Third Quarter 2021 Earnings Conference Call
November 4, 2021

Philip Holder – SVP, Strategic Planning and Investor Relations

Good morning, everyone. Welcome to CenterPoint's earnings conference call. Dave Lesar, our CEO and Jason Wells, our CFO, will discuss the Company's third quarter 2021 results.

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

We will also discuss non-GAAP EPS, referred to as Utility EPS, earnings guidance and our utility earnings growth target. In providing these financial performance metrics and guidance, we use a non-GAAP measure of adjusted diluted earnings per share.

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

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

Dave Lesar – President & CEO

Thank you, Phil. Good morning and thank you to everyone joining us for our third quarter 2021 earnings call. Because we recently hosted our Analyst Day, we will keep our prepared remarks brief today. As you know, we laid out our first ever 10-year plan back at our Analyst Day. We expressed then, and are reiterating today, that we are a management team who can execute. We believe we will continue to demonstrate that for you.

This marks my sixth quarter with CenterPoint and Jason's fifth. I'd like to first start by laying out how we are building a consistent track record of delivery. First, if you recall, the CNP value proposition we laid out at our recent analyst day, focused on our efforts to achieve sustainable earnings growth for our shareholders; sustainable, resilient, and affordable rates for our customers, and a sustainable positive impact on the environment for our communities. I believe we are continuing down the path of achieving this value proposition.

Each quarter under the new CenterPoint leadership, we have met or exceeded quarterly utility EPS and dividend expectations.

We have increased our annual utility EPS guidance for both 2020 and 2021.

And, as I will discuss shortly, today we are increasing our 2021 Utility EPS guidance once again.

Our 2021 through 2024 annual Utility EPS growth targets of 8% are top decile among our peers, and we also expect to achieve at the mid to high end of our 6-8% annual utility eps guidance range each year from 2025 to 2030.

I'm confident in our team's ability to achieve that growth.

Last year we had a $13 billion five-year capital plan, we increased that to $16 billion in our 2020 analyst day and this year, we increased it yet again to $18 billion plus.

We introduced our first ever 10-year capital plan.

CenterPoint remains ripe with opportunities across our footprint to expand and harden our system to benefit customers and shareholders.

Our current 10-year plan contains no external equity issuances. We will fund the equity portion of our capital needs through internally generated operating cash flows and our already announced strategic transactions.

We are also executing on our plan to become a pure-play regulated utility as we approach the closing of the Enable ET merger expected by the end of this year and then our subsequent sell down of our midstream stake.

With the recent settlement agreement among the parties in Arkansas we are also moving toward the completion our LDC asset sale. The remaining steps include the Oklahoma approval which is anticipated to be received in November, and the all-party settlement in Arkansas is expected to be approved by mid-December.

And, with our newest announcement around our industry leading ESG targets, we are on the path to executing on our goals to be Net Zero on direct emissions by 2035. We continue to believe that this is an achievable path – delivering for customers, regulators, investors and the environment.

In the third quarter of 2020, I said that "I will not be satisfied until we are recognized as a premium utility", and the theme of our Analyst day was again, "Establishing a path towards a premium". I believe we are making tremendous strides down that path.

Before I get into the headlines for this quarter, I want to thank all of the crews for their hard work to restore power after hurricane Nicholas down here in the Texas Gulf Coast. The storm had winds up to over 90 miles per hour leaving 470,000 of our Houston Electric customers without power. Within 3 days, we had 95% of the power restored for those customers and within 5 days, the whole system was back online.

Now for this quarter's headlines:

Our year-to-date financial progress has been strong.

We are reporting a Utility EPS beat and are raising our full year outlook this quarter.

For the third time this year we are increasing our 2021 utility EPS guidance. This time to $1.26 - $1.28 for the full year, and for the first nine months we have already achieved nearly 80% of that full year goal.

More importantly, we are still targeting an 8% annual growth rate for 2022 - 2024, so this raises our guidance for 2022 utility EPS to $1.36 - $1.38.

For the third quarter of 2021, we reported $0.25 of Utility EPS, which compares to $0.29 in the third quarter of 2020. In the third quarter of this year, we had a one-time impact to earnings of 4 cents per share related to our most recent board-implemented governance changes. Jason will get into more detail on the variances shortly.

(Capital investments)

As I mentioned earlier, we have increased our five-year capital plans to $18 billion plus over the next five years and $40 billion plus over the next 10 years.

This is nearly a 40% increase in our 5-year capital investment plan since the third quarter of 2020. This includes new opportunities that stem from the latest legislative session in TX. One of those opportunities was the ability to lease and put into rate base mobile generation units. We moved quickly on this opportunity and procured five 5 MW & three 30 MW mobile generation units, some of which, we were able to deploy during hurricane Nicholas as backup while crews worked to repair the system. And recently during an Ercot forcasted Texas-wide load shedding event, the Texas PUC asked us to make sure our units were ready to support customers. We were the first utility in the state to act on this legislative opportunity and had them in place to utilize them in the way the law intended. We look forward to mobilizing quickly on the other tools provided to us by the Texas legislature to improve the resiliency of the electric grid and help reduce the risk of prolonged outages. We already have an outstanding RFP for additional mobile generation, which could bring our total up to 500MW and hope to have this procured in the coming months. We believe that with the deployment of these additional tools, we will be able to mitigate some of the impacts of future extreme weather events on our customers.

Due to recent weather events in both Louisiana and Texas, we're running slightly behind on our capital spending plans on a year-to-date basis. These weather events pulled away many of our contract crews so they could provide mutual assistance to our fellow utilities, especially in Louisiana. Therefore, while deployed elsewhere, they could not work on our capital projects. But we have a catch-up plan in place and anticipate making the shortfall up.

In anticipation of continued labor shortages and as we ramp up our capital plans in the coming years, we have now moved to procure additional contractor resources from multiple suppliers. We believe that this will help to support continuity in crews on a long-term basis and reduce the impact of any labor disruptions in executing our $40 billion plus capital spend over the next 10 years.

(O&M)

Turning to O&M, we remain committed to our continuous improvement cost management efforts and our target of 1-2% average annual reduction.

We've already realized the benefits of some of these improvements this year. We stated in the second quarter that we could accelerate approximately $20 million of recurring O&M work forward from 2022 into this year if we had the available resources. So far, we have achieved approximately 20% of this goal year-to-date and remain confident around our team's ability to continue to execute towards this goal for the balance of the year.

This allows us the luxury of reducing near term run rate O&M costs, which helps to mitigate rate pressures, while maintaining continued focus on reliability and safety of our service for customers, all while sustaining growth for our shareholders.

(Organic Growth)

In addition to O&M continuous improvement efforts, we are fortunate to operate in growing jurisdictions. This combination plays a key role in keeping our growth plans affordable for our customers. As we discussed during our Analyst Day, Houston is the 4th largest city in the United States and the only one of those 4 that's growing. Houston's organic growth has been multi-decade long. That organic growth rate continued for yet another quarter. We also see strong growth in many of our other jurisdictions as well. On a year over year basis, we saw about 2% customer growth for electric and 1% for natural gas through September. Again, this organic growth is a luxury many other utilities just do not have.

Now I'll shift gears to give a brief regulatory update.

A recent highlight in Indiana happened this past week. As part of our long-term electric generation transition plan, we received the CPCN approval from the Indiana Utility Regulatory Commission for the first tranche of solar generation, 75% of which we expect to own and 25% through a PPA. This approval shows the commission's alignment and support for our 2020 IRP which bridges our coal generation into a mix of lower carbon and renewable sources. We anticipate the CPCN decisions for our gas CT plant in the second or third quarter of 2022 and the incremental solar PPA in the third quarter of 2022. As outlined in our IRP, we are targeting to own approximately 50% of our total solar generation portfolio. Our continued buildout of renewables is a key driver in achieving our Net Zero direct emissions goal by 2035.

Shifting to gas costs recovery from the February winter storm, we continue to make progress, and as we've previously mentioned, we have mechanisms in place or have begun recovery in all jurisdictions. We are happy to report that just this past week, we reached a settlement on the prudence proceedings supporting securitization of 100% of gas costs in Texas, including all related carrying costs. We look forward to the commission approval of the agreement. We anticipate a financing order for the securitization bonds by the end of the year. With this timeline, we anticipate receiving the proceeds sometime mid next year.

In Minnesota, we started recovery as of September and are working with stakeholders on ways to reduce the impact on our customers. We filed a rate case earlier this week and also proposed an alternative rate stabilization plan to address the unique set of circumstances customers are experiencing.

The full rate case requests $67.1 million per year, while the rate stabilization plan requests $39.7 million per year and an extended recovery period for winter storm costs. The proposed rate stabilization plan would resolve the rate case and limit the bill impact on customers, in part by recovering the winter storm costs over a 63-month period. We're asking the PUC to review and approve the stabilization plan by the end of this year, which would allow rates to take effect on January 1st. To summarize, we are working with stakeholders to align our focus on safety related investments while minimizing the burden to our customers.

Largely as a result of mechanisms in our Houston Electric and Indiana South Gas jurisdictions, we have recently received approval for $40 million of increased incremental annual revenue. As discussed on our analyst day, we anticipate approximately 80% of our 10-year capital plan to be recovered through interim mechanisms which demonstrates the constructive jurisdictions in which we operate.

In Texas, our PUC has now appointed a 4th commissioner. Jason and I have now had the opportunity to meet all four commissioners and are very encouraged by the dialogue and expertise that all of these commissioners bring to the PUC. We look forward to continued engagement with commissions in all of our jurisdictions.

Those are the headlines for the quarter. I remain excited about what's to come for CenterPoint. We have a growing track record of execution and believe it more than demonstrates what we can do in the near future and the unique value proposition that CenterPoint offers to you.

With that let me turn the call over to Jason.

Jason Wells – Executive Vice President & CFO

Thank you, Dave, and thank you to all of you for joining us this morning for our third quarter earnings call. This marks my one year of earnings calls with CenterPoint and the story keeps getting better.

To reemphasize Dave's message, we are focused on establishing a track record of consistent execution, and I fully believe the best is yet to come here at CenterPoint. I'll start this morning with the earnings for the third quarter of 2021.

EPS Details:

On a GAAP EPS basis, we reported 32 cents for the third quarter of 2021, compared to 13 cents for the third quarter of 2020.

Looking at slide 5, we reported 33 cents of non-GAAP EPS for the third quarter of 2021, compared to 34 cents for the third quarter 2020. Our utility EPS was 25 cents for the third quarter of 2021, while midstream investments contributed another 8 cents.

Favorable growth and rate recovery, lower interest expense and reversal of the net impacts from COVID last year each contributed 1 penny of favorability. These amounts were offset by 4 cents related to our one-time board implemented governance changes recorded this quarter, and another 3 cents of unfavorable variance attributable to weather and usage.

For context, we experienced 73 fewer Cooling Degree Days (CDD) in Houston for the third quarter of 2021 compared to the third quarter of 2020. We estimate that each CDD above normal has approximately a $70,000 a day impact in our Houston Electric business.

Turning to slide 6, for the first nine months we have achieved nearly 80% of our full year 2021 utility EPS guidance which we are now raising to $1.26 to 1.28.

And as Dave said, we are also raising our utility EPS guidance for 2022 to $1.36 - $1.38, which is an 8% increase from our new 2021 estimates.

Looking beyond that, we are focused on delivering 8% annual utility EPS growth through 2024 and at the mid to high end of our 6-8% annual utility EPS range over the remainder of our 10-year plan. Strong growth each and every year, NO CAGRs for earnings.

The last thing I'll mention for this quarter is the share count. Our preferred series B shares converted into 36 million common shares as of September 1st, further reducing the number of share classes outstanding.

We expect the conversion will have no impact on earnings as the increase in shares is effectively offset by the termination of the series B dividends. Going forward, I want to reiterate we have NO external equity included in our current growth plans and only expect our share count to modestly increase from dividend reinvestments or incentive plans.

Capital

Now I want to offer some color on the capital plans supporting our rate base and utility EPS growth.

We've spent approximately $2.3 billion year-to-date on capital investments. As Dave mentioned, we had some slight delays due to recent weather events and are focused on making that up over the coming months.

We outlined on our Analyst Day the three buckets that we are investing in: safety, reliability and growth, and enabling clean investments that are included in the $40B+ 10-year capital investment plan. This investment profile should benefit our shareholders, our customers, and the environment.

We see those opportunities weighted nearly 60% towards investments in electric businesses throughout the plan. While we are slightly behind the capital plan on a year-to-date basis, we are in the midst of ramping to a sustained increase in capital investments and we're restructuring contract crews in a way that helps support our labor needs to execute this level of investment. We are confident we will make up the shortfall by early 2022.

Moving to the financing updates. Our current liquidity remains strong at $1.8 billion, including available borrowings under our short-term credit facilities and unrestricted cash.

Our long-term FFO/Debt objective remains between 14% - 15%, aligning with Moody's methodology, and is consistent with the expectations of the rating agencies. As mentioned during the Analyst Day, it's our intention to stay within this range throughout the course of our long-term plan.

Strategic Transactions

Lastly, as we near the end of this calendar year, we are getting incrementally closer to the expected closing of the strategic transactions we have announced.

We recently filed a settlement in Arkansas that represents an agreement amongst all parties.

We anticipate that the Arkansas commission will issue its final approval by mid-December. In Oklahoma, a hearing was held on November 3rd and we expect the final order soon.

Finally, as Energy Transfer expressed on their earnings call earlier this week, the Enable and Energy Transfer merger is also expected to close before year-end. Once that transaction closes, we will remain absolutely focused on reducing and then eliminating our exposure to midstream through a disciplined approach. As said on our Analyst Day, we anticipate being fully exited from Midstream by the end of 2022. We will then be nearly a pure-play regulated utility.

As we continue to express, we take our commitment to be good stewards of your investment very seriously and realize our obligation to optimize stakeholder value.

And with that, we look forward to more of these shorter earnings calls in the future. I'll turn the call back over to Dave.

Dave Lesar – President & CEO

Thank you, Jason. As you heard from us today, as well as others from our full management team during the Analyst Day; the outlook for CenterPoint keeps getting better. As I said, we now have 6 quarters of meeting or exceeding expectations, but we believe there is much more to come. We are demonstrating the pathway to premium and we hope that you will be on board with us as a shareholder when that happens.

Phil Holder – SVP of Strategic Planning and Investor Relations

Thank you, Dave. We will now take a few questions being mindful of today's earnings schedule and the upcoming EEI conference.

Q & A

Operator: Our first question is from Anthony Crowdell with Mizuho.

Anthony Crowdell:

Hopefully, I contribute to the short earnings call, but just I think of the company, maybe over the last year, it was maybe more of a transition story. And we got, I guess, three increases in guidance throughout the year including today. I mean, how do we think about going forward? Are we more now on steady state? And the guidance you gave is probably more set and we look to be in the middle of it or do we continue to get maybe increases in guidance? And I have one follow-up.

Dave Lesar:

Well, look, I hope you got a sense today of how confident we are in the business or the direction that the business is going at this point in time. And I think that we're starting to hit on all cylinders. So I agree we were in a transition, but I think in a transition to, what we believe, ought to be a premium utility. So I think if you listen to what we said today and let me boil it down into pretty simple terms - you know, whatever we do this year, we'll do 8% more the next year. Whatever we do next year, we'll do 8% more the year after that and etcetera as we outlined during our Analyst Day. But we've got a lot of tailwinds behind this right now, and we really, really like where we are.

Anthony Crowdell:

Great. And just one follow-up. Dave, at the Analyst Day, you gave us some great insight into, I guess, just commodity prices, maybe from a previous job you held. Just thoughts on, are you seeing any type of change in your view that you think maybe the commodity prices will end up coming down?

Dave Lesar:

No, I think, I assume you're referring to natural gas prices…

Anthony Crowdell:

Yes.

David Lesar:

And I think that if you look at the script, it is starting to drift down. But I think more importantly, it's really – the focus, if you look at gas prices on our business specifically, we've got organic growth to sort of absorb issues. We've got our ability on O&M. So, if your question really is, do we see an impact on sort of customer rates, certainly it's going to be out there, but I think we've got some offsets that maybe other utilities don't have.

Jason, if there's anything you want to add to that?

Jason Wells:

Sure, Dave. Thanks for the question, Anthony. As we outlined at Analyst Day, we continue to work within our defined gas procurement plans for each jurisdiction. And as of today, looking across all of our jurisdictions, we're roughly 60% hedged now that we're going into the upcoming winter season. And for almost all of those jurisdictions, we've locked in kind of a weighted average cost of gas of somewhere between, sort of, the mid-3s and high-3s, $3 per

MMBtu in the majority of our jurisdictions. And so, feel well-positioned for this upcoming winter season. Obviously, we continue to look at what we can do across the business to ease the burden on our customers, and I think one example of that was the creative alternative rate stabilization plan that we just recently filed in Minnesota. So we'll continue to look for ways to minimize the bill impact, but feel like we're well-prepared coming into this upcoming winter season.

Anthony Crowdell:

Great. Thanks for taking my question. I'll see you guys at EEI. And, Dave, sorry about the ‘Stros.

Dave Lesar:

Yeah. Well, better luck next year, right?

Operator:

Our next question is from Shar Pourreza with Guggenheim Partners.

Shar Pourreza:

Just on, with the current CapEx plan, you're obviously more levered to electric side of the business, and the IRP in Indiana presents some additional upside beyond the five years for electric investment. Dave, do you have sort of a target mix for electric versus gas contribution? What's the timeline to achieve it, especially as we're thinking about potentially further gas optimization funding, which seems to be a very sizable electric decarbonization plan?

Dave Lesar:

Yeah. I think that if you sort of step back and take a look at 50,000 – the sort of 50,000-foot level, the spend and direction and strategy the company is to bias us toward the electric side of our business. Part of it is the cold transition certainly helps that because of the capital that it is going to absorb. And as we've said at our Analyst Day and we've said it in some of our prior calls, we don't need equity to execute this 10-year plan. But if other opportunities did come up, we know the inherent value of the remaining gas LDCs and could look to them as a source of liquidity. But I think bottom line is we're biased toward electric, and that is the way we will continue to drift. I'm not going to put a prediction out there as to what that ratio will be over time. But directionally, that's where we're headed.

Shar Pourreza:

Got it. And then just lastly, obviously, a little bit behind on the CapEx as you highlighted in the prepared remarks, but still kind of targeting that $18 billion plus. Just I guess what are some of the governing factors to increasing the upside or bringing that $1 billion into the base plan that we discussed during the Analyst Day?

Dave Lesar:

Well, I think it's a couple of things. One is just getting sort of final resolution and clarity around the new tools in the toolbox with respect to the Texas legislative process. We highlighted today the temporary generation, for instance, that we've moved very, very quickly on. And those kinds of things would absorb some of that additional $1 billion and sort of contingent capital that we laid out on our Analyst Day. And the other issue is going to be just finding sufficient crews and labor and parts and inventory and those kinds of things out there to accelerate it. So I think the message we tried to leave at Analyst Day is we have $18 billion plus to spend in the next five years, $40 billion less to spend in the next 10 years, and we will spend that capital as fast as we can reasonably do so, as long as it's consistent with sort of rate pressures that we will have and to spend it efficiently. So, again, we've got the wind at our back on many, many things and our capital spend opportunities is certainly one of those.

Shar Pourreza:

Great. Thanks. Thank you for that and we'll see you guys soon. I appreciate it.

Operator:

Our next question is from Insoo Kim from Goldman Sachs.

Insoo Kim:

Good morning, Dave. Just first question going back to Shar's question in the CapEx and the potential – or I guess, a delay currently, I understand the reasoning for the year-to-date delay and how you're going to make that up. Just when you look out currently at the current environment just structurally, are you seeing any concerns or challenges to get the current CapEx plan executed over the next couple of years, whether it is the labor shortages or just from a, maybe, from a cost standpoint, labor costs or other items that could potentially be a headwind?

Dave Lesar:

I mean, look, I mean, just like pretty much every other company and management team in the US, we're dealing with supply chain issues, upward pressure on labor costs. But I don't think that we have seen it to such an extent that we're going to say that we can't meet the capital plan. We have every intention and we have every confidence we're going to meet the capital plan. We tried to give a little color to it with respect to that on the call today. We have moved aggressively to tie up more construction crews. We have expanded our vendor base in and around that area. One of the tools that we got in the new legislative process is the ability to put long lead time items into inventory and into rate base. So we're looking at all of those.

I think the sort of small slip in capital spend this year really was unrelated to any of that. It really was related to the storms that really pounded into Louisiana. And as all utilities do, we help each other when those sort of situations arise and we released a number of our crews that were focused on capital build for us to help the people in Louisiana get back on their feet. Those crews are now coming back. And as Jason said, we've got a short-term plan in place to catch up on that capital spend. But our longer term view of tying up crews and making sure we have the long lead time items ordered give us a great deal of confidence that the capital plan we have is and is going to be achievable.

Insoo Kim:

Understood. And just quickly, the other question I had was as we think about the closing of the midstream transaction, remind me, is there – I know you've already priced a contingent sale of a portion of it, but is there a limit on how much you can sell in terms of the units at any given time?

Dave Lesar:

I'll let my very good CFO, Jason, answer that question.

Jason Wells:

Insoo, thanks for the question. No, there's no direct limit. We had talked about previously the need to register those units. Energy Transfer has already undertaken that effort, so we are free to execute a contingent board up until the close, as we have done. Once the deal is closed, to the extent that we want to execute a marketed offering, we have to obviously coordinate with Energy Transfer. We have full flexibility to do that after the close of the transaction. And then similarly, we will have the ability to dribble the shares. So I think we're moving to a place of full control, no limitation on the number of units.

Operator:

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

Julien Dumoulin-Smith:

Hey. Good morning, team. Sorry about the ‘Stros there. I want to send my condolences as well here.

Dave Lesar:

I tell you, I didn't think this would turn into a burial of the Astros, but I appreciate the sentiment. There's always next year, remember that.

Julien Dumoulin-Smith:

We know they're close to your heart. There you go. Indeed. Listen, just wondering what's driving the confidence still on the timeline for the ET deal here? Just, I know you mentioned it here again, you mentioned it at the Analyst Day. But – and maybe remind us where that process stands specifically with respect to the FTC if they continue to put up their own headlines?

Jason Wells:

Okay. Good morning, Julien, and it's Jason here. Look, as we've said at Analyst Day, Energy Transfer and Enable are obviously taking the lead with this in the conversations with the FTC We’re clearly a very interested party, and everything that we've observed just gives us confidence that this deal will get closed here in the fourth quarter. So I don't think – it's probably more of a direct question for Energy Transfer for how those conversations are going by the day. But as I said, as we observe the progress, we continue to remain confident of a close here on Q4.

Julien Dumoulin-Smith:

Got it. All right. Fair enough. And then on this alternate stabilization plan, can you talk a little bit more about the mechanics? Obviously, it's early here, but has there been any feedback so far on the proposal? Obviously, these are somewhat sensitive subjects, so I'll let you respond accordingly.

Jason Wells:

Yeah. Thanks, Julien. And it's a really unique situation obviously in Minnesota with the incremental gas costs from Winter Storm Uri, the fact that we've got a regular rate case schedule there. And so, while we file a typical rate case, we thought it was prudent to bring forth what we've deemed a great stabilization plan. And I think we – what it tries to do is build off of what was just a recent settlement of the last rate case filed in Minnesota. So keeping similar terms on depreciation rates, cost of capital, allows us to recover the capital that we will be spending over the next couple of years to improve the safety of our gas systems. It defers a little bit of the amortization of some regulatory assets for things like COVID-related costs and some of the incremental O&M that we had and anticipated. But we think it puts us in a really good position to continue to improve system safety with our capital investment plans while recognizing the great impact and trying to moderate that for our customers there in Minnesota. And so, early days in terms of the conversations with stakeholders, but we hope that it is seen as a constructive solution in the backdrop of what is a unique situation there in Minnesota.

Julien Dumoulin-Smith:

Got it. And last one, just super quick there, I heard you guys comment on the backup gen in Texas, but any updates on, for instance, the Texas transmission, obviously, the PUCT seems to be moving fairly swiftly still here. Curious if there's anything to be said on that front as a function of reforms?

Dave Lesar:

Yeah. I think maybe just to tease you a little bit - yes, we're having some dialogue with them on additional transmission lines, but it's really too early to talk about any specifics on it.

Operator:

Our next question is from Durgesh Chopra of Evercore ISI.

Durgesh Chopra:

Hey. Good morning, Jason. Just one for me, just on the Indiana solar program. David, in your commentary, you mentioned 75/25 mix, 75 rate base, 25 PPA. Is that sort of what you're targeting going forward in your plans? And just curious as to how you got there in terms of the 75/25 mix?

Dave Lesar:

I'll let Jason answer that.

Jason Wells:

Good morning, Durgesh. It's – overall, as we look at this first, sort of, part of our coal transition plan, we're targeting a 50/50 allocation. That is 50% owned renewables, 50% contracted through PPAs for the renewable portion for the first tranche of the coal transition. We had filed originally, as you pointed out and as Dave mentioned in his prepared remarks, an initial tranche of solar that was 75% owned and 25% PPA. We then subsequently filed in the third quarter of this year for 100% PPA solar projects. And so, again, as you look through kind of each of these individual filings, we're targeting a 50/50 own contract target mix for renewables.

Operator:

Our last question is from Stephen Byrd with Morgan Stanley.

Stephen Byrd:

Hey, good morning. I just had one, kind of a broad question, just on draft federal legislation. And as you look at that, I know that's subject to change and who knows what the final version will look like. But I was thinking in particular about, I guess, two elements. One would be a tax policy and impact in terms of cash flow, customer bills, et cetera, and then the other was just broad support for clean energy, whether that might change or enhance some of your resource plans and movement towards clean energy or accelerate some of your plans. So just curious what you're thinking there.

Dave Lesar:

I mean, I'll – let me take the first crack at it and I'll have – Jason can talk about the potential tax impact. But you're absolutely right. It's definitely a moving target right now and haven't been through many of these sorts of efforts that wind their way through Washington. I learned a long time ago you really – you got to just sort of watch the process happen, but you don't want to do anything sort of concrete until it is set in law and then you can react to it. I think directionally from – if you look at sort of the renewables and the ESG aspects of it, it's certainly supportive of the direction that we're going. But based on what we see right now, I don't see it accelerating or decelerating anything that we've got on plans. We have, as you know, sort of an industry-leading and goal out there of net direct emissions to zero by 2035. And I think that's a good plan. We're going to stick with it. That's the direction we're headed. If we get some incremental help with what comes out of DC, we'll take advantage of it. But it isn't going to bump us off course from the direction we're headed right now.

Jason, do you want to talk about the tax aspect?

Jason Wells:

Yeah, sure. Thanks for the question, Stephen. From a tax standpoint, we are a federal cash taxpayer. Right now, as you kind of cut through sort of our financials, there's a lot of sort of one-time items as we've executed on this transition to a pure play regulated utility. And we will continue to see that. As you kind of cut through that, for us, we are – our effective tax rate from a cash tax standpoint is somewhere between 8% to 10%. So clearly, a minimum tax of 15% would put a little bit of impact or headwind on the financing plan. We don't think, it's certainly something that we can overcome. We don't think it's an impediment to the CapEx plan that we outlined and still feel like we can continue to maintain a strong balance sheet as we outlined and deliver on our $40 billion capital investment plan. So early days - we'll follow it. Probably not as big an impact to us as maybe some of our peers, just given the fact that we have been a federal cash taxpayer. But obviously, something we'll continue to monitor.

Stephen Byrd:

That's great. Thank you very much.

Phil Holder:

Again, thank you, everyone, for joining us today and for your interest in CenterPoint. We look forward to seeing you all at EEI.

Operator:

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

Forward-Looking Statements

This document contains "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. All statements other than statements of historical fact included in this document are forward-looking statements made in good faith by CenterPoint Energy, Inc. ("CenterPoint Energy" or the "Company") and are intended to qualify for the safe harbor from liability established by the Private Securities Litigation Reform Act of 1995, including statements concerning CenterPoint Energy's expectations, beliefs, plans, objectives, goals, strategies, future operations, events, financial position, earnings and guidance, growth, impact of COVID-19, costs, prospects, capital investments or performance or underlying assumptions and other statements that are not historical facts. You should not place undue reliance on forward-looking statements. You can generally identify our forward-looking statements by the words "anticipate," "believe," "continue," "could," "estimate," "expect," "forecast," "goal," "intend," "may," "objective," "plan," "potential," "predict," "projection," "should," "target," "will," or other similar words. The absence of these words, however, does not mean that the statements are not forward-looking.

Examples of forward-looking statements in this document include statements about our growth and guidance (including earnings and customer growth, capital investment and related opportunities, utility and rate base growth expectations, including if such growth is sustainable, taking into account assumptions and scenarios related to COVID-19), the impacts of the February 2021 winter storm event on our business and service territories, O&M expense management initiatives and projected savings therefrom, the performance of Enable Midstream Partners, LP ("Enable"), including anticipated distributions received on its common units, the pending merger of Enable and Energy Transfer LP ("Energy Transfer") and our ability to exit our Midstream Investments reportable segment, our regulatory filings and projections (including timing and amount of recovery of natural gas costs associated with the February 2021 winter storm event), the reopening of the economy, our credit quality, financing plan (including future equity issuances and credit metrics) and balance sheet expectations, the pending sale of our Natural Gas businesses in Arkansas and Oklahoma, anticipated benefits from recent legislation, customer rate affordability, improvements and our efforts to increase the resiliency of our operations and environmental, social and governance related matters, including our ESG strategy and transition to Net Zero. 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 or Enable's potential business strategies and strategic initiatives, restructurings, joint ventures and acquisitions or dispositions of assets or businesses, including the pending sale of our Natural Gas businesses in Arkansas and Oklahoma, which may not be completed or result in the benefits anticipated by CenterPoint Energy, the pending merger between Enable and Energy Transfer, which may not be completed or result in the benefits anticipated by CenterPoint Energy or Enable, and our planned exit from our Midstream Investments reportable segment, which may not be completed or result in the benefits anticipated by CenterPoint Energy; (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 timely and appropriate rate actions that allow recovery of costs and a reasonable return on investment, including costs associated with the February 2021 winter storm event; (4) the performance of Enable, the amount of cash distributions CenterPoint Energy receives from Enable, and the value of CenterPoint Energy's interest in Enable; (5) the integration of the businesses acquired in the merger with Vectren Corporation (Vectren), including the integration of technology systems, and the ability to realize additional benefits and commercial opportunities from the merger; (6) financial market and general economic conditions, including access to debt and equity capital and the effect on sales, prices and costs; (7) actions by credit rating agencies, including any potential downgrades to credit ratings; (8) the timing and impact of regulatory proceedings and actions and legal proceedings, including those related to the February 2021 winter storm event; (9) legislative decisions, including tax and developments related to the environment such as global climate change, air emissions, carbon, waste water discharges and the handling of coal combustion residuals, among others, and CenterPoint Energy's net-zero targets; (10) the impact of the COVID-19 pandemic; (11) the recording of impairment charges, including any impairments related to CenterPoint Energy's investment in Enable; (12) weather variations and CenterPoint Energy's ability to mitigate weather impacts, including impacts from the February 2021 winter storm event; (13) changes in business plans; (14) CenterPoint Energy's ability to execute on its initiatives, targets and goals, including its Net Zero emission goals and operations and maintenance goals; and (15) other factors described in CenterPoint Energy's Form 10-Q for the quarters ended March 31, 2021, June 30, 2021 and September 30, 2021 and Form 10-K for the year ended December 31, 2020, 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's ("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.

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. You should not place undue reliance on forward-looking statements. Actual events and results may and often do differ materially from those expressed or implied by these forward-looking statements.

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

Use of Non-GAAP Financial Measures

In this document, CenterPoint Energy presents, based on diluted earnings per share, non-GAAP income and non-GAAP Utility earnings per share ("Utility EPS") as well as non-GAAP long-term funds from operations ("FFO") which are not generally accepted accounting principles ("GAAP") financial measures. Generally, a non-GAAP financial measure is a numerical measure of a company's historical or future financial performance that excludes or includes amounts that are not normally excluded or included in the most directly comparable GAAP financial measure.

Utility EPS includes net income from Electric and Natural Gas segments, as well as after tax Corporate and Other operating income and an allocation of corporate overhead based upon the Utility's relative earnings contribution. Corporate overhead consists primarily of interest expense, preferred stock dividend requirements, and other items directly attributable to the parent along with the associated income taxes. 2021 Utility EPS excludes (a) earnings or losses from the change in value of CenterPoint Energy's 2.0% Zero-Premium Exchangeable Subordinated Notes due 2029 ("ZENS") and related securities, (b) certain expenses associated with Vectren merger integration, (c) earnings and losses associated with the ownership and disposal of midstream common and preferred units (including amounts reported in discontinued operations), net gain associated with the consummation of the pending merger between Enable and Energy Transfer, a corresponding amount of debt related to midstream common and preferred units, and an allocation of associated corporate overhead, (d) cost associated with the early extinguishment of debt and (e) gain and impact, including related expenses, associated with gas LDC sales. 2022 Utility EPS guidance excludes (a) earnings or losses from the change in value of ZENS and related securities and (b) income and expense related to ownership and disposal of Energy Transfer units, a corresponding amount of debt related to the units and an allocation of associated corporate overhead. To the extent, the pending gas LDC sales or the pending merger between Enable and Energy Transfer do not occur in 2021, 2022 Utility EPS guidance will exclude the impacts associated with those items as referenced in the 2021 Utility EPS guidance.

Utility EPS 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. Utility EPS also considers assumptions for certain significant variables that may impact earnings, such as customer growth and usage including normal weather, throughput, recovery of capital invested, effective tax rates, financing activities and related interest rates and regulatory and judicial proceedings. In addition, the Utility EPS guidance ranges assumes the timing of pending gas LDC sales, the timing of pending merger between Enable and Energy Transfer, and the timing of our planned disposition of the Energy Transfer common units and preferred units that we expect to receive as part of the merger between Enable and Energy Transfer. To the extent actual results deviate from these assumptions, the Utility EPS guidance ranges may not be met or the projected annual Utility EPS growth rate may change. CenterPoint Energy is unable to present a quantitative reconciliation of forward-looking Utility EPS and long-term FFO 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.

Management evaluates the Company's financial performance in part based on non-GAAP income, Utility EPS and long-term FFO. 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, Utility EPS and long-term FFO 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, diluted earnings per share and net cash provided by operating activities, 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

While CenterPoint Energy believes that it has a clear path towards achieving its net zero emissions (Scope 1 and 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 CenterPoint Energy's underlying assumptions prove incorrect, its actual results and ability to achieve net zero emissions by 2035 could differ materially from its expectations. Certain of the assumptions that could impact CenterPoint Energy's ability to meet our net zero emissions goals include, but are not limited to: emission levels, service territory size and capacity needs remaining in line with Company expectations (inclusive of changes related to the sale of our Natural Gas businesses in Arkansas and Oklahoma); regulatory approval of Indiana Electric's generation transition plan; impacts of future environmental regulations or legislation; impacts of future carbon pricing regulation or legislation, including a future carbon tax; price, availability and regulation of carbon offsets; price of fuel, such as natural gas; cost of energy generation technologies, such as wind and solar, natural gas and storage solutions; adoption of alternative energy by the public, including adoption of electric vehicles; rate of technology innovation with regards to alternative energy resources; 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 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; and enhancement of energy efficiencies. Please also review the section entitled "Forward-Looking Statements" included in this document.