Fourth Quarter & Full Year 2018 Earnings Conference Call
February 28, 2019

David Mordy – Director of Investor Relations

Thank you, Dennis. Good morning, everyone. Welcome to our fourth quarter and full year 2018 earnings conference call. Scott Prochazka, president and CEO, and Bill Rogers, executive vice president and CFO, will discuss our 2018 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. For a reconciliation of the non-GAAP measures used in providing earnings guidance in today's call, please refer to our earnings news release and our slides. They have been posted on our website, as has our Form 10-K.

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

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

We will also discuss guidance for 2019 and 2020. The 2019 guidance basis EPS range excludes the following impacts associated with the Vectren merger:

- Integration and transaction-related fees and expenses, including severance and other costs to achieve anticipated cost savings as a result of the merger
- Merger financing impacts in January, prior to the completion of the merger due to the issuance of debt and equity securities to fund the merger that resulted in higher net interest expenses and higher common stock share count

Both the 2019 and 2020 guidance ranges consider 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, commodity prices, recovery of capital invested through rate cases and other rate filings, effective tax rates, financing activities and related interest rates, and regulatory and judicial proceedings as well as the volume of work contracted in our infrastructure services business. The ranges also consider anticipated cost savings as a result of the merger and the estimated cost and timing of technology integration projects. The 2019 guidance range assumes Enable Midstream Partners' 2019 guidance range for net income attributable to common units of $435 - $505 million, provided on Enable's 4th quarter earnings conference call on February 19, 2019. The 2020 guidance range utilizes a range of CenterPoint Energy scenarios for Enable's 2020 net income attributable to common.

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, including those from Enable, earnings or losses from the change in the value of the ZENS securities and the related stocks, or the timing effects of mark-to-market accounting in the company's energy services business, which, along with the certain excluded impacts associated with the merger, 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 and mark-to-market gains or losses resulting from the company's Energy Services business are not estimable as they are highly variable and difficult to predict due to various factors outside of management's control.

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

In the slides accompanying this call, information covering 2018 and prior years refers to pre-merger CenterPoint only. We are not including pro forma information. Information covering 2019 and beyond incorporates the impact of the merger. However, please note that in slide 11 we have included 2018-year end rate base, which shows the combined rate base for Vectren and CenterPoint.

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

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

Scott Prochazka – President and CEO

Thank you, David and good morning ladies and gentlemen. Thank you for joining us today and thank you for your interest in CenterPoint Energy. I will begin on slide 5. 2018 was a strong year for CenterPoint. This morning we reported 2018 diluted earnings per share of $0.74. On a guidance-basis, excluding the impacts associated with the merger, we finished the year at $1.60 per share versus 2017 guidance-basis earnings, excluding impacts of tax reform, of $1.37 per share, an increase of nearly 17%. $1.60 per share means we achieved the top end of our guidance range we set in February of last year. Our strong performance in 2018 can be primarily attributed to growth in our core businesses and Midstream Investments performance.

Turning to slide 6, as I mentioned, we were pleased to achieve the high end of our earnings range. We invested nearly $1.6 billion of capital in our regulated utilities. We successfully implemented our regulatory strategies in multiple states, resulting in incremental annual revenues of $110 million, exclusive of tax reform impacts. Our Board of Directors increased the dividend that was declared in December by approximately 4%, marking the fifth year in a row of providing such increases.

We entered into a definitive merger agreement to acquire Vectren Corporation, engaged in integration planning and raised capital for the transaction that we closed earlier this month. We also executed an internal spin of our Midstream assets, resulting in better credit ratings for CERC.

On to slide 7. The communities we serve continue to grow as evidenced, in part, by the addition of more than 77,000 customers in 2018. We completed major infrastructure projects like the Brazos Valley Connection in Houston Electric and substantially completed cast iron pipe replacements across our natural gas distribution systems. Energy Services continued to grow its volumes and margin resulting in strong operating income growth, excluding mark-to-market impacts. We also continued to support our industry peers as we sent mutual assistance crews to Florida, California and Puerto Rico, to help various recovery efforts. It was a busy 2018 and I am proud of how our employees worked collectively to achieve our goals.

We have a busy 2019 planned, as you can see on slide 8. We anticipate the PUCT will provide a ruling on the Bailey to Jones Creek project later this year and we expect to file a general rate case for Houston Electric on or before April 30th. We anticipate two orders from the Indiana Utility Regulatory Commission later this year. One is for approval of a 50-megawatt solar facility. The other is for the 800 – 900 megawatt combined-cycle gas turbine generation facility that will replace aging coal generation in Indiana. We believe both of these facilities are vital in providing clean, reliable and affordable electric for Southern Indiana. On the natural gas regulatory front, we expect a final order from the Public Utilities Commission of Ohio on the Ohio general rate case. We also intend to file a general rate case in Minnesota later this year. That rate case, which utilizes a forward-looking test year and interim rates, will run its course primarily in 2020.

Turing to slide 9, Electric Operations will continue to invest significant capital to ensure our system can meet growth requirements and is safe, resilient and reliable. Our most recent 5-year plan includes $6.8 billion of capital investment in Electric Operations. This 5-year capital plan now includes the updated estimate for the Bailey to Jones Creek project that will serve the growing needs of the petrochemical industry in the Freeport, Texas area and the plan is aligned with the anticipated capital increases we shared during our third quarter 2018 earnings call. The plan also includes the 50 MW of solar generation and costs associated with the new combined cycle gas power plant in Indiana.

Moving to Natural Gas Distribution on slide 10, the $5.3 billion, 5-year capital plan targets investment around safety, growth, reliability and infrastructure replacement. We continue to modernize our system via our pipe replacement programs in all of our jurisdictions. We will also spend capital to support ongoing growth in our service territories. And we also expect continued spend on innovative technology that improves our system operations and customer-interface functionality.

Turning to slide 11, you can see our projected year-end rate base growth. Our capital plan is expected to translate to a compound annual rate base growth rate of approximately 8.2% through 2023. This growth in rate base is a key driver for our overall earnings performance.

We also have solid growth projections for our non-utility businesses. We believe Energy Services, Infrastructure Services and Energy Systems Group will provide valuable, complimentary services to each other's customers and to our core utility businesses. I was very pleased with Enable's 2018 performance as they increased natural gas gathered volumes, natural gas processed volumes as well as crude oil and condensate gathered volumes. We are excited for Enable to continue this momentum into 2019.

Moving to slide 12, our 2019 guidance basis EPS range is $1.60 - $1.70. This guidance range includes anticipated merger related cost savings and excludes the one-time impacts of integration and transaction-related fees and expenses. This number also excludes merger financing impacts in January, prior to the completion of the merger. Our 2020 guidance basis EPS range of $1.75 - $1.90 includes anticipated cost savings achieved by that point. We are also providing a compound annual growth rate target of 5 - 7 percent through 2023, based off of 2018 actual guidance basis EPS of $1.60, excluding the impacts of the merger. Utility Operation's rate base growth is anticipated to be the primary driver of our long-term EPS growth. Bill will discuss additional drivers for 2019 and 2020 guidance later in the call.

Slide 13 provides a history and forecast view of our guidance ranges. We have worked hard to consistently grow earnings since 2015, often hitting near the upper end of our guidance. Anchored by strong utility investments, I believe CenterPoint is well positioned to continue solid earnings growth.

I will wrap up with slide 14. I want to express my sincere thanks to those who served on the integration planning teams and give equal thanks to their colleagues throughout the company who picked up some additional responsibilities to ensure that critical projects and normal business functions remained on track. Due to the talent and commitment exhibited by our employees, we are in a strong position to meet our objectives. We continue to focus on a comprehensive safety strategy, which targets employee, system, contractor, customer and public safety. Our use of technology supports continued operational improvement that drives efficiency and helps meet changing customer expectations.

Many of these achievements have led to industry awards. We are proud to be recognized for emergency assistance, customer satisfaction and innovative solutions. We believe a continued focus on our strategy of operate, serve and grow will lead to the realization of our long-term earnings growth objectives.

As most of you know, Bill announced late last year that he planned to retire toward the end of Q1 following the close of our merger. Therefore, since this is Bill's last earnings call with CenterPoint, I'd like to thank Bill for the contributions he's made to our success over the past four years. And, Bill, we wish you well as you transition to this next phase of life.

I'll turn it over to you.

Bill Rogers CFO

Thank you, Scott. It has been a privilege to serve you, your management team, our customers, communities and investors. And it has been a privilege to lead our finance and accounting efforts at CentrePoint. I will start with year over year operating income walks for our Electric T&D and Natural Gas Distribution segments, followed by utility operations and consolidated EPS walks. Then, I will cover drivers behind our earnings forecasts. Finally, I will conclude with an outline of how we will present our businesses going forward.

Beginning with Houston Electric - Transmission and Distribution's operating income walk on slide 16, revenue decreased $79 million as a result of tax reform. When reviewing net income, this revenue impact is offset by lower federal income tax expense. Rate changes translated into a $105 million of favorable revenue variance for the year and customer growth provided another $31 million positive revenue variance. O&M had an unfavorable variance of $79 million due to normal increases and to some concentrated work on resilience and technology projects. We expect O&M growth in future years to moderate so that it more closely matches the rate of inflation. Equity return, related to the true up of transition charges, increased $32 million. Lastly, depreciation and taxes accounted for a $17 million unfavorable variance.

Excluding equity return and the impacts of tax reform, Houston Electric – Transmission and Distribution's operating income increased by $54 million year over year. This represents a 10% improvement over 2017.

Turning to slide 17, Natural Gas Distribution operating income for 2018 was $266 million versus $348 million last year. Revenue decreased $47 million as a result of tax reform. This was offset by lower income tax expense. Operating income included a $46 million positive variance from rate relief and a $10 million benefit from customer growth.

On a year on year basis, O&M was higher by $71 million. This is largely due to increases in support services, contracts and services, labor and benefits costs and other operation and maintenance expenses. A portion of the increase is due to accelerated records integrity work. As with Houston Electric, we anticipate holding O&M closer to the rate of inflation in future years. Lastly, depreciation and taxes increased by $19 million.

When we make a comparison of Gas Distribution on a year to year basis, we eliminate one non-recurring item and one timing item. The non-recurring item is a $16 million benefit in 2017, associated with a rate order that directed us to capitalize certain retirement benefits that were previously expensed. The timing adjustment is $10 million of lower revenues in 2018 due to the timing of recovery for weather normalization. Adjusting for these two items and the Tax Reform impacts of $47 million, Gas Distribution's operating income declined by $9 million to $266 million in 2018. We anticipate natural gas distribution's 2019 operating income will increase over 2018.

Energy Services' 2018 operating income, excluding mark-to-market adjustments, was $63 million versus operating income of $47 million in 2017. Energy Services benefited from the first full year of operations, post integration of acquisitions completed in 2016 and 2017. Energy Services also achieved record throughput, in excess of 1.3 trillion cubic feet, in 2018. This represents approximately five percent of end user demand in the United States. For 2019, we anticipate this business will increase its operating income.

Our year over year, utility operations earnings per share walk on a guidance basis is on slide 18. The guidance walk excludes all expenses and capital costs associated with the acquisition of and merger with Vectren which were twenty four cents of EPS. We start with ninety-nine cents for 2017 and add five cents for the change in core operating income inclusive of utility performance and Energy Services but excluding equity return. Higher interest expense reduced EPS by two cents. Equity return provided a five-cent improvement and other items provided two cents. Other items include the benefit from a lower federal income tax rate. This brings us to $1.09 of utility operations EPS on a guidance basis. Excluding the tax benefit, the year on year growth in utility operations EPS was nine percent.

Our consolidated guidance EPS comparison is on slide 19 starting with $1.37 for 2017 and ending with $1.60 for 2018. In short, we were up ten cents year over year for Utility Operations. Midstream Investments, had a thirteen-cent improvement, nine cents of which are attributable to tax reform. Excluding Tax Reform, Midstream Investments EPS contribution increased eight percent year to year.

Turning to slide 20, we show some of the EPS considerations for 2019. The 2019 guidance range is $1.60 to $1.70 and excludes merger financing costs in January and certain expenses associated with the integration of Vectren and CenterPoint. I will note the impact of several activities which aree not likely to occur in 2019. For example, our anticipated filing of the Houston Electric rate case means we will not file DCRF and do not anticipate filing TCOS in 2019. In 2018, these filings provided approximately $87 million in combined annual revenue increases relative to 2017. Therefore, we expect to have much greater regulatory lag for these investments made on behalf of our customers. Once the rate case is complete and revenues are in effect, the updated rates will reflect transmission and distribution investments made in 2018. In addition to the impacts just described, we expect lower equity return from our transition bonds in 2019 relative to 2018. Pre-tax equity return related to transition and storm restoration bonds is expected to decrease by $31 million, from $74 million to $43 million. For more information on this schedule please turn to page 35 of the appendix. We anticipate the effective tax rate for 2019 will be approximately 22%, excluding EDIT or excess deferred income tax amortization which has a corresponding offset in operating income. Finally, we will be adjusting our cadence of timing on the filing of a general rate case in Minnesota. We expect to file in the fourth quarter, versus recent filings in the third quarter. This will delay interim rates in revenue by several months.

While we are quite pleased with Enable's performance, we recognize their midpoint of their forecasted net income range for 2019 is lower than their 2018 net income. In order to assist you with this segment's net income contribution, on slide 21 we provide pertinent data including Enable's net income forecast, our ownership percentage, the anticipated basis difference accretion adjustment and the anticipated interest expense and the marginal tax rate for the segment.

Turning to slide 22, our 2020 guidance range of $1.75 to $1.90 reflects the completion of the Houston Electric general rate case and our ability to file TCOS and DCRF mechanisms in

2020. It also reflects interim rates in Minnesota, the completion of the Ohio general rate case, and a full year of earnings from legacy Vectren entities. Notably, it also includes $75 million to $100 million of pre-tax O&M costs savings. These anticipated savings are primarily corporate overhead and operating synergies and will be allocated to both utility and non-utility businesses. Since we closed the merger on February 1st, we have taken actions to capture the majority of these savings. Over time, much of these savings will benefit our customers. Further, this synergy forecast excludes costs to achieve. We considered each of these factors when developing our guidance range.

On slide 23 we show the business segments from an SEC reporting perspective and how we have grouped those segments in our investor slide deck in recent years. Slide 24 shows how we intend to report our SEC segments going forward and how we will organize and report these segments to the investment community. We will group our electric segments into Electric Operations and all of our regulated utility segments into Utility Operations. We will then report out the remaining four segments in our earnings walk.

In December we announced a $28.75 cents per share quarterly dividend. This represents an approximate 4% increase over the previous quarterly dividend, consistent with our approximately 4% increases in each of the last 5 years. This also marks the fourteenth consecutive year we have increased our dividend.

I’ll now turn the call back over to David.

David Mordy – Director of Investor Relations

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

(Operator instructions)

Operator:

Your first question comes from the line of Ali Agha with SunTrust.

Ali Agha

Morning. And, Bill, wishing you all the best for the future as well.

Bill Rogers

Thank you.

Ali Agha

My first question just to clarify the 2019 guidance. Are you assuming any merger synergies in 2019?

Scott Prochazka:

Yes, we do assume merger synergies in 2019, as well as – obviously we have cost to achieve those, but we – to answer your question specifically, we do assume the synergies are in there.

Ali Agha

So, out of 75 to 200, how much should we assume will be in 2019?

Scott Prochazka:

We have taken action to get after a fair amount of that, we haven't disclosed the actual amount for 2019, but we have already gone forward with reductions in workforce, which is a significant component of that.

Ali Agha

Okay. And my second question, as you map out the 5% to 7% growth, 2018 – 2023, are you assuming that Enable stays within the portfolio over that five years? And for the non-utility businesses, are you generally assuming a growth rate that's also in line with 5% to 7% or is it higher or lower? Can you just provide a little more clarity on those?

Scott Prochazka:

So, Ali, we are assuming that we remain invested in Enable. I will say that we are not assuming that Enable performs in terms of growth at the same level that our utilities will. We've taken a more conservative view of that. To your question about the growth of our utilities, the growth of our utilities will be a slight reduction off of the growth in rate base over that period due to regulatory lag.

Ali Agha

Okay. But just to be clear, the other vector, non-utility operations, are they growing in line with the overall growth or they're are also growing less or more?

Scott Prochazka

I'm sorry, I misunderstood your question. As far as the competitive segments, we do assume that they are growing but not at the rate of our utilities.

Ali Agha

Understood, thank you.

Operator:

Your next question comes from the line with Julien Dumoulin-Smith of Bank of America.

Julien Dumoulin-Smith

So I just wanted to follow up on the 5% to 7%. I know you guys discussed that in the initial slide deck after the Vectren transaction. Can you give us a little bit more of a sense of what's changed and if there's any kind of apple and oranges senses versus what's out there implied in the 2020 number? I think cost to achieve for instance, but anything else right obviously some of the synergy numbers may have changed versus the April deck versus today on 2020.

Scott Prochazka:

Well, Julien, I think the 2020 view that we provided I think is very much in line with what we had shared before. As you know we've tightened up the range versus what we were looking at before as we understand more of the pieces. As far as the growth rate, this is the first time we provided kind of growth out for that five-year period and it's really driven by the visibility around the growth in our utilities.

Julien Dumoulin-Smith

But when it comes to cost to achieve that's been – that's comparable treatment the last time versus this go around?

Scott Prochazka:

Yes, that is absolutely correct.

Julien Dumoulin-Smith

Got it. And then just a quickly if you can clarify this, what kind of balance sheet metrics are you seeing in the 2020 timeframe associated with that 5% to 7% at that point in time?

Scott Prochazka:

I'll let Bill, you want to comment on that?

Bill Rogers:

On the balance sheet, Julien, as we've shared before…

Julien Dumoulin-Smith:

FFO to debt in 2020.

Bill Rogers:

Yes. FFO to debt as in we target 13% to 16% and we are comfortably in that range and therefore as we've said in the past we don't foresee a need to raise equity in either 2019 or 2020.

Julien Dumoulin-Smith

Got it. All righty. Well, congrats again, Bill, and I'll leave it there. Thank you.

Operator:

Your next question comes from the line of Michael Weinstein with Credit Suisse.

Michael Weinstein:

Hey. So, just to clarify on Julien's question, the cost to achieve in 2020, what is that? What are you expecting there?

Scott Prochazka:

So, we've not provided what that number looks like. What we have said though is within the forecasted range of our EPS for that year, we have included a range of possibilities. The reason we haven't provided, we just don't have visibility. We have much more visibility at this point to what the synergies or the cost efficiencies will be. In terms of the primary contributors towards cost to achieve at that point, it will be systems-related and we are just going through the exercise now of refining what that looks like. So, we have a range in our minds. We weren't prepared to provide it, but those numbers are going to be primarily system-related costs and they're inclusive in the earnings range we gave.

Michael Weinstein:

And he – I think he was specifically trying to get out, were you including cost to achieve in the prior range that was higher?

Scott Prochazka:

We were. Yes. Yes, we were.

Michael Weinstein:

Okay. And apologize but one more question. The 5% to 7%, that is the stand-alone guidance. So, the current 5% to 7%, is it now a merger – a merged pro forma guidance which is unchanged, so is there – what's – what synergies are you assuming in this new 5% to 7% or what are the offsets to those synergies that are keeping the 5% to 7% flat at the same level?

Scott Prochazka:

Yes. So, we had assumed a 5% to 7% growth rate for and discussed a shorter window for it, we've now made the window longer with the visibility around the merged business. We are still in the range but to your point, following the merger, believe we have moved upward in the range or that we have strengthened our potential performance within that range. But we are still in that range.

Michael Weinstein:

Okay. Thank you very much.

Operator:

Your next question comes from the line of Insoo Kim with Goldman Sachs.

Insoo Kim:

Hi, thank you. I don't know if I missed this a little bit before, but were you saying that you don't anticipate any sale of units of the Enable at least through the next few years in your guidance?

Bill Rogers:

Insoo, what we've said is that, we don't anticipate issuing equity in 2019 or 2020. We have also stated that we will look for opportunities over the forecast horizon to sell some Enable units in order to fund our capital investment.

Insoo Kim:

Understood. And then, not to beat a dead horse but going back to the 2020 slide from last April to the guidance you gave this time. I appreciate, you've mentioned that the cost to achieve metric was included in both slide decks and here the resulting range is about $0.05 below what you presented in April. Can I assume if the utility is still growing at a healthy rate are the moving pieces, the other moving pieces in terms of the cost achieved that maybe has been updated since what you originally thought. In addition to maybe the additional equity that you ended up raising, were those the moving pieces that had an impact on the midpoint?

Scott Prochazka:

Yes. So Insoo, I appreciate your question here, this may have been what other callers were getting at. If you look at the new range versus the old range, the most significant driver for the decrease on the upper end would be changes around the midstream segment. The forecast provided earlier were at a time when commodity prices were different than they were today. So, as we thought about the range of opportunities, that included a larger range of commodity or a larger commodity range as it would impact the Enable performance. So, by reviewing today's commodity environment and taking a little bit more conservative look given the commodity prices, that's been the primary driver of the reduction of the upper range. We've also, since that time, updated our capital spending for the five-year period and have been able to refine a little bit the timing around some of the recovery. But the majority of the impact is related with Enable.

Insoo Kim:

Understood. Thank you, Scott. And, Bill, it's been a pleasure. Wish you the best of luck.

Operator:

Your next question comes from the line of Aga Zmigrodzka with UBS.

Aga Zmigrodzka:

Good morning. Could you please discuss what could drive your earnings closer to the higher versus lower end of your 2020 EPS outlook range?

Bill Rogers:

Aga, this is Bill. Scott shared it one way in the last question. I'll just put it another way. Within the 5% to 7%, the largest unknown is the contribution of earnings from the midstream segment. So, what could drive us to the higher end would be of strengthening in commodity prices environment, translating to greater volumes in our midstream segment and, therefore, earnings contribution.

Aga Zmigrodzka:

There is a follow up to that. So, do you expect Enable's net income in 2020 to be flat versus 2019, in your like middle of the range or you expect a decline? Any sensitivity around that?

Bill Rogers:

We have only provided what Enable has provided in their earnings call, and that's their 2019 guidance. We do take a look at their forecasts and take a view against that with respect to commodity prices. But we are not going to forecast Enable's net income or other finance metrics beyond 2019.

Operator:

Your next question comes from the line of Jonathan Arnold with Deutsche Bank.

Jonathan Arnold:

A question on just – as we look at the – back to that original guidance slide, you'd have to $50 million to $100 million range on commercial opportunities and cost savings. And now it's $75 million to $100 million on O&M savings. Have you effectively sort of taken out whatever you are receiving on commercial opportunities or is that still part of it? Is it just not called out? Just curious if you could bridge those numbers a bit for us.

Scott Prochazka:

Sure, Jonathan. Thank you for the question because it's a good point. Since we were talking about 2020, our disclosure reflects the fact that we believe the majority of the synergies in 2020 are going to be cost related or O&M related. We still have expectations that there will be commercial synergies. We just believe they're going to develop more fully in the years following 2020.

Jonathan Arnold:

So, if I could just probe on that a bit more. Of the $50 million to $100 million, you originally listed commercial opportunities first, suggesting that might have been the bigger piece of it. So is there – have the cost savings actually increased although they're at the range for the combined is the same and then so, how much?

Scott Prochazka:

Yeah. I would say that the way we intended to represent the $50 million to $100 million was at the primary of that would be efficiencies or cost savings. And that, there would be some component that was revenue synergy, or commercial synergies. Those numbers were an estimate early on, and as we've gotten further into this and we realize the timing, I think we've got more clarity around the cost side of things, which gives us confidence in how we talk about it in 2020. And we have expectations for the commercial side but we now know the development of that will primarily occur after 2020.

Jonathan Arnold:

I may have missed this, I apologize, if you have to repeat it, but could you give us an update on the process and timing for replacing Bill?

Scott Prochazka:

That activity is underway as we speak. We do not have a replacement announced, but we're actively working that process. And I hate to give timelines when we're in environments like this, but let's just say, it's being actively worked and we hope to have his replacement in the near future.

Jonathan Arnold:

Are you looking inside, outside or both?

Scott Prochazka:

We are looking outside for his replacement.

Operator:

Your next question comes from the line of Christopher Turnure with JP Morgan.

Christopher Turnure:

Good morning, guys, and congratulations again Bill. A lot of questions have been asked already but I wanted to just kind of maybe summarize what your message is here and how it's changed. Is it fair to say that outside of Enable and perhaps a little bit of timing differential with incremental lag maybe in 2019 and 2020 at the utilities at Houston Electric, the overall plan is pretty much the same, if not kind of enhanced and a little bit better that it was before?

Scott Prochazka:

I think that's a fair representation. We're excited by the plan. We have, as you've seen we have a robust capital deployment plan for these service territories and we're excited about it. So I think that's a – it's a safe summary.

Christopher Turnure:

You mentioned in response to an earlier question that the, I guess, net income growth of the utilities would be slightly lower than the 8% rate base CAGR. In that vein is there any reason to believe that lag would remain wide after you hit your stride after the Houston Electric rate case across the whole utility footprint? Will you basically be able to earn your authorized ROE?

Scott Prochazka:

I think there will be some accelerated or maybe some enhanced lag in 2019 for the reasons that we talked about or Bill talked about. But I think on an ongoing basis given all the jurisdictions and the various rate mechanisms and the need for occasional rate proceedings there will always be some element of lag such that our earnings growth will kind of consistently lag behind the 8% rate base growth but it continues to be our objective to push towards and achieve if not get very close to our allowed returns and our jurisdictions.

Christopher Turnure:

Okay, great. And then just real quick on VISCO, can you give us any updated thoughts there, I know the merger has only closed recently but any reason to think that the Vectren standalone plan has changed?

Scott Prochazka:

No, in fact we believe VISCO is doing well. As we go forward and we begin to talk about the segments starting in Q1, we will begin to provide some more information as to how well that segment's doing. But traditionally, one of their metrics has been backlog. And their backlog is doing very well at the moment.

Operator:

Your next question is a follow-up question from the line of Charles Fishman with Morningstar Research.

Charles Fishman:

I only had one question left. On slide 9, your investment outlook for electric, is Freeport now in there, I assume it's in there, and have you tied that down? Because I think last time you were talking $500 million to $700 million as in the – and what year is this at in if it is included?

Scott Prochazka:

Yeah. So, that project is now fully baked into the plan. We – as you say, tied down, we don't have it completely tied down. We have estimate of what it looks like. The actual amount will be the outcome of the proceeding with the commission because it involves – it'll involve decisions around routing and around some of the infrastructure decisions being made. So, there is a range that's in there. What we tend to provide and look at when we provide these data – this data will be kind of midpoint of range, and it spans across primarily 2020, 2021, and 2022, with2021 being obviously the most significant year.

Charles Fishman:

And it's still in that $500 million to $700 million range?

Scott Prochazka:

Yes, that is correct. Yes, still in that range.

Operator:

Your next question is from the line of Ashar Khan with Verition.

Ashar Khan:

Can I just ask you, is the merger accretive in 2019 and 2020 or not based on the new disclosure provided today?

Bill Rogers:

With the exemption of cost to achieve we're forecasting the merger to be modestly accretive.

Ashar Khan:

Secondly, sorry a lot of things going this morning, but can you just mention what the average shares outstanding on, I might have missed it, might be on the slide in 2019 guidance and 2020?

Bill Rogers:

Yes. We have provided - I believe we provided that. But if not, you should consider the average shares outstanding to be $500 million in 2019 and that will be less than the share count of $505 million beyond because we close the merger on February 1. So we're taking out one-twelfth of the new shares. And then moving to $505 million to $506 million in 2020.

Operator:

Our last question is from the line of Andrew Levi with ExodusPoint.

Andrew Levi:

Congratulations, Bill. You've been a very good friend and a better CFO. So...

Bill Rogers:

Thank you.

Andrew Levi:

I will miss you dearly but it's been a good run. Just a couple of questions, just back on the Enable so you're assuming flat earnings on Enable with forecast, is that correct?

Scott Prochazka:

So our forecast, Andy, is in 2019, and we recognized Enable's midpoint taken from what they've disclosed as below their 2018 contribution. Beyond that, we have not disclosed our forecast but it does include a range of scenarios and that's why the growth rate of 5% to 7%.

Andrew Levi:

Okay. I thought you were just – you said you were just taking the 2019 number and then just using that going forward. But you have some number 2020 and 2021 that may or may not be different than the 2019 number. Is that kind of correct? Am I saying the correctly?

Scott Prochazka:

Andy, could you repeat that? I think it faded a little bit. Your voice faded there.

Andrew Levi:

I apologize. So, in 2019 you have your estimate based on what Enable has put out there. And then in 2020 and 2021, you're not using the 2019 estimate. I thought you were kind of just using the same number. But you have an estimate for 2020 or 2021, you're just not sharing that with us.

Scott Prochazka:

Yeah, that's correct. That's right.

Andrew Levi:

Got it. Okay. And then on the cost to achieve in 2020, how much it – I'm sorry, if I missed that but how much is that?

Scott Prochazka:

We've not specified what that specific amount is. I commented earlier that thematically the majority of it will be system-related. And we're not far enough along with the analysis post-merger to know exactly what that looks like in that year. So, we've made some estimates on a range and we've made that inclusive in our thinking about earnings but we've not specified what we think that cost to achieve is in that year.

Andrew Levi:

Well, I'll ask the question; I don't know if you can answer this. Is it greater or less than $0.05 per share in 2020? Okay. That's no answer, I got that. Got the laugh. Thought I'd ask. Okay. And then the last question I have, so you do have these Vectren legacy VISCO and VESCO and again you guys didn't break that out as far as what the earnings contribution is for those in 2019, did you?

Scott Prochazka:

We did not.

Andrew Levi:

Okay. At the same time I'm just kind of thinking longer term, I kind of have in my head what I think the business is worth if you were to sell them and then what you could either do with the cash whether it's buy back stock or whether fund your business to maybe raise CapEx, whatever it may be. But it's a very low PE business relative to your regulated business. And so I don't really see much sense in keeping those businesses. They don't really grow much. So I just want to get your thoughts in longer term, I know obviously you just bought them.

Scott Prochazka:

Yes.

Andrew Levi:

But is it in the realm of possibilities that you would dispose of those assets and reinvest that in a higher PE business.

Scott Prochazka:

Andy, the way I would answer that is to your point, we just we just acquired them, they just came in as part of the merger. As we were looking at those businesses coming in, while they're different than the utility business they have some utility-like characteristics which we were comfortable with. We do think there is growth opportunity in those businesses. So I would say our strategic direction is to own and operate and grow those businesses and that's, I mean, that's where we stand at the moment.

Andrew Levi:

How much capital are you putting in to VISCO this year?

Bill Rogers:

Andy, one way to think about that is really the 2017 and 2018 and they have invested approximately $50 million in capital in the infrastructure businesses.

Andrew Levi:

Okay. Because it is a fairly – depending on the year a fairly capital-intensive business because of the equipment needed...

Bill Rpgers:

Yes.

Andrew Levi:

...on the pipeline side. So, I don't know. I guess we'll discuss it more in Boston, but obviously clearly you know my opinion. Thank you very much.

Dave Mordy:

No further questions. I'd like to thank everyone for their interest in Centerpoint Energy. We will now conclude our fourth quarter 2018 earnings call. Have a great day.

Operator:

This concludes the CenterPoint Energy's fourth quarter and full year 2018 earnings conference call.

Thank you for your participation. You may now disconnect.

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 54.0 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 nearly $30 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) changes in tax status; and (G) 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 realize anticipated benefits and the risk that the credit ratings of the combined company or its subsidiaries may be different from what CenterPoint Energy expects; (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) timely and appropriate rate actions that allow recovery of costs and a reasonable return on investment, including Houston Electric's anticipated rate case in 2019, the outcome of which may not result in expected rates or recovery of costs; (5) future economic conditions in regional and national markets and their effect on sales, prices and costs; (6) weather variations and other natural phenomena, including the impact of severe weather events on operations and capital; (7) 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; (8) tax legislation, including the effects of the comprehensive tax reform legislation informally referred to as the Tax Cuts and Jobs Act (which includes any potential changes to interest deductibility) and uncertainties involving state commissions' and local municipalities' regulatory requirements and determinations regarding the treatment of excess deferred income taxes and CenterPoint Energy's rates; (9) CenterPoint Energy's ability to mitigate weather impacts through normalization or rate mechanisms, and the effectiveness of such mechanisms; (10) the timing and extent of changes in commodity prices, particularly natural gas, and the effects of geographic and seasonal commodity price differentials; (11) actions by credit rating agencies, including any potential downgrades to credit ratings; (12) changes in interest rates and their impact on CenterPoint Energy's costs of borrowing and the valuation of its pension benefit obligation; (13) problems with regulatory approval, construction, implementation of necessary technology or other issues with respect to major capital projects that result in delays or in cost overruns that cannot be recouped in rates; (14) the availability and prices of raw materials and services and changes in labor for current and future construction projects; (15) local, state and federal legislative and regulatory actions or developments relating to the environment, including those related to global climate change; (16) the impact of unplanned facility outages; (17) any direct or indirect effects on CenterPoint Energy's or Enable's facilities, operations and financial condition resulting from terrorism, cyber-attacks, data security breaches or other attempts to disrupt CenterPoint Energy's businesses or the businesses of third parties, or other catastrophic events such as fires, earthquakes, explosions, leaks, floods, droughts, hurricanes, pandemic health events or other occurrences; (18) CenterPoint Energy's ability to invest planned capital and the timely recovery of CenterPoint Energy's investments; (19) CenterPoint Energy's ability to control operation and maintenance costs; (20) the sufficiency of CenterPoint Energy's insurance coverage, including availability, cost, coverage and terms and ability to recover claims; (21) the investment performance of CenterPoint Energy's pension and postretirement benefit plans; (22) 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; (23) changes in rates of inflation; (24) inability of various counterparties to meet their obligations to CenterPoint Energy; (25) non-payment for CenterPoint Energy's services due to financial distress of its customers; (26) 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; (27) 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; (28) CenterPoint Energy's or Enable's potential business strategies and strategic initiatives, including restructurings, joint ventures and acquisitions or dispositions of assets or businesses (including a reduction of CenterPoint Energy's interests in Enable, if any, whether through CenterPoint Energy's decision to sell a portion of the Enable common units it owns in the public equity markets or otherwise, subject to certain limitations), which CenterPoint Energy and Enable cannot assure will be completed or will have the anticipated benefits to CenterPoint Energy or Enable; (29) acquisition and merger activities involving CenterPoint Energy or its competitors, including the ability to successfully complete merger, acquisition and divestiture plans; (30) CenterPoint Energy's or Enable's ability to recruit, effectively transition and retain management and key employees and maintain good labor relations; (31) the outcome of litigation; (32) 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; (33) changes in technology, particularly with respect to efficient battery storage or the emergence or growth of new, developing or alternative sources of generation; (34) the timing and outcome of any audits, disputes and other proceedings related to taxes; (35) the effective tax rates; (36) the effect of changes in and application of accounting standards and pronouncements; and (37) other factors discussed in CenterPoint Energy's Annual Report on Form 10-K for the fiscal year ended December 31, 2018 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. CenterPoint Energy's adjusted income and adjusted diluted earnings per share calculation excludes from income available to common shareholders and diluted earnings per share, respectively, the impact of ZENS and related securities and mark-to-market gains or losses resulting from the company's Energy Services business. CenterPoint Energy's guidance for 2019 also does not reflect certain impacts associated with the Vectren merger, which are integration and transaction-related fees and expenses, including severance and other costs to achieve anticipated cost savings as a result of the merger and merger financing impacts in January, prior to the completion of the merger due to the issuance of debt and equity securities to fund the merger that resulted in higher net interest expense and higher common stock share count. CenterPoint Energy is unable to present a quantitative reconciliation of forward looking adjusted net income and adjusted diluted earnings per share because changes in the value of ZENS and related securities and mark-to-market gains or losses resulting from the company's Energy Services business are not estimable as they are highly variable and difficult to predict due to various factors outside of management's control. These excluded items, along with the excluded impacts associated with the merger, could have a material impact on GAAP reported results for the applicable guidance period.

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.