-176 reports and do not take into account the emissions of transport customers and emissions related to upstream extraction. While we believe that we have a clear path towards achieving our net zero emissions (Scope 1 and Scope 2) by 2035 goals, our analysis and path forward required us to make a number of assumptions. These goals and underlying assumptions involve risks and uncertainties and are not guarantees. Should one or more of our underlying assumptions prove incorrect, our actual results and ability to achieve net zero emissions by 2035 could differ materially from our expectations. Certain of the assumptions that could impact our ability to meet our net zero emissions goals include, but are not limited to: emission levels, service territory size and capacity needs remaining in line with Company expectations (inclusive of changes related to the sale of our Natural Gas businesses in Arkansas and Oklahoma); regulatory approval of Indiana Electric's generation transition plan; impacts of future environmental regulations or legislation; impacts of future carbon pricing regulation or legislation, including a future carbon tax; price, availability and regulation of carbon offsets; price of fuel, such as natural gas; cost of energy generation technologies, such as wind and solar, natural gas and storage solutions; adoption of alternative energy by the public, including adoption of electric vehicles; rate of technology innovation with regards to alternative energy resources; our ability to implement our modernization plans for our pipelines and facilities; the ability to complete and implement generation alternatives to Indiana Electric's coal generation and retirement dates of Indiana Electric's coal facilities by 2035; the ability to construct and/or permit new natural gas pipelines; the ability to procure resources needed to build at a reasonable cost, the lack of or scarcity of resources and labor, the lack of any project cancellations, construction delays or overruns and the ability to appropriately estimate costs of new generation; impact of any supply chain disruptions; changes in applicable standards or methodologies; and enhancement of energy efficiencies.