Q3 2024 Earnings Transcript – October 28, 2024

Jackie Richert: Good morning and welcome to CenterPoint Energy's Q3 2024 earnings conference call. Jason Wells, our CEO, and Chris Foster, our CFO, will discuss the Company's third quarter 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 and 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 diluted adjusted 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 discussed on this call, please refer to today's news release and presentation on our website. 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 call over to Jason.

Jason Wells – President & CEO: Thank you, Jackie and good morning, everyone.

I'd like to begin by extending our deepest sympathies to our families and communities impacted by the devastation caused by Hurricane Helene and Hurricane Milton. The destruction caused by this year's hurricane season is undoubtedly tragic. However, it is times like these that truly bring out the best in our industry.

A few weeks ago, we saw the utility community come together to send more than 50,000 utility workers from at least 43 states, the District of Columbia, and Canada to support hurricane restoration efforts across the Southeast.

From CenterPoint, we contributed to the effort by sending personnel representing nearly a third of our electric front-line workforce to assist in the restoration efforts for Helene and Milton.

As many of you know, the Greater Houston area benefited greatly from this same mutual assistance framework during Hurricane Beryl, where we called upon 13,000 workers from approximately 30 states to help restore power to more than 2 million customers.

I want to thank all our front-line teams as well as others throughout the industry that answered the call to help get the lights back on for the millions of people impacted by the destructive hurricanes, we've experienced this season.

On today's call, I'd like to address five key areas of focus:

First, I'll briefly touch on the third quarter financial results,

SECOND, I'll discuss the progress we've made and future goals with respect to our Greater Houston Resiliency Initiative or G-H-R-I,

THIRD, I'll provide an update on our various regulatory efforts,

FOURTH, I'll highlight the organic growth we continue to experience, particularly in the Houston Electric service territory,

LASTLY, I'll conclude with the initiation of our earnings guidance for 2025.

Today, we reported non-GAAP EPS of 31 cents per share for the quarter. In addition, we are reaffirming our full year 2024 non-GAAP EPS guidance range of $1.61 to $1.63 per share. This represents 8% growth, at the midpoint, from our 2023 results. Chris will provide additional details on our financial results in his section.

Now I'd like to provide an update on our ongoing execution of our electric operational plan, the Greater Houston Resiliency Initiative, which we launched in early August.

As you may have seen, we have already made significant strides toward strengthening the resiliency and reliability of our grid in the first phase of GHRI, as well as enhancing our communications with our customers.

These actions have been informed by learnings from internal and external reviews, engagement with stakeholders, and benchmarking with high-performing sector peers.

During the third quarter, we took immediate action and accelerated our plans to deliver an unprecedented level of work. This includes removing higher-risk vegetation across 2,000-line miles, replacing over 1,100 poles with new poles capable of withstanding extreme wind and installing over 300 automated reliability devices to help reduce the number and duration of customer outages.

We accomplished all of this work before the end of August and ahead of schedule.

With respect to improving our communications, we launched our new and updated outage tracker on August 1st. This tool is designed to enhance the customer experience during times of service disruptions.

Additionally, we've stated our commitment to hire senior, emergency preparedness & response and communications leaders to bolster our leadership team.

I am pleased to share we have hired leaders for both of these positions that bring a wealth of industry experience and will accelerate our efforts to improve our preparedness and response and our customer experience during emergency events.

We believe our more proactive communications approach is already positively impacting the customer experience through more timely information.

These are great first steps and I'm proud of the progress thus far. But we have heard the call to action, and we are committed to doing even more in the second and third phases of GHRI for the benefit of our customers and our communities.

These next two phases will focus on not only reducing the number of outages but also reducing the outage time customers experience through investments designed to create a self-healing grid.

I want to underscore, however, that GHRI does not represent the beginning of our enhanced resiliency investments. This is merely a continuation and acceleration of the work we started well ahead of this year's events.

Over the last few years, we have focused our resiliency investment on our electric transmission system which is the backbone of our grid.

Our transmission resiliency work included upgrading our transmission structures to better withstand extreme winds, elevating our substations to mitigate flood risk, and converting our older 69kV transmission lines to a more robust 138kV standard.

This work has already produced tangible results. During the Derecho in May and Hurricane Beryl in July, our hardened transmission system withstood the extreme winds and sustained relatively little structural damage. In fact, while other Texas utilities' customers sustained prolonged outages due to damage on their transmission system from hurricane Beryl, we did not experience any customer outages due to our transmission system.

As we now turn our attention to accelerating investments in the distribution system in the next two phases of GHRI, we believe we are well positioned to make rapid improvement.

Currently, a little over 46% of our Houston electric distribution system is underground, which, on a proportional basis, is more than twice the industry average.

Our opportunity is to harden above ground feeders to those communities through smaller, more targeted investments, that should yield impactful results for approximately 60% of the customers that are served by underground service.

This feeder blitz is expected to have the additional benefit of substantially reducing the total outage numbers and accelerating restoration for other customers as resources can focus on the remaining circuits earlier in the restoration process.

Another area we believe we can make meaningful improvements on our distribution system is with respect to increased circuit segmentation and automation. Equipment such as intelligent grid switching devices and trip savers help create a self-healing grid by isolating outages to fewer customers, re-routing power around impacted areas, and automatically restoring power without manual intervention where there is no structural damage.

Presently, approximately 30% of Houston Electric's overhead circuits have at least one automation device.

As part of phase II of GHRI, we anticipate installing 4,500 trip savers and 350 intelligent grid switching devices before the next hurricane season which will allow us to nearly double the number of distribution circuits with automation devices in the Greater Houston area. Our investments and work during this phase are anticipated to save our Houston area customers over 125 million outage minutes, annually.

Over the next five years, we plan to not only deploy even more devices, but also optimize their capabilities by employing AI based modeling.

We plan to share additional details regarding our future resiliency investments on our Q4 call which will take place after we have filed our System Resiliency Plan.

As a reminder, our revised System Resiliency Plan will include approximately $5B in resiliency investments from 2026 through 2028, an increase of approximately $2.5B over our previously withdrawn System Resiliency Plan.

Chris will go into more detail in his section, but I want to highlight that even with the inclusion of these incremental resiliency investments, we anticipate Houston Electric's customer delivery charge increases will track in line with the long-term rate of inflation over the next ten years.

Turning to an update of our broader regulatory efforts, starting with Houston Electric.

As many of you likely saw, on August 1st we filed our notice to withdraw our Houston Electric rate case filing. This withdrawal allows us to continue to focus our attention on near-term plan execution and long-term System Resiliency Plan development as we are laser focused on year-over-year improvements.

If the withdrawal is approved, we have stated that we will file a new Houston Electric rate case no later than June 30, 2025, based on a 2024 calendar test year.

Outside of the rate case filing, we intend to continue to seek recovery of capital investments made for the benefit of our customers. In the fourth quarter of this year, we anticipate filing to start recovery of both our recent transmission and distribution investments through our TCOS and DCRF capital trackers.

The efficient recovery of these investments is crucial to our ability to efficiently fund future investments. This is why we remain focused on reducing regulatory lag across all of our jurisdictions.

Our latest Earnings Monitoring Report highlights the regulatory lag we continue to experience at Houston Electric. For 2023, our weather normalized earned return on equity was nearly 150bps lower than our allowed.

In addition to filing for recovery of our investments, we will also make the initial filing for the recovery of approximately $450 million in storm costs related to the May Derecho.

Now, turning to the Indiana Electric rate case.

A little over a month ago, we filed our proposed order with respect to our non-unanimous settlement proposal. The Indiana Utility Regulatory Commission has a statutory deadline to issue its final order by February 3rd, 2025.

We want to thank all stakeholders for their contributions to the case as we seek to reach a fair outcome for all parties.

Moving next to the filed Minnesota gas rate case.

As some of you may have seen, intervenor testimony was filed a few weeks ago. Since then, we have had constructive settlement talks with stakeholders and intend to continue in those settlement negotiations leading up to our rebuttal testimony deadline of November 12th. As you may recall, we have settled our previous three rate cases in our Minnesota Gas jurisdiction.

Absent a settlement, the Minnesota Commission may consider interim rates for 2025 toward the end of this year.

Finally, I want to touch on our upcoming rate case application for Ohio Gas.

In August, our Ohio gas business filed its notice of intent with the Public Utility Commission of Ohio regarding our upcoming general rate case application, which we intended to file tomorrow.

Over the last several years, we have had one of the lowest customer gas bills in the state. Our upcoming ask reflects an investment recovery rate that will put us more in line with our Ohio peers.

In addition, this larger revenue requirement increase will allow us to more efficiently fund the continued pipeline modernization investments which we believe contributes to the overall safety and efficiency of the system.

Now, I want to highlight the strong organic growth we continue to see, especially in our Texas service territories.

While much of my earlier commentary focused on our investments in resiliency and reliability, I want to emphasize that we continue to experience significant growth across Texas, and in particular, the Greater Houston region.

Over the last few decades, the Greater Houston region has grown at one of the fastest rates in the nation. We see that growth not only continuing but accelerating through the remainder of the decade and beyond. In fact, we believe our peak load of approximately 22GW in 2024 could increase by more than 30% by 2030.

This potential growth is driven by continued population growth, acceleration of electrification and increases in data center activity.

Houston continues to be an attractive city to live and work. Over the last five years, housing starts have increased over 9% per year, on average, which is more than three times the national average. We see this growth continuing as businesses and people alike continue to migrate to the Houston area.

Our industrial load growth drivers are both large and diverse. Our substantial potential future load growth is underpinned by industrial electrification and energy exports including hydrogen.

Houston remains an ideal location for hydrogen developers as it already boasts the largest hydrogen infrastructure in the world, in addition to proximity to the largest port by water borne tonnage in the United States. Although we are still in the early stages of hydrogen development, we are working with approximately 3.5GW of projects that are well into the advanced engineering phase.

Outside our more traditional load drivers of energy and energy exports, we see growing potential incremental load from other sectors. Notably, over the summer, we have seen a fundamental shift in data center development. In fact, our interconnection queue for data centers now sits at over 8GW. While we recognize that not all of this will be developed, it is yet another tailwind in what we continue to believe is one of the most tangible long-term growth stories in the industry.

It is with this growth and our customer driven capital investments that we've made over the last couple years that gives us conviction to initiate our 2025 non-GAAP earnings guidance target range of $1.74 to $1.76 per share.

The midpoint of this range represents 8% growth, from the midpoint of our 2024 guidance range of $1.61 to $1.63.

Beyond 2025, we are also reaffirming our longer-term guidance, where we expect to grow non-GAAP EPS at the mid-to-high end of our 6%-8% range, annually, through 2030, as well as targeting dividend per share growth in line with earnings per share growth over that same period of time.

For our customers, this strong Houston area growth gives us confidence that we will keep increases of electric delivery charges roughly in line with the forecasted rate of inflation over the next 10 years.

We recognize the privilege and the responsibility of being an energy delivery provider for our customers. We will be laser focused on both enabling growth and advancing system resiliency for the benefit of our customers through the work that we've outlined in GHRI, as well as the investments we will propose in our new system resiliency filing. We look forward to continuing to work with our customers, regulators, and others to make improvements for the benefit of all our stakeholders.

And with that, I'll turn it over to Chris.

Chris Foster – CFO: Thanks, Jason. Before I get to my updates, I want to echo Jason's gratitude for not only our CenterPoint coworkers, but all utility and contractor employees that aided in the restoration efforts during this very active hurricane season. It was truly remarkable to witness the dedication to a safe response and the speed of restoration efforts that took place after two devasting hurricanes hit the southeast within two weeks of each other. I want to thank the roughly one-third of our internal CenterPoint line-crews that made the journey to other sector peers to help get the lights back on after those hurricanes.

For the quarter, I'd like to cover four areas of focus.

FIRST, the details of our third quarter financial results including our reaffirmation of 2024 guidance,

SECOND, the initiation of 2025 non-GAAP EPS, THIRD, I'll touch on our capital deployment status this quarter and forecasted storm costs.

AND FINALLY, I'll provide an update on our financing plans, including an update to our plans to increase our equity guidance to fund our incremental $2.5B which will be included in our System Resiliency Plan totaling at least $5 billion in cumulative resiliency investments from 2026 through 2028.

Let's now move to the financial results shown on Slide 7.

On a GAAP EPS basis, we reported 30 cents for the third quarter of 2024.

On a non-GAAP basis, we reported 31 cents for the third quarter of 2024 compared to 40 cents in the third quarter of 2023. Our non-GAAP EPS results for the third quarter remove the costs associated with the sale of Louisiana and Mississippi gas LDCs.

The reduced earnings quarter over quarter was primarily driven by increased and accelerated O&M that was completed as part of Phase 1 of the GHRI. When compared to the comparable quarter of 2023, O&M was 11 cents unfavorable. This 11 cents not only represents the $70 million of vegetation management for which we will not seek recovery, but also the work we pulled forward from the fourth quarter to increase readiness for future potential inclement weather that could impact the Houston Electric system.

In addition to the headwinds from O&M, weather and usage contributed an additional 6 cents of unfavourability quarter over quarter. 2 cents of this unfavorable variance was driven by the reduced usage caused by outages from Hurricane Beryl, along with the considerably milder summer in the Houston Electric service territory as compared to 2023.

We continued to recover on our customer driven investments which contributed 9 cents of favorability this quarter when compared to the comparable quarter of 2023. This was primarily driven by the ongoing recovery from various interim mechanisms for which customer rates were updated last year, as well as the interim rates in our Minnesota Gas business that went into effect on January 1st of this year.

In addition, the Houston area continues to see strong organic growth, extending the long-term trend of 1% - 2% average annual customer growth. As Jason referenced, this dynamic aids in keeping future increases in customer electric delivery charges roughly in line with the forecasted rate of inflation over the next ten years.

Interest expense and financing costs contributed 1 cent of favorability when compared to the comparable quarter in 2023 due to moderating interest rates and the favorable variance from the redemption of the Series A Preferred Stock in September of last year.

Despite the headwinds we faced this quarter, we continue to re-affirm our full year 2024 non-GAAP EPS guidance range of $1.61 to $1.63.

Our confidence in reiterating our full year 2024 guidance today is driven by the O&M work on the system that we accelerated into the third quarter. Our updated workplans are reflected in the 11 cents of unfavourability I mentioned, as the work otherwise would have been spread across third and fourth quarters. This is the departure from last year, we highlighted some higher O&M costs in the fourth quarter reflecting work including incremental vegetation management.

In addition to reaffirming full-year 2024 non-GAAP EPS guidance, today we are also initiating our 2025 non-GAAP EPS guidance target range of $1.74 to $1.76 per share.

The midpoint of this range represents annual growth of 8% from the midpoint of our 2024 non-GAAP EPS guidance target range of $1.61 - $1.63.

Our 2025 figures are a byproduct of the significant investments we've made across our various jurisdictions over the last couple years. As you may recall, we accelerated investments in Houston Electric service territory last year and we continued a strong investment profile across our jurisdictions this year. These investments have resulted in a rate base CAGR of more than 11% over the last two years.

This strong foundation of organic growth with the new capital investments combined with rates we are anticipating through our interim mechanisms and rate case outcomes give us the conviction in our 2025 non-GAAP earnings guidance initiated today.

Next, I'll touch on our capital investments' execution as of the quarter in 2024 as shown on Slide 8.

In the third quarter of 2024, we invested $900 million of base work for the benefit of our customers and communities. This excludes spending related to storm restoration. Year to date, we have invested approximately $2.6B which represents over 70% of our original 2024 capital expenditure target of $3.7B. We remain on target to meet our base plan capital investment target despite the interruptions of normal capital deployment from the storms we've experienced this year.

I'd also like to provide a quick update on where we stand with storm costs related to the May Derecho event and Hurricane Beryl. With the majority of costs accounted for, we are now able to refine our estimate to the low end of the previously disclosed $1.6B - $1.8B range as we now estimate costs for both storms to total $1.6B.

We intend to make our filing for cost determination in connection with the securitization for the May storm costs in the coming weeks and storm restoration costs associated with Hurricane Beryl in the first half of next year.

I'll now turn to our capital investment targets for 2025 and beyond.

For 2025, we are targeting to invest $4.9B across various jurisdictions for the benefit of our customers and communities.

Looking to the remaining five years of our original 10-year capital investment plan that runs through 2030, we are now targeting to deploy approximately $26B of capital, of which approximately $21B is anticipated to be in the state of Texas. This brings our 10-year total capital investment plan up to $47B. This $47 billion is an $2.5B increase from our previously stated $44.5B. Our incremental investment is expected to all be deployed in our Houston Electric service territory and will be reflected in our upcoming System Resiliency Plan that we have committed to filing by January 31, 2025.

We anticipate these investments will enhance the customer experience, but we remain cognizant of the impacts of our investments on customer bills.

However, based on the total current average Houston Electric residential bill, we estimate that our investments, combined with the estimated impacts of the to-be-securitized storms should result in customer bill increases roughly in line with the forecasted long-term rate of inflation, over the next 10 years.

As a reminder, our Houston Electric residential customers delivery charges were the same in 2014 as we when we started 2024.

This bill trajectory is a result of our continued focus on efficiency in our O&M activities in addition to the consistent customer growth we've seen in the Houston area for the last three decades.

Finally, I want to touch on our balance sheet and how we're thinking about funding our increased capital plan –

As of the end of the third quarter, our calculated FFO/Debt was 13.8% when adjusting for the storm costs on a pro-forma basis, based on our calculation aligning with Moody's methodology as shown here on Slide 9. We've demonstrated our continued focus on preserving our balance sheet strength, while executing our capital plans, despite incremental storm cost pressures this year.

Our efforts included the acceleration of $250 million of common equity into this year and the issuance of equity credit from hybrid debt securities. We plan to maintain that same philosophy as we work to efficiently fund investments and preserve credit health both in the near-term and beyond as we continue to focus on our long-term target of maintaining a cushion of 100bps – 150bps above our downgrade threshold.

We also have substantial cash inflows as part of our plan, starting in 2025. Looking over roughly the next twelve to eighteen months, we anticipate approximately $3B of gross cash proceeds from the divestiture of Louisiana and Mississippi Gas LDCs and storm-related securitization issuances. With regard to those anticipated securitization issuances, as a reminder the state of Texas has seen 11 utility securitizations transactions since 2008, so there's a strong history under this existing construct underpinning our conviction. We expect these combined proceeds will be a part of our strengthening story as we execute on additional customer driven investments.

As we look to the long-term financing plans through 2030, I also want to provide an update to our equity guidance. With respect to the incremental $2.5 billion of resiliency investments, we expect to follow our previously provided guidance of funding incremental investments with 50% equity and 50% debt.

As such, you should expect that we will raise an incremental $1.25 billion of equity in addition to $1.25 billion issuance through 2030 we previously guided to. This takes the total equity plan guidance to approximately $2.5B through the remainder of the decade.

You should expect that the equity issuances associated with these incremental expenses will likely come towards the latter part of our remaining 5 year plan. In the near term, and as I mentioned previously, the approximately $3B of cash inflows should allow us flexibility and mitigate the need for common equity in 2025.

Although we do not foresee the need for common equity issuances through 2025, we plan to continue to be opportunistic in strengthening the balance sheet through credit enhancing instruments like those we issued earlier this year.

We will of course focus on the most efficient ways to raise that equity, be it through common equity issuances, incremental equity content such as hybrids, or recycling proceeds.

As we look across the states, we are fortunate to serve, we remain confident in the continuation of our long-term plan, with a consistent focus on improving customer outcomes, delivering affordable service, and building toward the most resilient coastal grid in the United States

And with that, I'll now turn the call back over to Jason.

Jason Wells – President & CEO: Thank you, Chris. Regardless of the challenges we face, this management team remains firmly committed to delivering for all of our stakeholders: our customers, our communities, our regulators and legislators, and our investors.
Jackie Richert SVP of Corporate Planning, Investor Relations and Treasury.

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

Question & Answer Section:

Thank you, Jason. Operator, we're now ready to turn to Q&A. [Operator Instructions] And one moment for our first question.

Operator: And the first question will come from Shar Pourreza with Guggenheim. Your line is now open.

A: Hey, guys. Good morning.

A: Hey Good morning, Shar

Q: Good morning, Jason. So, just on 2024, it looks like it's in good shape. As we're sort of thinking about 2025 guidance these are like kind of a lot of moving pieces there, including sort of the GRC GHRI withdrawal request, tracker filings, potentially maybe higher O&M. I guess where is the level of confidence here? And what happens if the GRC withdrawal request isn't approved, which I guess we'll know in a couple of weeks? There's just a lot of moving pieces and some key events would be great to maybe you can bridge a little bit further for us. Thanks.

A: Yeah. Thanks for the question Shar. Obviously, we have a high degree of confidence in terms of initiating 2025 here. There are a points that I want to highlight that support that confidence. The first is we've invested significantly for our customers over the last two years and have a rate base CAGR over the last two years of about 11%. And that creates a solid foundation for the 80% guide on earnings growth. Second thing that I'd probably highlight is, as you know, we will have new base rates in three of our jurisdictions in 25 Texas Gas, Indiana Electric and Minnesota Gas. I think what's notable about Minnesota Gas is, as you recall, over the past, we have filed rate cases every other year in Minnesota and that profile created a dynamic work.

And every year we had zero increase in revenues in Minnesota. When we filed this multiyear rate case last year, we filed with a request to increase revenues here in 2025. And so that smooths the profile for both earnings, but also for rate increases for our customers. And so I think that's a pretty notable change. And then third you we touched on this. We believe we have access to all the recovery mechanisms for our capital spend, with the exception of Ohio, where we will be in the middle of that rate case. And so I think those are the drivers that give us confidence for the 2025 earnings guidance. You mentioned that withdrawal of the Texas rate case. And as you recall, we had filed a modest revenue increase in that case about $60 million.

And what we have historically said is that we expected that to be a rate case that resulted itself with flat potentially maybe a small decrease in revenues. And so I don't think the timing of the Eastern Electric rate case is a real driver for 2025, given those other factors I mentioned.

Q: Okay. That's perfect. Thanks. And then just lastly on equity, obviously, it's increased by another $1.25 billion to $2.5 billion through 2030. I mean, obviously, you talked a little bit about the shape of that equity being more backend loaded, but can you pre-fund the needs? Is there an opportunity there to remove the overhang and our asset sales still an opportunity with the LDCs or capital markets aren't there for that. Thanks.

A: Yeah, thanks again for the question. Shar Sure. You know, what I would say is we've established, I think, a pretty strong track record of efficiently raising the equity that we need with a series of transactions in the past. You can count on us doing the same here. We will efficiently fund this equity. I don't necessarily think it comes in the form of prefunding, but we will look at the most optimal way to finance these needs. And as Chris mentioned, I think we're in a pretty strong position with having $3 billion of cash inflows over call it the next 12 months to 18 months. That really gives us quite a bit of flexibility here as we think to think about the best possible way to efficiently raise the equity.

Q: Okay, that is perfect. Thanks, guys. Appreciate it. See you in a couple of weeks.

A: Yep. Thanks.

Operator: And the next question comes from Steve Fleishman with Wolfe Research. Your line is now open.

Q: Yeah. Hi. Good morning.

A:Good morning Steve

Q: So hey, so first, just the detail on the Texas low growth and the 30% growth in peak through 2030. Is that kind of include all the updates that you owe to, I think, ERCOT for early next year for kind of the growth plans? Is that the kind of range that we should be expecting?

A: No there's the potential for incremental load growth in that update with ERCOT. You know that process with ERCOT is really trying to capture kind of all speculative load and the 30% CAGR that that I highlighted was a subset of that speculative load where we have a much higher degree of confidence. And so, you know, as we look at and work with a number of companies in this region, you know, as an example, hydrogen related activity could be multiples of what's included in that number. You know, as one example.

So we will be working to categorize kind of all of what I'll call speculative load activity and then providing various degrees of confidence for each of those categories. And I think the headline number should be higher, but we feel a high degree of confidence, at least 30% through 2030.

Q: Okay. And then just maybe you could just give us an update on maybe a little more color on where things stand with the rating agencies and what they're keying off of from here. Is it just the metrics or is there other things that they are watching and care about? Thanks.

A: Sure. Steve, good morning. I think it's really both pieces. To start with the numbers you saw us come out this morning with, we're consistently measuring against Moody's at a 13% downgrade threshold there. We came out with the adjusted number today of 13.8%. We're confident that as we continue to go forward, what you're really going to see change there over the next year is the combination of the Louisiana, Mississippi Gas LDC proceeds as well as the securitization related proceeds. So it's certainly the case the rating agencies are watching closely those securitization filings as well. With the goal of really just seeing the really strong Texas regulatory construct work right. That's why you saw it today. Really highlight two things. First, again, the securitization process with a long history here in Texas of approval of 11 different securitization. And the second is the opportunity without the rate case in front of us to pursue the traditional capital trackers, which we do intend to do.

Q: Okay, great. Thanks. Appreciate it.

A: Thank you.

Operator: And our next question comes from Durgesh Chopra with Evercore. Your line is open.

A: Hey, good morning, team. Thanks for giving me time. Hey, Chris, just to follow up on the credit metrics discussion, maybe just can you help us maybe a little bit more detail on the timing of the securitization proceeds in 2025? And then just directionally speaking, would be on a Moody's basis, where are do you expecting 2024 metrics to be and then 2025? I'm thinking they dipped towards the end of the year and then pick back up in 2025 as you receive those proceeds. But just more color there. Thank you, Chris.

A: Sure. Thank you, Durgesh. Happy to do it. Let me just remind everybody again, the highest order of the focus of the company for the long term is the focus on a cushion of under 100 to 150 basis points as we go. But let me unpack the securitization pieces for you in particular. First, you should assume that we filed two different securitization requests. The first will be for the associated May storm or May derecho related storm costs we'll file that soon. As a result, I think you should generally assume roughly Q3 resolution and associated proceeds of 2025.

Second, we'll file the Hurricane Beryl related costs. We're generally targeting roughly Q2 next year once we get all those costs in to file for those Beryl associated request. Cumulatively, what we did this morning is we updated toward the low end of the cost themselves. Previously, our guide was $1.6 billion to $1.8 billion. We updated today, given the greater certainty we have now, at $1.6 billion. So ultimately, Durgesh, I'd say the first piece, roughly Q3 2025. Second component Hurricane Beryl related costs either late Q4 or early Q1 2026.

Q: Thanks, Chris. And then just so I guess, by the end of next year, are you sort of in that 14% to 15%? You're very close to it as of the end of 3Q Just thinking about CapEx picking up next year and the securitization proceeds, just where would you shake out in that 14% to 15% or you're going to be solidly in that range next year? Or is that more of a 2026 event?

A: Yeah, I think it's ultimately once we get the securitization proceeds in Durgesh, we'll be stepping back into that that substantial cushion right. So you'd ultimately probably be looking at Q1 2026 once we've got all that done. Keep in mind that we've also emphasized this morning the consistent focus we've got on the balance sheet. You saw us pull forward even the 2025 equity kind of being front footed at that point. So you're just going to consistently see the focus here from the team.

Q: Understood. Really appreciate the detail color. Thank you.

A: Cheers.

Operator: Our next question comes from Jeremy Tonet with JPMorgan Securities. Your line is open.

Q: Hi. Good morning.

A: Good morning, Jeremy.

Q: Just want to start off, I guess, looking at the state as a whole, how things stand in Texas, how have stakeholder conversations trended there since completing your GHRI Phase 1 work versus the initial aftermath of the storm.

A: And thanks, Jeremy, for the question. I think things continue to improve. I mean, we've conducted obviously extensive outreach, elected officials, customers, our communities, community leaders. And what we've heard consistently is that everybody wants a more resilient system. They want improved communications. I think they saw improved communications as we prepare for Francine. And I think they have appreciated the progress that we made in August and that we're carrying forward with the resiliency investments in the second phase of GHRI, as I highlighted on the call.

I think the area where we can make the single biggest sort of improvement in a short period of time is on this concept of segmentation and automation and the plan that we've got here in the second phase, when it's all implemented, will save our customers about $125 million outage minutes annually. And I think that's the direction that our stakeholders want to see us go in. And so, obviously there's more to be done. You know, it is a focus of ours to continue to regain trust. We know that. We've got to continue to lean into those conversations, both with electric official as well as our communities. But I think we're headed in a direction that everybody wants that's, again, a more resilient, reliable grid and much better communication.

Q: Got it. That's helpful there. Thanks. And just moving to 2024 guide real quick here. Despite the $0.11 O&M drag this quarter reaffirming 2024 whole, this suggests, I guess, a lot of offsets in 4Q. Just wondering if you could walk us through that a bit more what is contemplated there as far as the offsets? And then I guess, how does this positioned for 2025?

A: Sure. Good morning. I think there's a few pieces to keep in mind there which inform really the confidence in maintaining our guide. I think the first piece again is just the consistency of the trackers that we've got. The last couple quarters there have seen a benefit of roughly $0.09 to $0.10 quarter over quarter related to those trackers, specifically. And so we're going to expect that trend to continue really across our jurisdictions relative to the fourth quarter of last year. The second piece and I hit this when in my prepared remarks specifically, but again, just reiterate, we did a lot of incremental work on the system in Q3, certainly highlighting the critical vegetation management work during spring sprint we undertook during August of this year. And a lot of that work was incremental to the year.

But keep in mind, some of it was an acceleration Q4. So I'd expect that to result in about a penny benefit to Q4 as well. And on top of that recall last year that we pulled forward work into the fourth quarter and so that work was about $0.03 from 2024 to 2023. And so that again should benefit us here as we look in Q4 2024. When you do the quarter over quarter, look all in all confident here for the year.

Q: Okay. Great, helpful. Thank you.

A: Thank you, Jeremy.

Operator: And our next question comes from David Arcaro with Morgan Stanley. Your line is now open.

Q: Hey, thank you. Good morning.

A: Good morning, David.

Q: Wondering if you could give an update on kind of where you stand with the proposal that you put forth regarding the temporary gen recovery or what the next move is with that with that proposal?

A: Yeah, just as a quick reminder, you know, I think the real focus of of the state's attention on the temporary generation portfolio is really on the large units. And when we look at the amount of investment in those large units, there's a little less than $100 million of profit or equity earnings that has not yet been recognized on those units. And the proposal that we made in August was basically to forego the equivalent a little bit more than the equivalent of that remaining profit. We put forward a proposal where we would forego about $110 million of profit. You know, clearly, I think stakeholders saw that as a good step forward. But I think there's still discussion around the use of these units. And as we've indicated on many occasions, we are working with everybody in the state to find a solution that works, a solution that works for our customers in times of loadshedding. You know, we still have an obligation to rotate power once every 12 hours in a location of that. And given our industrial load profile critical facilities like the Texas Medical

Center, we believe that we need those large units to comply with that order. But if the state wants us to, they want to change that requirement or wants us to look at these units differently. We're happy to work with the state in that regard. And so, there's no prescribed timing. We attempted to address the concerns on out of profit, the remaining profit on, you know, large units. And we'll work with the state to find a final resolution.

Q: Okay. Got it. Appreciate the update there. And then maybe on the on the transmission outlook in the state, there are a couple of big programs out there. We've got the Permian plan, potential for 765 Kilo Volts Investments, wondering if you could talk about how you could be involved there when might we see some of the potential projects or upside opportunities start to crystallize for your plan?

A: I think more directly, the opportunities around 765 Kilo Volts Project, there are a couple of our substations that would tie into that, that project. And as you know, the standard here in Texas is right of first refusal. Yeah. You know, for the lines that connect into our substations and so we see the opportunity for significant investment in those 765 Kilo Volts lines that are outside or not incorporated in the $47 billion CapEx plan that we've highlighted here. So that's potential upside.

I think there's less potential upside with the Permian Basin directly. You know, that's really focused kind of outside of our service territory. What I would say indirectly though and back to my response earlier, ERCOT will update the speculative load study in early 2025 that, at that point they will incorporate an estimate of speculative load in a greater portion region. Given the explosive growth that we talked about, I have to believe that there are going to be more transmission lines that are needed to serve that increase in load. As a reminder, you know, on any given day we're importing about 60% of the electricity needed to serve our customers. And as the electricity demand grows, there'll be more need for incremental transmission lines and substations. And so we see electric transmission as being sort of a long term tailwind for our CapEx plan. And I'd like to really start to kind of see that come into greater focus probably in 2025 along, around this speculative load update.

Q: Okay, great. That's helpful. Thanks so much.

Jackie Richert: I think we have time for one more if there is another in the queue.

Operator: All right. Our last question will come from Julien DUMOULIN Smith with Jefferies. Your line is now open.

Q: Hey, good morning, team. Thank you, guys, very much. Chat with you guys again, if I can follow up on a few different things, just a little picture here from the call thus far with respect to mobile generation, I mean, just to understand the contract terms and the permutations here, how do you think about any strategic avenues here to the extent to which that ultimately the state, whether the legislative session or otherwise, ultimately effectively pushes decision to effectively divest, if you will, in the broadest terms? How do you think about what is possible within the construct that you have here?

A: Yeah, thanks.

Q: Especially for a state that short.

A: I think that's the key to it. Your last comment, right? There's been very little that generation dispatchable generation built. Clearly you've got a lot of generation built. And we think about intermittent renewables, but on a net basis in terms of new build west retirements, you know, the state has really seen very little in the way of dispatchable build. And so I think the focus for the state is really trying to in particular these days, find a path forward for the winter peak. You know, we saw the benefit of the battery storage deployment here this past summer. I think those, you know, battery storage investments are really helping kind of the summer peak where we're talking about hours. They're not necessarily as helpful in the winter. People who are potentially short for days.

And so I think what we're looking for is a solution that could help address dispatchable needs here in the state could mean subleasing our equipment to others so that it doesn't leave the state but is an available resource at the state level. Otherwise, you know, obviously we will work with our elected officials if they have a different point of view. And so I don't think there's a definitive path forward, but I think everybody's trying to find a solution that protects customers in the event of load shed, but also goes so sort of optimally from a cost standpoint and we're happy to find that that balance with everyone.

Q: Excellent. And just a quick nitpick on the last response. Just the transmission update from ERCOT here. You obviously ERCOT released their own load forecast here recently. You talked about this 8 gigawatt number on the call momentarily ago. How does that inbound again, I get this is a fluid situation reconcile against ERCOT demand and effectively are you suggesting there's a further sort of net uptick in ERCOT accounts demand and or that updated load forecast they came up with doesn't necessarily yet reflect their transmission expectations. I'm just trying to understand, I think you're suggesting that there's an uptick in both the demand, as well as their transmission planning to reflect the 8 gigawatts that you just alluded to on data center specifically, potentially?

A: Yeah, Julien, I think that the short of it is there's an uptick of under managed transmission. You know, the updated numbers don't still not reflect the potential development here in the greater Houston region. That update, as I mentioned, really is coming kind of in early 2025. What we have seen this summer is a fundamental shift in data center activity. You know, up until early summer, we had a about a gigawatt of demand in the queue and now it's over 8 gigawatts because of, you know, at the time of this call.

I think that really reflects the fact that, you know, as we talk to developers and hyperscale's, latency becomes less of an issue as they move more development to AI driven data centers. Texas remains very attractive in terms of being able to build new transmission lines in new generation. Our interconnection timelines compare very favorably in a state that that can move quickly with large infrastructure investments. And so I think that's why we've seen it dramatically change this summer. All of that, to your point, will get incorporated into ERCOT load forecast early next year. And just given the point that I've recently highlighted, we continue to highlight that 60% of our electricity is imported on any given day just like we're going to mean more transmission here for the greater Houston region.

Q: Right. So it's even accelerating in the last quarter despite ERCOT update, even in the last couple of months here. Seems like there's an upward bias there.

A: Yes.

Q: Awesome. Excellent. Guys, thank you for the time and clarifying that.

A: Thanks, Julien.

A: Thanks, Julien. And with that operator, I think that will conclude our Q&A for today. Thanks everyone for participating on this quarterly call.

Operator: This concludes CenterPoint Energy Third Quarter 2024 earnings conference call. Thank you for your participation. You may now disconnect.

and Hurricane Beryl, its generation transition plans and projects, projects included in CenterPoint Energy's Natural Gas Innovation Plan and System Resiliency Plan, and projects included under its 10-year capital plan, the extent of anticipated benefits of new legislation, the pending sale of CenterPoint Energy's Louisiana and Mississippi natural gas LDC businesses, future earnings and guidance, including long-term growth rate, customer charges, operations and maintenance expense reductions, financing plans (including with respect to the restoration costs for the May 2024 Storm Events and Hurricane Beryl and the timing of any future equity issuances, securitization, credit metrics and parent level debt), the timing and anticipated benefits of our generation transition plan, including our exit from coal and our 10-year capital plan, the Company's 2.0% Zero-Premium Exchangeable Subordinated Notes due 2029 ("ZENS") and impacts of the maturity of ZENS, CenterPoint Energy's continued focus on liquidity and credit ratings, tax planning opportunities, 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, expected customer growth, and sustainability strategy, including our net zero and greenhouse gas ("GHG") emissions 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 announced sale of our Louisiana and Mississippi natural gas LDC businesses, and the completed sale of Energy Systems Group, LLC, 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 their effect on sales, prices and costs; (5) disruptions to the global supply chain and volatility 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 the May 2024 Storm Events and Hurricane Beryl, Houston Electric's mobile generation and the February 2021 winter storm event; (8) legislative and regulatory actions or developments, including any action resulting from the May 2024 Storm Events and Hurricane Beryl, as well as 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; (10) weather variations and CenterPoint Energy's ability to mitigate weather impacts, including the approval and timing of securitization issuances; (11) the impact of potential wildfires; (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, 2023 and CenterPoint Energy's Quarterly Report on Form 10-Q for the quarters ended March 31, 2024, June 30, 2024, and September 30, 2024, 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.

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Use of Non-GAAP Financial Measures

In this document, CenterPoint Energy presents, based on income available to common shareholders, diluted earnings per share, and net cash provided by operating activities to total debt, net, and gross margin to total debt, net, the following financial measures which are not generally accepted accounting principles ("GAAP") financial measures: non-GAAP income, non-GAAP earnings per share ("non-GAAP EPS"), as well as non-GAAP funds from operations / non-GAAP rating agency adjusted debt (Moody's and S&P) ("FFO/Debt"). 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. 2023 and 2024 non-GAAP EPS excluded and 2024 and 2025 non-GAAP EPS guidance excludes: (a) Earnings or losses from the change in value of ZENS and related securities, and (b) Gain and impact, including related expenses, associated with mergers and divestitures, such as the divestiture of Energy Systems Group, LLC, and the Louisiana and Mississippi gas LDC sales. 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 2024 and 2025 non-GAAP EPS guidance ranges also consider 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 2024 and 2025 non-GAAP EPS guidance ranges 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 (Moody's) 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 (Moody's) adds to Total Debt, net certain adjustments consistent with Moody's methodology, including Series A preferred stock, pension benefit obligations, and operating lease liabilities and further adjustments related to Winter Storm Uri debt and one time cash taxes.

Funds from operations (S&P) excludes from gross margin O&M, taxes and other, cash interest paid and cash taxes paid, and includes certain adjustments consistent with S&P's methodology, including adjustments related to total lease costs (net of lease income), Series A preferred stock dividends, non-recurring items, and defined benefit plan. Non-GAAP rating agency adjusted debt (S&P) adds to Total Debt, net certain adjustments consistent with S&P's methodology, including adjustments related to Winter Storm Uri related one-time cash tax.

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 (and gross margin to total debt, net) to FFO/Debt is included in the appendix of CenterPoint Energy's slide presentation used to present its third 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 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, net cash provided by operating activities to total debt, net and gross margin 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

CenterPoint Energy's **Scope 1 GHG emissions** estimates are calculated from GHG emissions that directly come from its operations. CenterPoint Energy's **Scope 2 GHG emissions** estimates are calculated from GHG emissions that indirectly come from its energy usage, but because Texas is in an unregulated market, its Scope 2 GHG estimates do not take into account Texas electric transmission and distribution assets in the line loss calculation and exclude GHG emissions related to purchased power between 2024E-2026E. CenterPoint Energy's **Scope 3 GHG 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 GHG emissions of transport customers and GHG emissions related to upstream extraction. While CenterPoint Energy believes that it has a clear path towards achieving its Net Zero GHG emissions (Scope 1 and certain Scope 2) by 2035 goals, its analysis and path forward required it 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, CenterPoint Energy's actual results and ability to achieve Net Zero Scope 1 and certain Scope 2 GHG emissions by 2035 could differ materially from its expectations. Certain of the assumptions that could impact our ability to meet its Net Zero Scope 1 and certain Scope 2 GHG emissions goals include, but are not limited to: GHG emission levels, service territory size and capacity needs remaining in line with company expectations (inclusive of changes related to the announced sale of CenterPoint Energy's Louisiana and Mississippi natural gas LDC businesses); 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; CenterPoint Energy's ability to implement its modernization plans for its 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, metrics, methodologies or frameworks; and enhancement of energy efficiencies.