Fourth Quarter & Full Year 2019 Earnings Conference Call
February 27, 2020

David Mordy – Director of Investor Relations

Thank you, Mike. Good morning, everyone. Welcome to our fourth quarter 2019 earnings conference call. John Somerhalder, interim president and CEO, and Xia Liu, executive vice president and CFO, will discuss our fourth quarter and full year 2019 results and provide highlights on other key areas. Also with us this morning are several members of management who will be available during the Q&A portion of our call.

In conjunction with our call, we will be using slides which can be found under the Investors' section on our website, CenterPointEnergy.com. Please note that we may announce material information using SEC filings, news releases, public conference calls, webcasts and posts to the Investors' section of our website.

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

We will also discuss guidance for 2020. To provide greater transparency on utility earnings, 2020 guidance will be presented in two components, a guidance basis Utility EPS range and a Midstream Investments EPS range. Please refer to slide 30 in the appendix for further detail.

Utility EPS guidance range includes net income from Houston Electric, Indiana Electric and Natural Gas Distribution business segments, as well as after tax operating income from the Corporate and Other business segment. The 2020 utility EPS guidance range considers operations performance to date and assumptions for certain significant variables that may impact earnings, such as customer growth (approximately 2% for electric operations and 1% for natural gas distribution) and usage including normal weather, throughput, recovery of capital invested through rate cases and other rate filings, effective tax rates, financing activities and related interest rates, regulatory and judicial proceedings and anticipated cost savings as a result of the merger. The utility EPS guidance range also assumes an allocation of corporate overhead based upon its relative earnings contribution. Corporate overhead consists of interest expense, preferred stock dividend requirements and other items directly attributable to the parent along with the associated income taxes.

Utility EPS guidance excludes:

Midstream Investments EPS range

Results related to Infrastructure Services and Energy Services prior to the anticipated closing of the sale of those businesses, and anticipated costs and impairment resulting from the sale of these businesses

Certain integration and transaction-related fees and expenses associated with the merger

Severance costs

Earnings or losses from the change in value of ZENS and related securities, and

Changes in accounting standards

In providing this guidance, CenterPoint Energy uses a non-GAAP measure of adjusted diluted earnings per share that does not consider the items noted above and other potential impacts, including unusual items, which could have a material impact on GAAP reported results for the applicable guidance period.

In providing the 2020 EPS expected range for Midstream Investments, the company assumes a 53.7 percent limited partner ownership interest in Enable and includes the amortization of our basis differential in Enable and assumes an allocation of CenterPoint Energy corporate overhead based upon Midstream Investments relative earnings contribution. The company also takes into account such factors as Enable's most recent public outlook for 2020 dated Feb. 19, 2020, and effective tax rates. The company does not include other potential impacts such as any changes in accounting standards, impairments or Enable's unusual items.

For a reconciliation of the non-GAAP measures used in providing earnings guidance in today's call, please refer to our earnings news release and our slides on our website.

Before John begins, I would like to mention that this call is being recorded. Information on how to access the replay can be found on our website.

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

John Somerhalder – President & CEO

Thank you, David, and good morning ladies and gentlemen. Thank you for joining us today. I'm honored to serve as the interim president and CEO of CenterPoint Energy and I look forward to visiting many of you in person in the near future. As you can see on Slide 5, CenterPoint proudly serves more than 7 million customers across 8 states. Our core utility business represents over $15 billion of rate base, of which 96% are electric T&D and gas LDC assets located in some of the most dynamic and high growth service territories in the United States. CenterPoint's compound annual rate base growth is projected to be 7.5% over the next five years. As we streamline our business mix, CenterPoint is poised to deliver even stronger services for our customers and total returns for our shareholders. Alongside our leadership team, I am excited to lead this company to deliver strong results and drive shareholder value.

I would like to give you an overview of both our ESG achievements to date as well as our ESG initiatives and commitments going forward. Central to our ESG values is the commitment to serve our customers and our communities. We are honored to have received numerous recognitions over the past year, some of which are detailed on slide 6. I would like to thank all of our employees for their efforts, often going above and beyond their CenterPoint roles to be a positive influence in our communities.

Our ESG effort also reflects our environmental stewardship and leadership. Slide 7 provides details on our profile as well as efforts to reduce greenhouse gas emissions from our generation assets and our gas distribution system. First and foremost, our assets have a lower carbon footprint, as generation makes up approximately 4% of our overall rate base and electric T&D assets represent 51%. Since 2005, we have reduced our generation-based emissions by 20%. With respect to our gas distribution business, since 2012, we have invested heavily in our gas distribution system, reducing greenhouse gases by 30% per unit of natural gas delivered. We have eliminated all cast iron pipe across our legacy CenterPoint systems and we anticipate removing all cast iron pipe from our Indiana and Ohio jurisdictions by 2024.

Turning to slide 8, I am proud to announce our goal to reduce carbon emissions by 70% from CenterPoint operations from our 2005 levels by 2035. We anticipate achieving this goal by continuing our robust pipeline replacement program, continuing to enhance our generation mix supporting southern Indiana and partnering with our suppliers to lower their methane emissions. Additionally, it is our goal to reduce carbon emissions by 20-30% from natural gas customers usage from the 2005 level by 2040. We anticipate achieving this goal by continuing to work with our customers to improve their energy efficiency and supporting research to improve customer options. Next week, we will publish our full carbon policy, which will be located on our investor relations website under Environmental, Social and Governance along with our Corporate Responsibility Report.

Turning to slide 9, I'd like to review CenterPoint's strong 2019 financial results. Full-year diluted earnings per share on a GAAP basis were $1.33 and full year adjusted earnings on a guidance basis were $1.79 per diluted share. This was 9 cents above the top end of our guidance range of $1.60 - $1.70 and represents 12% year-over-year EPS growth relative to 2018. Xia will provide greater detail regarding the key drivers of our 2019 earnings performance in her comments.

Continuing on slide 10, let me highlight some additional key accomplishments during 2019 that contributed to CenterPoint's strong financial performance. The strength of our core utility business continued to drive earnings growth, underpinned by $2.5 billion of utility investment as well as strong fundamental customer growth across both our electric and gas utilities. We reduced year-over-year annualized O&M by approximately $100 million, exceeding our annual cost savings target as we continue to execute on merger integration. We settled the rate case for Houston Electric – our largest jurisdiction – providing earnings and return clarity going forward for our core utility businesses. Additionally, we received approval from our various regulatory filings in 2019, which resulted in annual revenue increases of over $100 million.

In addition to settling the Houston Electric rate case, we executed on a number of other important regulatory fronts in 2019. These are shown on slide 11. The Texas commission approved our Bailey to Jones Creek transmission line, at an estimated cost of $483 million, which we anticipate will be under construction during 2021 and early in 2022. During 2019, we also reached a settlement in Ohio for $23 million of annual rate recovery.

Near the end of 2019, we initiated rate cases in Minnesota and Beaumont/East Texas, requesting $62 million and $7 million in annual revenue increase, respectively. The Minnesota commission approved the interim rates, which began on January 1st in the amount of $53 million per year.

Looking ahead, we anticipate Houston Electric will file a Transmission Cost of Service or TCOS application in the near future, seeking recovery of transmission investment put in service during 2019. We also anticipate Houston Electric will file a Distribution Cost Recovery Factor or DCRF application in April of 2021, seeking recovery of distribution investment put in service during both 2019 and 2020. Additionally, we anticipate we will file an Integrated Resource Plan in Indiana during the second quarter of this year. We have completed 3 of 4 planned stakeholder meetings in Indiana and we are eager to put forward a plan that reduces carbon emissions, maintains grid integrity and provides reasonable rates for our customers.

Turning to slide 12, as we announced earlier this month, we have entered into agreements to sell both our Infrastructure Services business and our Energy Services business for combined gross proceeds of $1.25 billion. These divestitures are anticipated to provide combined after-tax proceeds of approximately $1 billion, which we plan to use to retire debt. These sales improve our business risk profile and earnings quality and strengthen our balance sheet and credit quality. Our focus will now be squarely on our utilities.

On slide 13, we show our continued transition to be more utility focused and better aligned with our investors' risk return objectives. In 2018, our core utility businesses represented approximately 70% of overall company earnings. Our acquisition of Vectren and the sale of Energy Services and Infrastructure Services, coupled with our continued robust utility capital investment, are expected to increase the utility contribution to over 80% this year and to near 90% by 2024. As Xia will detail later, we intend to continue this progress through rate base investment over the decade ahead.

Helping to fund this growth will be our stake in Enable and the material cash flow of over $300 million per year that Enable is projected to distribute to CenterPoint. This is shown on slide 14. As we affirmed in 2019, after a thorough strategic review, we decided to retain our stake in Enable. Since its formation in 2013, Enable has contributed $2 billion in cash flow to CenterPoint and does not require any incremental capital investment from CenterPoint. Going forward, Enable is projected to provide approximately $1.5 billion of additional cash flow to CenterPoint through 2024. This capital will be efficiently recycled into the significant rate base investment and growth opportunities at our core regulated utility businesses and drive utility earnings growth in the coming years.

Let me close by summarizing our investor value proposition as shown on slide 15. Following our successful Vectren merger integration and portfolio transformation, CenterPoint is committed to delivering increased shareholder value in the coming years. Our $13 billion capital investment program, combined with a strong regulatory strategy and O&M discipline, are anticipated to drive 5-7% utility EPS growth over our planning horizon. Combined with our dividends, we anticipate delivering 8 – 10% Total Shareholder Return. Additionally, we are firmly committed to maintaining solid investment grade credit quality. We believe this framework positions CenterPoint for long-term success and provides a compelling opportunity for shareholders.

Let me now turn things over to Xia…

Xia Liu - CFO

Thank you, John, and good morning everyone.

I will now turn to the consolidated full year guidance basis EPS drivers on slide 16. Excluding merger impacts and impairments, we delivered $1.79 cents per diluted share, compared to $1.60 in 2018, which is 19 cents - or a 12% growth year-over-year.

The primary factors driving this outperformance were our core utility businesses. The newly acquired Vectren utilities provided 45 cents of positive variance. O&M savings, rate relief and customer growth from our legacy utilities provided 27 cents of positive variance. Additionally, above normal weather, as well as favorable tax outcomes were contributing factors to this outperformance. Partially offsetting these positive variances were underperformance at energy services and midstream, and merger financing. Overall, we were very pleased with our strong 2019 performance.

Turning to slide 17, like we mentioned earlier, to provide more transparency to our core utility operations, we are now providing utility only EPS on a guidance basis for 2020.

Let me start from the 2019 adjusted EPS on a guidance basis. Excluding combined earnings from Midstream Investments, Energy Services and Infrastructure Services of 50 cents per share, our utilities delivered $1.29 per share in 2019. Favorable weather contributed 5 cents per share, and one-time tax and other items counted 5 cents during the year. Excluding weather and these one-time items, the normalized 2019 utility EPS on a guidance basis was $1.19 per share.

Looking forward to 2020, the Houston Electric rate case outcome and lower equity return is anticipated to have an annualized year-over-year negative impact of 15 cents. This includes operating income reduction from the Houston Electric rate case settlement, and its dilution effects from new equity to address the negative impact on CenterPoint's FFO and credit metrics. Customer growth, rate relief and O&M management all are projected drivers of the positive 6 to 16 cents of earnings. In total, we are forecasting utility guidance basis EPS earnings in the range of $1.10 to $1.20 for 2020. This guidance assumes normal weather, though I will note that this quarter so far, we have experienced unfavorable weather and we will work to address the anticipated revenue shortfall during the remainder of the year.

As noted on the slide, this utility EPS range excludes earnings from Energy Services and Infrastructure Services prior to the anticipated closing of the sale of those businesses, as well as midstream investments. On February 19, Enable affirmed their 2020 earnings guidance of $385 million to $445 million. Including corporate overhead allocation, this translates to 23-28 cents per share for CenterPoint. However, Enable indicated on the call that in order for them to perform at or above the midpoint of the range, commodity prices and producer activity would need to improve from current levels. For our planning purposes we are assuming the lower end of Enable's guidance range.

Guidance basis utility earnings per share are projected to grow 5-7% per year on a compound basis over the next 5 years, as shown on slide 18. This robust growth is driven by $13 billion capital investment plan in our core utility businesses, implying a 7.5% projected rate base growth CAGR. This solid regulated growth is expected to be supplemented by strong customer growth and continued discipline in O&M management. Through these efforts, we expect our utilities to earn close to their allowed ROEs and deliver strong earnings growth over the planning horizon.

Turning to slide 19, we outline the key elements of our utility growth strategy. 96% of our current $15 billion rate base is from lower risk gas LDC and electric transmission and distribution businesses, and only 4% is from generation assets. Serving over 7 million customers in growing jurisdictions across 8 states, we have scale and geographic diversity. Coupled with our continued O&M discipline, we have the ability to earn close to our allowed ROEs while keeping our customer rates competitive.

This combination of growth and efficiency allows us to continue to deploy capital into our utilities to serve our customers' needs. As discussed earlier, our rate base CAGR is projected to be 7.5%, driven by $13 billion of regulated capital investment over the planning horizon. Further, we will be recycling the over $300 million per year cash distributions from Enable to fund our significant rate base growth, reducing our external financing needs.

It is also worth noting that maintaining a strong balance sheet and credit profile is critical to efficiently funding our robust capital investment in our core regulated utilities. We remain firmly committed to our solid investment grade credit quality.

Turning to slide 20, of our projected $13 billion of investment, approximately 40% or about $1 billion a year is anticipated to be deployed for Houston Electric. This capital is driven by continued load growth, system hardening and modernization as well as the construction of the Bailey to Jones Creek transmission project. Approximately 50% of the capital, or about $1.2 billion per year is projected to be spent at our gas utilities, primarily for system modernization and pipeline replacement. Indiana Electric is projected to spend 10% of the total capital, and we will provide more details once we file its IRP in the second quarter. Additional details of capital spending for Houston Electric and Natural Gas Distribution can be found in the appendix on slides 31 thru 33. As stated just now, all of this planned investment results in 7.5% rate base growth, as shown on slide 21.

Slide 22 demonstrates our track record of leading utility customer growth while keeping customer rates below the national average. Both our electric and gas utilities experience customer growth rates above the national average, particularly across the greater Houston area and Minnesota. At the same time, our Texas electric customer rates are below many of our peers in the state and gas rates across all of our jurisdictions, in aggregate, have been reduced by approximately 1.6% compound annual growth rate over the past decade.

Turning to slide 23, we discuss our continued discipline in O&M management. In 2019, our utilities reduced year-over-year annualized O&M by approximately $100 million, or 6%, from achieving merger and other cost efficiencies. Going forward, our goal is to manage O&M relatively flat year-over-year. We will continue to look for systematic opportunities including optimization of organizational design, process improvements, workforce planning and strategic alignment as well as using data analytics to streamline decision making across all functional areas.

Turning to slide 24, we re-iterate our firm commitment to maintaining solid investment grade credit quality. The divestiture of Infrastructure Services and Energy Services, coupled with the use of net proceeds to retire debt, materially improves our business risk profile and credit quality. Credit quality will be further strengthened by our discipline in O&M management and rigorous capital allocation process. We are also committed to raising equity as necessary to support our robust utility capital investment and our credit metrics. Going forward, we target a low to mid 14% FFO/debt ratio as defined by the rating agencies.

On slide 25, we outline our anticipated equity needs to fund our utility growth and strengthen our balance sheet. As illustrated on the chart, we expect to issue $800 million of equity by the end of 2020, primarily to strengthen our credit metrics post-Houston Electric rate case. For 2021 through 2022, we expect to rely on ATM and DRIP to raise $300 to $500 million per year to fund 15 to 20 percent of our significant capital program.

Turning to slide 26, let me remind everyone of our recently declared quarterly dividend of 29 cents per share of common stock. This is the 15th consecutive year that we have increased common stock dividends. Going forward, we anticipate common stock dividend growth rate of 1-3% per year to achieve our targeted long-term payout ratio of mid-70 percent.

Turning to slide 27, in conclusion – we delivered strong results in 2019 by achieving guidance basis EPS 19 cents – or 12% - above 2018.

Additionally, we made great strides in continuing to focus on our core regulated utilities. We resolved major regulatory proceedings and focused on driving efficiencies throughout our business. We also are deploying significant capital to meet our customer's needs. The agreements to divest the Energy Services and Infrastructure Services businesses further supports our fundamental strategy of focusing on core utility operations.

Furthermore, using the sales proceeds to retire debt and raising equity to fund our utility businesses reinforce our commitment to strengthening our balance sheet and credit quality.

Today, CenterPoint is poised to deliver 5-7% utility EPS growth and 8-10 % total shareholder return while remaining firmly committed to our solid investment grade credit quality.

I'll now turn it back to David.

David Mordy – Director of Investor Relations

Thank you, Xia. We will now open the call to questions. In the interest of time, I will ask you to limit yourself to one question and a follow up. Mike….

Operator:

Our first question is from Shar Pourrezza of Guggenheim Partners.

Shar Pourreza:

So two – just two questions here, separately related.

Could we first touch a little bit on sort of the pushes and takes with our utility growth guide of 5% to 7% when you're kind of factoring ongoing dilution and rate base growth that's around 7.5%. I guess sort of what are the drivers there that's offsetting that dilution? I have to imagine O&M is definitely a lever you guys have to pull. But I'm kind of trying to get a sense on how much (indiscernible) to be able to pull that lever. And I have a follow-up.

Xia Liu:

Yeah, Shar, most of the dilution from 7 and – 7.5% to 5% to 7% is driven by the equity issuance as we outlined. We do have O&M as lever. We're very focused on finding ways to allow the utility to earn at allowed ROE. But we also have – as you are aware, in some jurisdictions we have the embedded regulatory lag that we will have to work through but mostly is driven by equity.

Shar Pourreza:

Got it.

John Somerhalder:

Shar, as Xia indicated, we plan to very closely control O&M cost to maintain flat or near flat. We do have very good regulatory mechanisms in states to avoid regulatory lag but we do have some regulatory lag. But the primary difference is exactly what Xia pointed out, which is we'll strengthen the balance sheet as we're moving through this time period.

Shar Pourreza:

That's perfect. And then just on the new equity guide, does this update sort of account for like any kind of a draconian scenario, for instance, if Enable cuts its distribution. So I guess another way to ask this is, how much sort of balance sheet cushion does the new equity guide provide, especially as you're de-risking the business? So what's the capacity there that you over equitize in order to prevent a situation that maybe you haven't accounted for?

Xia Liu:

We project to maintain a low to mid 14% FFO to debt and we think that provides the healthy cushion in case of unanticipated events. So, we feel good about that FFO to debt coverage ratio.

Shar Poureza:

Terrific. Thanks, guys.

Operator:
Our next question is from Michael Weinstein from Credit Suisse.

Michael Weinstein:

Hey. Just a follow-up on Shar's question. Is there other pricing? Is there any pricing for oil and gas that you're watching in terms of Enable's earnings where the guidance depends on the pricing for oil and gas being above a certain point. I mean, is there – are there limits there that you could discuss?

Xia Liu:

We don't typically comment on behalf of Enable. I can tell you that we are very focused on cash – on their cash coverage, on their balance sheet, on their internal O&M management, their maintenance capital and how they recycle their cash flow. So they do have a 1.3% cash distribution ratio and they're one of the few midstream players with investment grade credit quality. The management is doing a good job trying to manage internally, so we will continue to work with them to focus on the cash coverage.

John Somerhalder:

Yeah. As Xia pointed out 1.3 times coverage on distributable cash flow compared to their distributions and all their credit metrics and the history. Even when we saw lower commodity prices down closer in the $30 range, they have a history of being able to maintain that because of the strength of that business.

Michael Weinstein:

Right. And would you say, going forward, as part of that 5% to 7% is the – is that most of that growth is coming from the gas utilities now after the Houston Electric settlement at this point?

Xia Liu:

I think they both – all the utilities are growing at a healthy rate. We outlined that on the slides. You could see the Gas LDC businesses are growing faster. So right now, they are about – the Gas LDCs and Houston Electric both have $6.7 billion of rate base. And as we continue to grow capital a little bit faster in the gas utility, eventually, they – the gas utilities will have a bigger piece of the pie. But they're all growing at a pretty healthy level.

John Somerhalder:

Yeah. If you just look at how we're allocating capital, it's about 50% of the gas utility for rate base and then 40% percent Houston jurisdiction, 10% in Indiana. So on capital allocation, it's pretty evenly split between the two.

Operator:

Our next question is from Insoo Kim from Goldman Sachs**.**

Insoo Kim:

Thank you. Good morning. Just first question is, in your guidance for whether it's this year or over the five-year plan, how do you think about what's embedded in terms of Enable preferreds and any timing on your assumption about when they are called?

Xia Liu:

Yeah. We said – the base answer is we expect Enable to make the best decision possible for their unitholders. So we're working very closely with them. And to – in terms of developing our equity needs and the guidance range, we took into consideration the timing of possible redemption of the preferred. But just from a FFO to debt standpoint, we wanted to make sure we have enough cushion to accommodate either way. And from an earnings standpoint, our range will cover whether or not they call this year.

Insoo Kim:

Understood. And when you gave your updated utility CapEx for the five years, what are some upside or downside items we could potentially consider or – and then capital that's potentially not in your plan that may show up later this year?

Xia Liu:

I mean capital – the capital decision, we make that on a daily basis. We have a budget for all the utilities, but they're on the ground trying to make the best decision possible every day. We do have a pretty rigorous capital allocation process in place such that we take into consideration the rate case filing timing, the recoverability, the – we could – we have a portion of the capital we could pool or put just based on each jurisdiction situation. So we feel really good about how we managed through that. And then on top of that you have rate relief. Last year, like John said, we received approval of over $100 million of rate relief. And so we think that will add to the growth engine for us. And also the growth from the jurisdiction from a customer addition standpoint is another factor to take into consideration.

John Somerhalder:

And then we have weather variability which Xia mentioned earlier. But with normalization and with some weather hedging, we can minimize the impact but we still have the impact to weather. And then we have the upside of being able to do what we did last year as part of the integration and that's very, very focused management of O&M cost.

Insoo Kim:

Understood. Thank you.

Operator:

Our next question is from Antoine Aurimond from Bank of America.

Antoine Aurimond:

Yeah. Hi. Question on the balance sheet front. So does the $500 million to $700 million equity issuance bring you to the low to mid 14% FFO to debt that you highlighted? And more importantly, given that these levels are still sort of below Moody's 15% downgrade threshold, are you confident this allows you to stay in the mid BBB level and do you remain committed to that rating?

Xia Liu:

We remain in close conversation with our rating agencies as we make decisions on business portfolio decisions, and we remain very confident that the recent divestiture of Infrastructure Services and Energy Services, as well as our execution on the utility front, our ability to earn allowed ROEs - all those things will play in the decision by the rating agencies and we remain very confident that they will see the recent decisions and executions favorably.

Antoine Aurimond:

Got it. And then just in terms of timing to get to the low to mid 15 or 14%. Is it this year after the issuance or is it more later in the planning period?

Xia Liu:

So, you do – I do remind you that we're expecting $1 billion of net proceeds from the divestiture of those two businesses in the second quarter. So we have tremendous flexibility in terms of getting to the desired FFO-to-debt ratio throughout the year.

Antoine Aurimond:

Okay. Got it. Thank you very much.

Operator:

Our next question is from Steve Fleishman from Wolfe Research.

Steve Fleishman:

Yeah. Hi. Good morning. Hey, Xia. I guess this question is for John. Maybe you could just give a sense of how the board and you are looking at timing of kind of a permanent CEO and what you're looking for there? And I guess also was there any consideration of just CenterPoint structure as it is today kind of set up okay or does it need to be kind of a part of a larger organization?

John Somerhalder:

Yeah. You asked a number of questions all in one question, Steve. But, yeah. The – our board is very focused on exactly what we're focused on, that they see the value of our utilities. They see the value of investment in rate base, growing those earnings. They very much supported over this last time period simplifying the business, the sale of infrastructure services and energy services. And so that strategy is what they support and what they believe is appropriate moving forward. And we believe we have a very good platform as CenterPoint as a structure today to do that. So that strategy is very much in place very much what we plan to move forward with. On my own personal issue, I am Interim President and CEO. I have no timeline or no time limit. I am here, very proud to be here, very focused on executing on the strategy for as long as is required until the right transition to a permanent CEO at the right time is made. And I'll focus on the real obvious things which is operational excellence, everything from ESG performance which includes safety, compliance, reliability, managing O&M costs to achieve these outcomes, continuing to strengthen our regulatory relationships. We have a history of good regulatory outcomes. We'll make sure we continue to strengthen those to have the best outcomes moving forward. We're going to focus on the balance sheet to make sure that we strengthen the balance sheet and meet that objective that Xia talked about this year through the combinations of things she talked about. And we're going to focus and what I'd expect when a new permanent CEO comes in, and I'm going to focus and we'll continue to focus on meeting with our investors and understanding your concerns, needs, make sure that our plan is transparent to you, that we communicate what our expectations are to you and that we're able to consistently meet them. So those are kind of our priorities. And I hope I answered all your questions, Steve.

Steve Fleishman:

Yeah. No, that was very super helpful, and I apologize. I have one other question for Xia. Just any color you could provide on timing of the equity issuance in 2020?.

Xia Liu:

Sure. And you are fully aware that the current market conditions are volatile. We believe it is very important to be patient and yet poised to act when market conditions present themselves. As I said just now that we're anticipating $1 billion of cash inflow from the divestiture of the assets in the second quarter, so that we could reduce debt in 2020, support our coverage ratio. So we have flexibility to execute our plan. And so we will just remain opportunistic. But regardless, we might likely set up the ATM and turn on the DRIP to start contributing the equity needs but will remain opportunistic at this point.

Steve Fleishman:

Great. Thank you very much.

Operator:

Our next question is from Paul Patterson from Glenrock Associates.

Paul Patterson:

Hey. How are you doing? I wanted to sort of just follow up a little bit on Steve's question. I mean it does sound like you guys have a great opportunity that you're outlining all these things – all these opportunities and the value of your property is quite well. But I'm just sort of wondering in terms of the potential for a strategic – additional strategic options, are those off the table? I mean I just wanted to get a sense as to whether or not – what the potential might be in terms of – given the management changes and everything whether or not we might see some additional exploration in that area?

John Somerhalder:

No. No. That is not our plan. Our plan is to execute and really focus on execution as I just talked about when I answered Steve's question. So that is what management will do that was what the board supports, and that's what we're going to move forward with.

Operator:

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

Julien Dumoulin-Smith:

Hey. Good morning to you. Thanks for the time. Hey. Just following up on few different things real quickly here. First Enable strategy, I think I hear what you guys are saying but I just wanted to be extra explicit about it given your focus on execution. You've sold several businesses already. There is no deviation from the commitment on Enable, and at the same time on the rating side you've gotten assurances that despite having still some unregulated piece here that the new low 14s works from the agency?

Xia Liu:

Julien we don't speak on behalf of the rating agencies. So when they're ready, they will let you know. We do know that we – we've been remaining very transparent conversations with each of those agencies and they know exactly what we plan to do, and the fact that we executed what we shared with the rating agencies would give us a lot of credibility from our perspective. And at the same time, as you're fully aware, the largest energy – the largest unregulated businesses are the Infrastructure Services and Energy Services businesses. Post divestiture we will be 82% projected to be 82% utility and 18% Enable. So, essentially we don't have anything else. We have a little bit of businesses but they're not material at all.

Julien Dumoulin-Smith:

Got it. And if I can move back to the core businesses in brief, just to clarify your earlier comment Xia. around earned ROEs and through the forecast period. Just to clarify very specifically what kind of improvement in lag are you baking into that? I think that goes back to Shar's question about the reconciliation between earnings trajectory and rate base growth. Again, specifically on the lag and then also related to that in reconciling that, how much equity are you thinking on an ongoing basis through the full CapEx period that you've disclosed rather than just two years of financing here? Just to be clear about that.

Xia Liu:

Yeah. I mean, we have a slide we laid out in the appendix to show you the thinking around that. So, I answer the second question first. The – first of all we're fully focused – very focused on the FFO and they generated FFO including Enable's contribution. We're mindful about our dividend policy and the board will consider going forward. We're very focused on the capital program and wanting to provide robust, regulated growth. We take all that into consideration, then we decide how much external funding we would need to maintain our balance sheet. So that's basically the thinking process. The reason we didn't provide any guidance beyond the three years is because when you get outside of the three-year window you would have to take into consideration rate cases and other regulatory decisions and some other things that we might not foresee right now. So, I don't want to get ahead ourselves from that regard.

Julien Dumoulin-Smith:

Okay. All right. Fair enough. On that little bit on that lag piece to be extra clear. Are you assuming – any willingness to share a little bit more of the explicit thought process? I know that rate cases matter.

Xia Liu:

Yeah. Sure. And we're happy to. Yeah, I did forget your first question. So CEHE, so Houston Electric is about 40% of the business. You know their allowed ROE is 9.4%. So the team is highly focused on finding ways to get close to 9.4%. That includes revenue opportunities as well as O&M – very disciplined O&M management. So then the rest of the business, the gas utilities, they have a range of allowed ROE of 9% to 10% on average. I'm generalizing; each jurisdiction is different. So our goal is try to get closer to the top end of the of the range in the planning horizon.

Julien Dumoulin-Smith:

Got it. Okay. Fair enough. One last quick detail, in the CapEx budget, what are you assuming in Indiana Electric with regards to the RFP process and just generation procurement? I know that might be sensitive.

Xia Liu:

Yeah. I don't think we're ready. If they – they'll file in the next couple of months. So once that's filed we will – we'll be happy to share any details you might want.

Julien Dumoulin-Smith:

Okay. Fair enough. Thanks guys for the time. All the best.

Operator:

Our next question is from Charles Fishman from Morningstar.

Charles Fishman:

Just on housekeeping, slide 30, that $1.2 billion internal note, I mean that's always been out there. You're just – it's just you're listing it as a line item now where you haven't in the past. Is that correct or is my memory off?

Xia Liu:

You always knew that there was $1.2 billion of intercompany loan from the parent to the midstream.

Charles Fishman:

Okay. So it's just question. You're just listing it now as – in your guidance...

Xia Liu:

Correct.

Charles Fishman:

I mean where – it's always been there though. Okay. And then the preferred is in the $0.29 to $0.34, correct, your preferred position in Enable?

Xia Liu:

We – it's $360 million and a 10% rate, so that's the parameters of...

Charles Fishman:

But that's included in the $0.29 to $0.34, not an – it's not an offset to the corporate and other or anything.

Xia Liu:

Oh, I'm sorry. I misunderstood your question. You were asking the $30 – I'm sorry, can you ask the question again? I'm sorry. What was your question?

Charles Fishman:

Well, you still have this preferred, I think, it's Series A investment in Enable, okay? And you've had that for a couple of years now. But that's included, if I look on slide 30, that's included in the $0.29 to $0.34, correct? You're not treating that – this corporate and other line as an offset or anything?

Xia Liu:

No, we didn't. That's outside of page 30.

Charles Fishman:

Okay. I'll – okay. I got it. I think. That's it. Thank you.

Operator:

Our next question is from Sophie Karp from KeyBanc.

Sophie Karp:

Hi. Good morning. Thank you for taking my question. Maybe a little housekeeping question here. Are there any non-utility businesses still left in the corporate and other segment? I believe there used to be something there.

Xia Liu:

They're very little. You do know we have the Energy Services group as part of the Vectren acquisition. They represent about 1% of the business. We have a small home warranty business but not anything major.

Sophie Karp:

Should we expect those to be sold kind of over the course of the year also?

Xia Liu:

No. We're not considering those right now.

Sophie Karp:

Got it. And then so on the – when I look at the corporate and other guidance and what's embedded in it. So it's mostly, I guess corporate level debt, right, and preferreds. What do you assume as far as how long that remains outstanding? Did (indiscernible) throughout the year when you come up with this guidance?

Xia Liu:

I'm not sure I followed your question. What's lasting throughout the year?

Sophie Karp:

Corporate debt – corporate level debt?

Xia Liu:

On the corporate debt – the parent company debt. So, we have – that's on our balance sheet.

Sophie Karp:

All right. So, how long do you believe it's going to continue to be outstanding throughout the year when you come up with the guidance? What's baked into the guidance for that?

Xia Liu:

The current parent company debt level that we have on our balance sheet is embedded in there.

Sophie Karp:

All right. Thank you. And maybe could you talk a little bit about the O&M efforts, right, and we know historically that O&M did not maybe didn't grow faster than inflation for CenterPoint and you've been working on identifying ways to fight that. How close are you to understanding what the drivers there are, and what particular programs you're looking at to bring them the O&M down or the growth rate? Thank you.

Xia Liu:

Oh sorry. I'm sure John has thoughts and the part of the big piece of the O&M effort is through our merger integration. So, we achieved – over achieve our synergy target last year through not only head count reduction on year one but throughout the year, I'm sorry on day one but throughout the year. So day one we removed a certain amount of head count and that momentum continues throughout the year. And then we also had about close to 300 different initiatives to try to improve programs, consolidate functions, and with continued improvement processing in mind. So – and then on top of that we are looking at organizational design, looking at strategic alignment and using more data analytics and so forth. So it's a combination of a lot of initiatives together.

John Somerhalder:

Yeah. And I'll just add to that. The good news you talked about – a head start on us, what we're doing. The process of the integration gave us a real good understanding of many of the cost levers that we can focus on. And we have success in implementing a number of those, but there are others that we have identified in areas like supply chain areas, like how we use contractors and manage those issues. We'll focus on all items related to that. At the same time, we're fully committed to making sure we spend what we need to to maintain reliability, safety, compliance of those items. And I've been a part of the companies that have managed tightly those issues for a number of years, so I look forward to getting involved and really focus on the right way to manage our costs.

Sophie Karp:

Got it. And would you be able at some point to commit to a more concrete annual O&M reduction target?

Xia Liu:

I think we essentially did because as I said – both John and I said that last year we achieved the annualized reduction of $100 million. If we essentially maintain that debt level, so that's a pretty good target to think about.

John Somerhalder:

And then hold it as we move forward flat or near flat and the reason we phrased it that way is because we absolutely will make sure we spend the dollars we need to in areas like safety. But my history has always been that when you find areas that you simply need to spend money for those reasons you also work hard to find other areas where you can reduce cost. So that is our target and I think that's a pretty straight-straightforward expectation that we have for ourselves.

Sophie Karp:

Got it. Thank you. That's all for me.

Operator:

Our last question is from Shar Pourreza from Guggenheim Partners.

Shar Pourreza:

Hey, guys. Thanks for taking a quick follow-up for me. Just on, Xia, can you just do a follow up question from what Julien was asking was, can you without going into details at least confirm that in Indiana you're not assuming any outcome from the IRP i.e., there's not a placeholder amount that's in that number?

Xia Liu:

There's a placeholder amount. I don't want you to think we didn't put in placeholders and the placeholder amount is embedded in the Indiana numbers.

Shar Pourreza:

Okay. Great. Thanks, guys. That was it.

David Mordy:

Thank you, everyone, for your interest in CenterPoint Energy. We will now conclude our fourth quarter and full year 2019 earnings call. Have a great day.

Headquartered in Houston, Texas, CenterPoint Energy, Inc. is an energy delivery company with regulated utility businesses in eight states and a competitive energy businesses footprint in nearly 40 states. Through its electric transmission & distribution, power generation and natural gas distribution businesses, the company serves more than 7 million metered customers in Arkansas, Indiana, Louisiana, Minnesota, Mississippi, Ohio, Oklahoma and Texas. CenterPoint Energy's competitive energy businesses include natural gas marketing and energy-related services; energy efficiency, sustainability and infrastructure modernization solutions; and construction and repair services for pipeline systems, primarily natural gas. The company also owns 53.7 percent of the common units representing limited partner interests in Enable Midstream Partners, LP, a publicly traded master limited partnership that owns, operates and develops strategically located natural gas and crude oil infrastructure assets. With approximately 14,000 employees and approximately $35 billion in assets, CenterPoint Energy and its predecessor companies have been in business for more than 150 years. For more information, visit CenterPointEnergy.com.

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

Risks Related to CenterPoint Energy

Important factors that could cause actual results to differ materially from those indicated by the provided forward-looking information include risks and uncertainties relating to: (1) the performance of Enable Midstream Partners, LP (Enable), the amount of cash distributions CenterPoint Energy receives from Enable, Enable's ability to redeem the Enable Series A Preferred Units in certain circumstances and the value of CenterPoint Energy's interest in Enable, and factors that may have a material impact on such performance, cash distributions and value, including factors such as: (A) competitive conditions in the midstream industry, and actions taken by Enable's customers and competitors, including the extent and timing of the entry of additional competition in the markets served by Enable; (B) the timing and extent of changes in the supply of natural gas and associated commodity prices, particularly prices of natural gas and natural gas liquids (NGLs), the competitive effects of the available pipeline capacity in the regions served by Enable, and the effects of geographic and seasonal commodity price differentials, including the effects of these circumstances on re-contracting available capacity on Enable's interstate pipelines; (C) the demand for crude oil, natural gas, NGLs and transportation and storage services; (D) environmental and other governmental regulations, including the availability of drilling permits and the regulation of hydraulic fracturing; (E) recording of goodwill, long-lived asset or other than temporary impairment charges by or related to Enable; (F) the timing of payments from Enable's customers under existing contracts, including minimum volume commitment payments; (G) changes in tax status; and (H) access to debt and equity capital; (2) CenterPoint Energy's expected benefits of the merger with Vectren Corporation (Vectren) and integration, including the outcome of shareholder litigation filed against Vectren that could reduce anticipated benefits of the merger, as well as the ability to successfully integrate the Vectren businesses and to realize anticipated benefits and commercial opportunities; (3) industrial, commercial and residential growth in CenterPoint Energy's service territories and changes in market demand, including the demand for CenterPoint Energy's non-utility products and services and effects of energy efficiency measures and demographic patterns; (4) the outcome of the pending Houston Electric rate case; (5) timely and appropriate rate actions that allow recovery of costs and a reasonable return on investment; (6) future economic conditions in regional and national markets and their effect on sales, prices and costs; (7) weather variations and other natural phenomena, including the impact of severe weather events on operations and capital; (8) state and federal legislative and regulatory actions or developments affecting various aspects of CenterPoint Energy's and Enable's businesses, including, among others, energy deregulation or re-regulation, pipeline integrity and safety and changes in regulation and legislation pertaining to trade, health care, finance and actions regarding the rates charged by our regulated businesses; (9) tax legislation, including the effects of the comprehensive tax reform legislation informally referred to as the Tax Cuts and Jobs Act (which includes any potential changes to interest deductibility) and uncertainties involving state commissions' and local municipalities' regulatory requirements and determinations regarding the treatment of excess deferred income taxes and CenterPoint Energy's rates; (10) CenterPoint Energy's ability to mitigate weather impacts through normalization or rate mechanisms, and the effectiveness of such mechanisms; (11) the timing and extent of changes in commodity prices, particularly natural gas and coal, and the effects of geographic and seasonal commodity price differentials; (12) the ability of CenterPoint Energy's and CERC's non-utility business operating in the Energy Services reportable segment to effectively optimize opportunities related to natural gas price volatility and storage activities, including weather-related impacts; (13) actions by credit rating agencies, including any potential downgrades to credit ratings; (14) changes in interest rates and their impact on CenterPoint Energy's costs of borrowing and the valuation of its pension benefit obligation; (15) problems with regulatory approval, legislative actions, construction, implementation of necessary technology or other issues with respect to major capital projects that result in delays or cancellations or in cost overruns that cannot be recouped in rates; (16) the availability and prices of raw materials and services and changes in labor for current and future construction projects; (17) local, state and federal legislative and regulatory actions or developments relating to the environment, including, among other things those related to global climate change, air emissions, carbon, waste water discharges and the handling and disposal of coal combustion residuals (CCR) that could impact the continued operation, and/or cost recovery of generation plant costs and related assets; (18) the impact of unplanned facility outages or other closures; (19) any direct or indirect effects on CenterPoint Energy's or Enable's facilities, operations and financial condition resulting from terrorism, cyber-attacks, data security breaches or other attempts to disrupt CenterPoint Energy's businesses or the businesses of third parties, or other catastrophic events such as fires, ice, earthquakes, explosions, leaks, floods, droughts, hurricanes, tornadoes, pandemic health events or other occurrences; (20) CenterPoint Energy's ability to invest planned capital and the timely recovery of CenterPoint Energy's existing and future investments, including those related to the Indiana Electric's anticipated Integrated Resource Plan; (21) CenterPoint Energy's ability to successfully construct and operate electric generating facilities, including complying with applicable environmental standards and the implementation of a well-balanced energy and resource mix, as appropriate; (22) CenterPoint Energy's ability to control operation and maintenance costs; (23) the sufficiency of CenterPoint Energy's insurance coverage, including availability, cost, coverage and terms and ability to recover claims; (24) the investment performance of CenterPoint Energy's pension and postretirement benefit plans; (25) commercial bank and financial market conditions, CenterPoint Energy's access to capital, the cost of such capital, and the results of CenterPoint Energy's financing and refinancing efforts, including availability of funds in the debt capital markets; (26) changes in rates of inflation; (27) inability of various counterparties to meet their obligations to CenterPoint Energy; (28) non-payment for CenterPoint Energy's services due to financial distress of its customers; (29) the extent and effectiveness of CenterPoint Energy's and Enable's risk management and hedging activities, including but not limited to, financial and weather hedges and commodity risk management activities; (30) timely and appropriate regulatory actions, which include actions allowing securitization, for any future hurricanes or natural disasters or other recovery of costs, including costs associated with Hurricane Harvey; (31) CenterPoint Energy's or Enable's potential business strategies and strategic initiatives, including restructurings, joint ventures and acquisitions or dispositions of assets or businesses, including the proposed sales of Infrastructure Services and CES, which CenterPoint Energy and Enable cannot assure will be completed or will have the anticipated benefits to CenterPoint Energy or Enable; (32) the recording of impairment charges, including any impairment associated with Infrastructure Services and CES; (33) the performance of projects undertaken by CenterPoint Energy's non-utility businesses and the success of efforts to realize value from, invest in and develop new opportunities and other factors affecting those non-utility businesses, including, but not limited to, the level of success in bidding contracts, fluctuations in volume and mix of contracted work, mix of projects received under blanket contracts, failure to properly estimate cost to construct projects or unanticipated cost increases in completion of the contracted work, changes in energy prices that affect demand for construction services and projects and cancellation and/or reductions in the scope of projects by customers and obligations related to warranties and guarantees; (34) acquisition and merger activities involving CenterPoint Energy or its competitors, including the ability to successfully complete merger, acquisition and divestiture plans; (35) CenterPoint Energy's or Enable's ability to recruit, effectively transition and retain management and key employees and maintain good labor relations; (36) the outcome of litigation; (37) the ability of retail electric providers (REPs), including REP affiliates of NRG Energy, Inc. and Vistra Energy Corp., formerly known as TCEH Corp., to satisfy their obligations to CenterPoint

Energy and its subsidiaries; (38) changes in technology, particularly with respect to efficient battery storage or the emergence or growth of new, developing or alternative sources of generation; (39) the impact of alternate energy sources on the demand for natural gas; (40) the timing and outcome of any audits, disputes and other proceedings related to taxes; (41) the effective tax rates; (42) the transition to a replacement for the LIBOR benchmark interest rate; (43) the effect of changes in and application of accounting standards and pronouncements; and (44) other factors discussed in CenterPoint Energy's Annual Report on Form 10-K for the fiscal year ended December 31, 2019 and other reports CenterPoint Energy or its subsidiaries may file from time to time with the Securities and Exchange Commission.

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

In addition to presenting its financial results in accordance with generally accepted accounting principles (GAAP), including presentation of income available to common shareholders and diluted earnings per share, CenterPoint Energy also provides guidance based on adjusted income and adjusted diluted earnings per share, which are non-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.

To provide greater transparency on utility earnings, CenterPoint Energy's 2020 guidance will be presented in two components, a guidance basis Utility EPS range and a Midstream Investments EPS expected range. The 2020 Utility EPS guidance range includes net income from Houston Electric, Indiana Electric and Natural Gas Distribution business segments, as well as after tax operating income from the Corporate and Other business segment. The 2020 Utility EPS guidance range considers operations performance to date and assumptions for certain significant variables that may impact earnings, such as customer growth (approximately 2% for electric operations and 1% for natural gas distribution) and usage including normal weather, throughput, recovery of capital invested through rate cases and other rate filings, effective tax rates, financing activities and related interest rates, regulatory and judicial proceedings and anticipated cost savings as a result of the merger. The 2020 Utility EPS guidance range also assumes an allocation of corporate overhead based upon its relative earnings contribution. Corporate overhead consists of interest expense, preferred stock dividend requirements and other items directly attributable to the parent along with the associated income taxes. Utility EPS guidance excludes (a) certain integration and transaction-related fees and expenses associated with the merger, (b) severance costs, (c) Midstream Investments and associated allocation of corporate overhead, (d) results related to Infrastructure Services and Energy Services prior to the anticipated closing of the sale of those businesses, including anticipated costs and impairment resulting from the sale of Infrastructure Services and Energy Services, and (e) earnings or losses from the change in value of ZENS and related securities. In providing this guidance, CenterPoint Energy uses a non-GAAP measure of adjusted diluted earnings per share that does not consider other potential impacts, such as changes in accounting standards or unusual items, which could have a material impact on GAAP reported results for the applicable guidance period. CenterPoint Energy is unable to present a quantitative reconciliation of forward looking adjusted diluted earnings per share because changes in the value of ZENS and related securities is not estimable as it is highly variable and difficult to predict due to various factors outside of management's control.

The 2020 Midstream Investments EPS expected range assumes a 53.7 percent limited partner ownership interest in Enable and includes the amortization of the Company's basis differential in Enable and assumes an allocation of CenterPoint Energy corporate overhead based upon Midstream Investments relative earnings contribution. The Midstream Investments EPS expected range takes into account such factors as Enable's most recent public outlook for 2020 dated Feb. 19, 2020, and effective tax rates. The company does not include other potential impacts such as any changes in accounting standards, impairments or Enable's unusual items.

Management evaluates the company's financial performance in part based on adjusted income and adjusted diluted earnings per share. 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 does not most accurately reflect the company’s fundamental business performance. These excluded items are reflected in the reconciliation tables of this news release, where applicable. CenterPoint Energy’s adjusted income and adjusted diluted earnings per share non-GAAP financial measures should be considered as a supplement to, and not as a substitute for, or superior to, income available to common shareholders and diluted earnings per share, which respectively are the most directly comparable GAAP financial measures. These non-GAAP financial measures also may be different than non-GAAP financial measures used by other companies.anies.