



Second Quarter 2021 Earnings Conference Call
August 5, 2021

Philip Holder - SVP, Strategic Planning and Investor Relations

Good morning, everyone. Welcome to CenterPoint's earnings conference call. Dave Lesar, our CEO, Jason Wells, our CFO, and Tom Webb, our senior advisor, will discuss the Company's second 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.



Second Quarter 2021 Earnings Conference Call
August 5, 2021

Dave Lesar - President & CEO

Thank you, Phil. Good morning and thank you for joining our second quarter 2021 earnings call. This call marks my one-year anniversary as CEO of CenterPoint, and I am excited to update everyone on our results this morning. We are now hitting the fast-paced organizational stride I want us to have, and the length of today's prepared remarks will be more in line with the template I want to follow going forward.

While we are always keen to discuss our great future, we are planning to discuss our exciting longer-term strategy updates at our Analyst Day, which will take place on September 23rd here in Houston. Though this is our second analyst day in less than 12 months, we feel that it's warranted as we are now well into our strategic transition and we want to use that forum to update our investors on our longer-term business plan, earnings capacity, financial metrics, and the net zero emissions targets that we will be sharing with you. We are also excited for the opportunity to spend more time with you in our hometown here in Houston and to see you in person.

Let me quickly remind you of just how far we have come in the last a year. A year ago, CenterPoint was going through a strategic review at the direction of our Business Review and Evaluation Committee or BREC. The goal of the review was to optimize stakeholder value and address specific shareholder concerns.

Initially in my role as chairman of the BREC and then later when I became CEO, it was crystal clear to me that while the company had a great asset base and talented employees, we

had not unlocked all of our potential and certainly had not taken full advantage of all our inherent opportunities.

Before the BREC process, CenterPoint was targeting modest EPS growth and had reduced capital spending in our regulated businesses. We had work to do to strengthen our regulatory relationships. The company had previously announced a strategic review of Enable but had not found an executable opportunity to actually reduce exposure to its midstream investments - this frustrated investors. Our O&M expenses were historically growing, and we needed a stronger balance sheet. We had minimal renewables opportunities on our radar, and we were in search of a permanent CFO. So yes, the list of challenges was long.

I mention these not to revisit the adversities our investors and company were experiencing, but to highlight for you the aggressive speed and approach used by our new team to attack and resolve the challenges and headwinds we faced. Let me quickly recap our progress:

- I substantially refreshed and diversified our Executive Committee and we now have what I believe is a best-in-class management team.
- We announced an updated 5-year strategy that prioritizes investment in our regulated businesses and boosted our planned capital spending by about 25% to \$16 billion.
- We instituted a 10% utility rate base CAGR...well above our peer group average of 8%.
- That rate base growth then supported an increased long-term utility EPS target growth rate of 6-8%, which is also above the consensus peer average of 6%.



**Second Quarter 2021 Earnings Conference Call
August 5, 2021**

- To efficiently fund our growth, while repairing our balance sheet, we announced the sale of our Arkansas and Oklahoma gas LDCs at a landmark earnings multiple of 2.5 times rate base.
- We were instrumental in the Enable and Energy Transfer merger which once closed, will provide us a pathway to eliminate our exposure to midstream.
- We announced a commitment to a 1-2% annual reduction in O&M over the five years to keep customer rate growth manageable.
- We recently announced changes to our board leadership to bring our governance structure in-line with best practices and shareholder expectations.
- And we will be announcing a commitment to an industry-leading net-zero carbon commitment at our analyst day.

So, in my view we certainly have walked the talk and through timely and aggressive actions, overcome many of the headwinds we faced.

Now it's time for CenterPoint to switch gears. We are going to use the same aggressive approach and organizational speed to take advantage of the tailwinds we have today. Our strong execution coupled with the privilege to serve some of the fastest growing regions in our country have created the foundation for CenterPoint to trade as one of the premium utilities in the US. Believe me, we are just getting started.

Earnings:

Our six-month financial performance in 2021 has been strong. Today, we are raising our 2021 utility EPS guidance range to \$1.25-\$1.27. This 8% growth projection in 2021 puts us at



**Second Quarter 2021 Earnings Conference Call
August 5, 2021**

the high-end of our 6% to 8% utility EPS annual growth target. And as a reminder, this increase in guidance is after the dilution impact of the 18% increase in our shares count we experienced in 2020. When we compare our Utility EPS growth to analysts' long-term consensus growth for our peers, we are now in the top decile. As you would expect, we are also reaffirming both our long-term 6-8% utility EPS annual growth target and 10% rate base compound annual growth rate target. This 10% rate base growth also exceeds the average 8% rate base growth of our peer group.

For the second quarter of 2021, we reported strong results including \$0.28 of Utility EPS compared to \$0.18 for the second quarter of 2020. The comparison to Q2 2020 is a bit noisy and I believe essentially irrelevant as both quarters included a number of one-off items. Q2 2020 results also reflected the impact of COVID on our business. The bottom line for me is to focus on the reality that our utility EPS is expected to grow 8% this year over last year and then target 6-8% growth from there. Jason will go into more detail on the quarterly results a little later in the call.

O&M

Our O&M continuous improvement programs have strengthened our results for the first six months of 2021. We are already on track to save over \$40 million in total O&M cost this year alone while maintaining our focus on safety. This is almost 3% of our annual O&M cost.

However, when compared to last year's second quarter, our O&M costs are actually up a bit.

Again, this is just more noise that I don't worry about as last year's second quarter O&M costs were artificially depressed by the impact of covid and disconnect moratoriums. We are still



**Second Quarter 2021 Earnings Conference Call
August 5, 2021**

absolutely committed to our continuous improvement cost management efforts and our target of 1-2% annual reductions in O&M. In fact, as a result of our excellent 2021 results to date, we were in the fortunate place to be able to already make a management decision and begin pulling recurring O&M work forward from 2022 into the last six months of this year, and still be able to hit the 8% utility EPS growth for this year. This allows us the luxury of reducing near term run rate O&M costs today and immediately reinvesting them for the future long-term benefits of our customers and investors.

Organic Growth

We continue to see industry-leading organic customer growth rates. Despite COVID, our Houston service territory continues its 30 plus years of consistent growth. Overall, we saw about 2% customer growth for electric and 1% for natural gas for the first 6 months of the year when compared to the prior year. The growth is supported by the highest level of new home starts in Houston since 2005. This continued and consistent growth reinforces the value of the fast-growing markets that we serve. This organic growth plays a key role in keeping our service costs reasonable for our customers.

Capital Investments

Moving to capital investments. We have invested approximately \$1.5 billion for the first six months of this year and are still on track to invest approximately \$3.4 billion for the full year 2021. More importantly, we now have better line of sight to additional capital investments opportunities beyond the 5-year, \$16 billion investment plan we outlined on our Analyst Day. New Texas legislation provides more tools to Transmission & Distribution Utilities to improve

the resiliency of the electric grid and help minimize the risk of prolonged outages, and allows us to put it all of this into rate base. Some of those laws include:

- The ability to lease and put into rate base backup battery storage capacity for resiliency and to assist with restoring power,
- Next, the ability to lease and put into rate base emergency generation, which may include mobile generation capabilities,
- The ability to immediately procure, store and put into rate base long lead-time items related to restoring power, and
- The allowing of economic vs resiliency justifications for new transmission projects.

Based on initial analysis, these legislative changes provide support to increase our 5-year capital investment plan by at least \$500 million. This is on top of the \$1 billion in reserve capital investment opportunities we previously identified during our last Analyst Day but were not incorporated into that plan.

Just as important, we will have the ability to efficiently fund \$1.1 billion of these incremental opportunities. This is primarily due to the incremental proceeds expected from the sale of our Gas LDCs and the execution of tax mitigation strategies, which Jason will discuss shortly, as well as additional debt assuming a roughly 50 / 50 cap structure. Even better, all of this is before the additional proceeds we anticipate from the sale of Energy Transfer units given the significant appreciation in value since the Enable and Energy Transfer merger was announced.

We are in the midst of quantifying what the whole slate of new organic opportunities will look like and will be in a position to provide more detail at our Analyst Day in September. However just as a teaser, we are confident that we will be in a position to announce an increase to our previous 5-year investment plan, fund that increase with NO incremental equity, and execute on projects that will continue to improve the resiliency and safety of our systems for the benefit of our customers. A very nice trifecta.

Strategic initiatives

Now I will briefly touch on strategic initiatives which we have announced over the recent months including our Gas LDC sale and our planned exit of our midstream investments. We know that investors are highly focused on the ultimate completion of these initiatives, and we believe that we will achieve our timing expectations.

We continue to make progress on the Gas LDC sale and still anticipate closing by the end of the year. We are working closely each day with Summit to secure regulatory approvals for the sale and to successfully transition that business.

Turning to the Enable transaction. We still anticipate the transaction between Enable and Energy Transfer to close in the second half of the year. We remain absolutely focused on reducing and then eliminating our midstream exposure through a disciplined approach. To be clear, it would be very unlikely for either of these transactions to close prior to our September Analyst Day.

And finally, to reiterate what we said when we announced the news of these two transactions, and on our last quarterly call, completing these transactions will not change our industry leading 6% - 8% utility EPS growth target, or our 10% rate base CAGR target.

Minnesota Nat Gas Act

Finally, I want to highlight the Natural Gas Innovation Act that recently passed in Minnesota. This is a landmark law that establishes a new state regulatory policy that creates additional opportunities for a natural gas utility to invest in innovative clean energy resources and technologies, including renewable natural gas, green hydrogen and carbon capture, and further demonstrates the forward-thinking mindset of the jurisdictions that we serve. This is a successful outcome for all stakeholders as we work to collectively achieve lower greenhouse gas emission reduction goals. With the approval from the Minnesota Public Utilities Commission, a utility can invest up to 1.75% of our gross operating revenue in the state annually. This opportunity increases up to 4% of gross operating revenues by 2033. Under the new law, we expect to submit our first "innovation plan" to the PUC next year.

This law aligns with our steadfast commitment to environmental stewardship and more specifically our carbon reduction goals. Our customers are asking for ways in which we can deliver not only safe and reliable, but cleaner, electricity and gas, and we are working to achieve that. Across jurisdictions, we are collaborating to find ways to introduce more renewable fuels into our systems as we firm up our goals to achieve a net-zero target. We look forward to unveiling this in September during our analyst day.



**Second Quarter 2021 Earnings Conference Call
August 5, 2021**

For now, I'll just remind everyone how thrilled I am to be able to deliver these messages. As I've said, this marks one year for me as CEO and a lot has changed. I look forward to these calls every quarter so I can proudly share our team's accomplishments with you. I strongly believe that the strategy we have laid out, and the progress we have made so far, more than demonstrates what a unique value proposition CenterPoint offers. 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 second quarter earnings call. While I don't quite have a full year with CenterPoint under my belt, I am just as energized as Dave by our recent execution, and more importantly about the path we are on to become a premium utility.

Let me get started by discussing our earnings for the second quarter of 2021.

EPS Details:

On a GAAP EPS basis, we reported \$0.37 for the second quarter of 2021, compared to \$0.11 for the second quarter of 2020.

Looking at slide 4, we reported \$0.36 of non-GAAP EPS for the second quarter of 2021, compared to \$0.21 for the second quarter 2020. Our utility EPS was 28 cents for the second quarter of 2021, while midstream investments contributed another 8 cents.



**Second Quarter 2021 Earnings Conference Call
August 5, 2021**

As Dave mentioned, there were a few one-time items for both quarters that made the comparison a bit noisy. This included favorable impacts for the second quarter of 2021, inclusive of \$0.05 attributable to deferred state tax benefits.

Of these five cents in total, three cents of the benefit was related to legislation in Louisiana that eliminated the NOL carryforward limitation period. This amount is included in our Utility EPS results. The remaining two cents of the benefit was due to Oklahoma's revision of the corporate tax rate which was a favorable driver in our midstream segment.

Our 2020 utility EPS included a negative \$0.06 impact due to Covid. Beyond those one-time items, other notable drivers for the second quarter 2021 include customer growth and rate recovery which contributed about \$0.04 of favorable impacts, as well as miscellaneous revenue contributing another \$0.02 of favorable impacts.

These were partially offset by a negative \$0.02 impact from share dilution resulting from the May 2020 issuance and a negative \$0.03 for unfavorable O&M variance.

So, there was a lot of noise when comparing to second quarter of 2020, as that was the quarter most impacted by covid worldwide. I look through that noise and think you should too. The bottom line is we expect to grow Utility EPS 8% this year and target 6-8% thereafter and that's what we should all focus on.

As Dave mentioned O&M is a bit noisy this quarter as well. The key takeaway is we are delivering on our planned efficiencies of over \$40 million in cost reductions for the year and are now beginning to accelerate O&M work from 2022. This will help improve reliability of our service for customers, while sustaining growth for our shareholders.



**Second Quarter 2021 Earnings Conference Call
August 5, 2021**

With two quarters of financial results behind us, we have good line of sight to our full year 2021 earnings per share outperformance. Our disciplined execution and tailwinds led us to raise our Utility EPS guidance range to \$1.25 to \$1.27 per share for the full year, which is at the high-end of our 6-8% annual utility EPS growth target.

Beyond 2021, I want to re-iterate, we are focused on growing Utility EPS at 6-8% each and every year. No CAGRs here. And we look forward to discussing incremental drivers over a longer-term horizon during our September analyst day.

Moving to a discussion of future capital opportunities as shown on page 5.

We are currently developing our full analysis of additional capital opportunities resulting from bills signed into effect in Texas during this last legislative session. There will be some shorter dated opportunities that develop, such as the ability to procure long lead-time items or to lease a portion of battery storage or backup generation across our footprint, and then some longer dated projects such as transmission opportunities through economic justification. Based on our first look, we have confidence the new Texas legislation will support at least \$500 million of incremental capital investment opportunities over just our current 5-year plan. This number will likely increase as we work with stakeholders to refine the implementation of this new legislation and develop a longer dated plan to incorporate some of these opportunities. We are confident the new tools we have been provided will help create a more resilient electric grid and help reduce the risk of prolonged outages.

Regarding the previously identified incremental \$1 billion we may be able to deploy above our 2020 Analyst Day plan of \$16 billion, this incremental capital spending is likely to be



**Second Quarter 2021 Earnings Conference Call
August 5, 2021**

allocated towards recurring system improvements to accelerate the improvement in resiliency, reliability and safety of our services. We will provide a more comprehensive update on this additional capital spend in our upcoming Analyst Day, but it is important to highlight any incremental capital we include in this plan won't begin contributing to earnings until 2023, at the earliest, as we will begin recovering incremental spend the year following the investment. As far as funding sources for these incremental capital opportunities, we continue to take advantage of a number of tailwinds that will allow us to incorporate additional capital spend. As we reported last quarter and Dave reinforced, we will receive an incremental \$300 million of proceeds above our original plan once the gas LDC sale closes.

Additionally, we have continued to refine the estimate of the incremental benefit for the method we use to determine the amount of repairs expense that can be deducted for tax purposes. While we are still refining the study, we have confidence that the benefit will generate at least \$1 billion in incremental tax deductions resulting in at least \$250 million in additional cash to us, and likely more.

This enhanced method for determining repairs expense is an efficient way for us to fund these capital investment opportunities which improve the resiliency and safety of our systems for the benefits of our customers.

The combination of these improved sources of funding coupled with debt, that will be authorized under our current regulatory capital structure, supports incremental investments of at least \$1.1 billion. And importantly, this amount is before we consider any additional proceeds due to the unit appreciation of Energy Transfer.



**Second Quarter 2021 Earnings Conference Call
August 5, 2021**

Moving to the financing updates, we closed our \$1.7 billion debt issuance in May, which was comprised of \$700 million 3-year floating rate notes, \$500 million 5-year fixed rate notes at 1.45%, and \$500 million 10-year fixed rate notes at 2.65%. The use of the proceeds was to refinance \$1.2 billion of near-term maturities at the parent, as well as to pay down commercial paper. Based on our current financing plans, we have no further issuance needs for 2021. Our current liquidity remains strong at \$2.2 billion, including available borrowings under our short-term credit facilities and unrestricted cash.

Our long-term FFO/Debt objective is between 14% - 15%, aligning with the Moody's methodology, and is consistent with the expectations of the rating agencies. We continue to actively engage with them, and they have informed us that they are comfortable with the outlook and thresholds we have indicated.

Based on our current financing plans, we will not issue any incremental equity through an At-The-Market equity program in 2022 as previously discussed and are evaluating if or when we would initiate it beyond then.

As we've said in the past, we take our commitment to be good stewards of your investment very seriously and realize our obligation to optimize stakeholder value. I am energized with our execution over the last year, and I am confident we are positioning CenterPoint to be a premium utility moving forward.

Those are the updates for the quarter. As mentioned, we will be hosting an Analyst Day here in Houston on September 23rd. We look forward to the opportunity to engage and introduce you to the depth of the CenterPoint team then.



**Second Quarter 2021 Earnings Conference Call
August 5, 2021**

And with that I'd now like to now turn the call over to Tom Webb, our senior advisor. This will be Tom's last call with us as Tom's work here at CenterPoint is winding down. I want to extend our sincerest appreciation to Tom for his counsel and support over the past year. I have, and I know we all have, benefited greatly from his time here. Tom will be joining us in September for our Analyst day for a final event with CenterPoint and I hope you can all join us for a celebratory toast, in person, to acknowledge all that Tom has done for CenterPoint.

Tom Webb - Senior Advisor

Thank you, Jason. And thank you, Dave. I fondly remember your visit to Kalamazoo a year ago, when, over Donna's cooking and a bottle of nicely aged Bordeaux wine, I explained how I was busy and retired. You were persuasive. I was humbled to be asked and honored to help in a very small way on your extensive check list. Top of your list was identifying and attracting one of the very best CFO's in the business. CHECK. Thank you, Jason, thank you for taking the challenge. You already have made immediate, critical improvements that will be lasting.

CenterPoint has transformed in less than a year.

- Selling non-core, non-utility businesses - think Enable
- Securing more efficient financing - think LDC sales,
- Driving clean energy - think coal closures, renewable growth, and a lot more to come, and
- Accelerating performance - think 'continuous improvement'



Second Quarter 2021 Earnings Conference Call
August 5, 2021

We are witnessing the emergence of a premium utility, with sustainable, predictable EPS growth every year. I trust you see it, feel it - we truly do 'sweat the details so you don't have to'. You'll see bumps in the road - serious challenges like the 'winter storm' that impacted many utilities. I'll bet you had doubts. But watch CenterPoint. This team promptly addresses challenges to protect our Customers, AND, deliver for you, our investors.

With important capital investment to deliver needed improvements for our customers - our rate base growth target, at 10%, substantially outstrips the peer average of about 8%. Our resulting annual Utility EPS growth target of 6-8% is strong. We expected to be at the high end of the range this year. And as Dave mentioned, it's top decile...

Customer growth at 2% is at a level our peers would celebrate. Coupled with O&M reduction of 1% to 2% a year, this creates a lot of headroom for needed capital investment. Our five-year plan includes 1% to 2% cost reduction every year. Our plan for this year is for a fast start - down more than \$40 million or 3%. And with a fast start, we already are pulling work ahead from 2022. The cost reductions, favorable tax changes, lower financing cost, economic recovery, and more allow us to reinvest \$20 million for our customers now - and possibly more later!

This performance reflects good business decisions and Continuous Improvement. It comes from management commitment, experienced teams, and ground up process improvements that enhance:

- safety - every day,
- quality - doing things right the first time,

- delivery - doing things on time,
- cost - we see and eliminate waste, and
- morale - higher every day

This Continuous Improvement Process is powerful. It shifts dependence from heroic individual work to better processes that are repeatable. As we 'eliminate human struggle' - the costs fall out.

And one of my favorite charts is on the right. As Dave often observes, we take on the headwinds, we take advantage of the tailwinds - we deliver our EPS commitment consistently, every year. We deploy surplus resources to our customers...it is all about our customers AND our investors. We did this last year. We are doing it again now. No 'ors', just 'ands' here. It's fun to be part of a premium, winning utility!

Thank you, Dave. Thank you, Jason...And thank you, team...Thank you for allowing me to join the ride. CNP is a great company, with wonderful people, and a huge investment opportunity. God Speed.

Dave Lesar - President & CEO

Thank you, Tom. As Jason said, you have been a valuable part of our team and we're grateful for the time you have shared with us. This has been one exciting year for CenterPoint, I could not be more pleased by the momentum we have, what we have accomplished, and the bright future that we see for ourselves. We have truly been sweating the details, so you don't have to, and I believe our effort is evident in our consistent and more predictable earnings and



**Second Quarter 2021 Earnings Conference Call
August 5, 2021**

rate base growth, and our world-class operations in growing service territories. I hope you now have the trust that we will continue our commitment to deliver on our promises to you, our investors. I believe the best is yet to come.

Q & A

Operator: Our first question is from James Thalacker with BMO Capital Markets.

James Thalacker:

So not trying to front run the upcoming Analyst Day too much, but as David touched on slide 5, the \$500 million of opportunities in Texas. I was just hoping to dig in a little bit more on the timing of these incremental investments. You know, how you're looking at the regulatory treatment and also where you see the best opportunities across the platforms whether it be energy storage, generation, transmission. And again, I'll pile on a little bit more but, you know, additional thoughts on the scope or the growth beyond this initial view and when would be in a position to kind of talk a little bit more about this.

Dave Lesar:

Yeah. I mean, certainly we're not going to front run our Analyst Day and we – and for one main reason is we're still trying to assess all the details and the bills - when they go effective and what is essentially a practical time when they can come into effect. I think another thing to focus on, a lot of people think that these were tools put in our tool kit basically to face a winter storm. In reality, what they really help us more for is hurricane season. And that's more likely that we'll have a hurricane before we'll have another Uri in terms of the territories that we serve. So, I think it's a good set. As we said in the call, the initial view is at least another \$500 million in capital. I'll maybe let Jason give a little color on what those – what – where that \$500 million may land and sort of what the timing might be.

Jason Wells:

Thanks, Dave. You know, I would say we're obviously very appreciative of all the work the legislature went through to give us the tools to reduce the risk of a widespread outage. In terms of timing, I would say about half of that \$500 million likely to be deployed over the next, call it about two years, with the remainder over the back half of the five-year plan. We see the tools coming through in sort of a couple of different ways. You know, our system was designed to shed about 3-gigawatts of load and, in sort of widespread outage events. This past winter storm, we were asked to produce about 5 gigawatts of load. And so, what we see

sort of as an immediate opportunity for us is the opportunity to own emergency generation for outages that are expected to be longer than eight hours. We will be deploying mobile generation at the substation that, within combination with a year-round demand management program, will give us the flexibility to shed much more significant load for ERCOT, yet still provide power on a rolling basis for our customers. And that's some of the work that we will pursue aggressively. There are then some additional opportunities related to owning battery storage kind of as a grid level resource, as well as a bill that introduced an economic dimension to siting new electric transmission lines. Those tools will help provide congestion relief and ensure even better reliability of our electric grid. But those programs will likely take a couple of years to site and build. And so, I would think about half of the \$500 million that's coming in over the next couple of years with the remainder over the back half of the five-year plan.

Operator:

Our next question is from David Peters of Wolfe Research.

David Peters:

So, the CapEx plan, you maintained \$16 billion for the five years but, clearly, you're pointing to that moving higher. I think you said there's no equity needed for that \$1.5 billion, but could you maybe just talk more about the sources of funding for that? Specifically, I think you kind of talked on the tax efficiencies. But even to the extent that you see kind of more upside above that \$1.5 billion, is it still fair that we shouldn't expect any additional equity?

Dave Lesar:

That's a question that is right in Jason's wheelhouse, so I'll let him answer it.

Jason Wells:

Thanks, Dave. I think that's a fair assumption. As you pointed out, we outlined back in December a five-year capital investment plan of \$16 billion. At that time, we acknowledged that we held back about \$1 billion of what I would consider to be sort of routine capital investment spend. We really wanted to make sure that we could efficiently grow into the increased level of CapEx as well as fund it efficiently. And we're gaining that level of confidence. And then, as I just mentioned, and we just discussed, we see the opportunity for at least \$500 million of incremental capital investment related to the recently passed legislation here in Texas. And so, the combination of those factors allows us to at least increase our five-year CapEx plan up to about \$17.5 billion. And back to the central part of your question around funding it, we've had a couple of strong tailwinds that give us the ability to fund it without any



**Second Quarter 2021 Earnings Conference Call
August 5, 2021**

incremental equity. First, as we announced in the first quarter call, we have about \$300 million in incremental proceeds above our original plan from the sale of our gas LDCs. And as we talked about on today's call in our prepared remarks, we're seeing at least \$250 million in after tax cash benefits from the implementation of the tax repairs that the change – that we will put in place. Think about that as providing \$550 million of equity-related financing. And so, we can effectively double that with debt that would be authorized under our regulated capital structure. And so, that gives us at least \$1.1 billion to fund that capital investment increase. And these figures are all before we take into consideration any of the significant unit appreciation from Energy Transfer. So, in short, we have significant capital investment opportunities above that \$16 billion plan that we outlined in December. And we have confidence we'll be able to fund that without any incremental equity as we move forward.

David Peters:

Thanks. And then, you know, maybe this is something for the Analyst Day, but just, you know, the 6 - 8% going forward, given, I think you said a lot of this won't start contributing until 2023. Should we maybe think of it as, like, a step up at that point or just a bias towards the top end through 2025?

Jason Wells:

We're focused on this year, on delivering on the high end of the 6 - 8% utility EPS range that we had outlined. We'll reserve further comments on long-term growth for the Analyst Day later this year. But I think you highlighted an important element. As we spend this incremental capital likely beginning here towards the end of 2021 to 2022, it really will not drive earnings until 2023. And so think about this as a long-term tailwind for the company. And we look forward to sharing more in our upcoming Analyst Day.

Operator:

Your next question comes from the line of Shar Pourreza with Guggenheim.

Constantine Lednev:

Good morning, team, it's actually Constantine here for Shar. Congrats on a strong quarter and congratulations to Tom on a job well done. Just in regard to the CapEx plan, you know, bridging the new disclosures and maybe elaborating on the \$1.5 billion of incremental opportunity that you're now presenting. Do you feel that there is more work to be done beyond the current IRP in Indiana? And is that number inclusive at all of any upsides in Minnesota? And kind of do you anticipate that this would be reflected at the Analyst Day?

Dave Lesar:

I'll let Jason handle that. He's on a roll handling capital questions today.

Jason Wells:

Constantine, can you repeat the question around Minnesota?

Constantine Lednev:

Is the \$1.5 billion in up-save, an upside at all inclusive of the new legislation in Minnesota like the RNG and/or any reliability enhancements?

Jason Wells:

Yeah. The Natural Gas Innovation Act up in Minnesota. So, no. The \$1.5 billion figure that we've been discussing is prior to any incremental capital related to that new Innovation Gas Act up in Minnesota. I would say the – we do have the incremental upside related to Indiana and the coal transition plan as a potential. Right now, what we've outlined is part of a \$16 billion capital investment plan. The cost associated with the closure and transition of two of our three coal facilities in Indiana. We will be looking at that third coal facility as part of the upcoming integrated resource plan that we will file in 2022 in Indiana. To the extent that that filing changes sort of timing around the closure of that third and final plant in, coal plant in Indiana, that potentially could provide a further tailwind to the capital investment opportunity up there. So overall, we still have – as we try to indicate, I think, additional tailwinds beyond what could be about a \$17.5 billion five-year capital investment plan those would come from increased opportunities as we continue to work with stakeholders around the Texas legislation. As we pointed out here, the opportunities around the Natural Gas Innovation Act in Minnesota as well as, you know, further work on the coal transition plan.

Constantine Lednev:

Sounds great. Momentum is good. And can we shift to O&M and kind of maybe some updated thoughts on cost savings? The targets are staying the same, but are you finding it easier to reach those targets at this point? And what sort of visibility do you have for 2022? And just as a quick follow-up to that, kind of post-Enable sale, what trajectory do you see for the remaining parent costs?

Dave Lesar:

Let me handle sort of the 50,000-foot view of that, and I'll let Jason come in and sort of fill the blanks in. I mean, our commitment is to a 1% to 2% reduction every year. And we have every

intention of living up to that commitment. I think as we try to provide some color on the call here this morning is we have the luxury – we're running ahead of the 1% to 2% this year. And think of the 1% to 2% as averaging over the five-year horizon that we're talking about. We're actually ahead of that, which gives us the ability to pull forward 2022 into 2021. And so, we are taking run rate O&M out, and I view it as that just turning around and immediately investing it in sort of opportunities to save in the longer run. So, I think we're dead on track on O&M. We've learned a lot from Tom about going from sort of O&M reductions to the thought of continuous improvement, which is just grinding out a more efficient operation quarter-after-quarter. And clearly, as you – we start to think about 2022, I mean, we're halfway through 2021, so we're having a lot of dialogue right now about what 2022 looks like, where we're going to spend our money, where we're going to get savings. And, clearly, that is in high focus for us right now. I don't know, Jason, you want to add anything else or you think I've covered it?

Jason Wells:

I'll spend a minute on providing a couple of examples that we're really proud about. We've talked about some big opportunities, things like we're finally integrating the legacy Vectron companies onto our SAP platform. We went live with that integration this summer. And so, as we tackle big events like that, that allows us to reduce significant costs. But, importantly, what we're seeing is the real beginning of adoption of a continuous improvement mindset. On previous calls, we've highlighted a focus on reducing truck rolls in the field. And we had some success in the second quarter this year in our electric business by bundling some of our major underground work, bundling both the capital and the expense work we executed at the same time. And so, we saw not only the benefit of reducing truck rolls, but also reducing a lot of the support costs behind the scenes. And so, we are very pleased with the continuous improvement mindset that is building, giving us confidence in 2022. I know you also asked about sort of post-Enable parent. We see some opportunity for parent costs coming down as we use the proceeds from the sale of what will be the Energy Transfer units, to de-lever at the parent level, as well as the reset of the preferred dividends on our Series A preferred stock in 2023. So, we do see an opportunity over the next few years as well to see sort of those parent company costs also come down and help further support an overall reduction in our cost structure.

Dave Lesar:

I think that's the reason that we keep emphasizing that post the sale of the LDCs and post the elimination of the midstream, we are, you know, absolutely confident in around our 6% to 8% growth. We don't want to leave the impression that losing that earning stream means that we are going to back off of that 6% to 8% growth.



Second Quarter 2021 Earnings Conference Call
August 5, 2021

Operator:

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

Kody Clark:

Hey it's – hey. It's actually Kody Clark on for Julien. Good morning. So first, can you give a little bit more color on the gas cost recovery process in Minnesota? I know there was a hearing on the matter yesterday but just wondering with the latest feedback is from parties and when are you expecting a resolution there.

Dave Lesar:

Jason, you want to take that one?

Jason Wells:

Yeah. Happy to. Let me first start sort of overall with kind of where we expect to be with gas costs recovery. I think the punch line is we expect to recover about 80% of those incremental gas costs by the one-year anniversary of the storm. That's really going to be largely driven by the issuance of the securitization here in Texas. The reimbursement for the incremental gas costs in Arkansas and Oklahoma as part of the sale to Summit as well as the recovery that has begun or will be beginning here shortly in the remaining states. Back to Minnesota, later today, the commission there will likely vote on a proposal to begin recovering costs over 27 months. And we've been working with stakeholders there. We understand that it is a significant amount of money for our customers, and we appreciate the commission and others' work to try to find a balance between timely recovery of those costs, as well as helping mitigate the bill impact for our customers up there. And I think the proposal that will be heard strives to strike that appropriate balance. And we're obviously very appreciative of the work. We are also looking forward to working with regulators in each of our states going forward to see what tools we should put in place to help mitigate this risk going forward. But a lot of work's been done, and we expect to hear more later today as the – in Minnesota, as the commission considers our proposal for cost recovery.

Kody Clark:

Got it. Okay. And then utility results have been strong year-to-date. So I'm kind of wondering how you're thinking about the drivers in the balance of the year. What are the factors that would put you towards the top or the bottom end of the range? And, you know, you talked about them a little bit already, but if you could just give a little bit more detail, that would be helpful.



**Second Quarter 2021 Earnings Conference Call
August 5, 2021**

Jason Wells:

Certainly very strong results, you know, driven by a few things. Obviously, the continued growth that we see in our business, the rebound in the economy sort of post-COVID, and some onetime tax changes that we've highlighted on today's call. What I would say, though, is some of those one-time events will enable us to fully accommodate the cost of the recent governance changes that we announced for the board here at CenterPoint, which will likely mostly be incurred during the third quarter this year. And so as we look at sort of the balance of the year, I think there are a couple of things that will drive us or continue to improve our profile. And that's really continued growth in the markets we serve, as well as continued O&M discipline. As we've tried to highlight here and we've tried to highlight on previous calls, our focus is on consistently growing our utility earnings at the top of the peer group. And when we have the ability to pull forward incremental work for the benefit of our customers, we'll do so. We highlighted today that we've already made decisions to pull forward about \$20 million of spend from 2022. That's allowing our electric business in part to execute more vegetation management work, which helps with the reliability and for the benefit of our customers. And so, as we see incremental progress, we will evaluate whether or not to continue to pull forward work and put us even in a stronger profile to year-after-year consistently earn what we believe is EPS growth rate at the top of the industry.

Kody Clark:

Okay. That's helpful. And then, lastly, just one clarifying question, if I can sneak it in. Is the \$1 billion in tax optimization that you mentioned just for Energy Transfer units or does that include some optimization for the LDC sales?

Jason Wells:

It's what I would consider as more optimization of our tax position for our ongoing utility operations. It's largely driven by the adoption of a method change for how we account for repairs expense for tax purposes. It's a pretty standard deduction in the industry. It's a temporary deduction. It effectively allows us to expense up front what otherwise would be a capital addition on our system. We will claim that method change essentially starting back after bonus depreciation was phased out, so back to about 2018. And the real benefit here is, obviously, it gives us this one-time cash tax benefit. But, going forward, it's really a very efficient way for us to fund the incremental capital investment for the benefit of our customers because it is a temporary difference. It will reduce rate base modestly in the form of increased deferred tax liability. And so, it gives us what I consider to be cash to address sort of on a one-time basis some of the tax gains that you pointed out, gas LDC sales, as well as



**Second Quarter 2021 Earnings Conference Call
August 5, 2021**

the sale of Energy Transfer units. But, more importantly, it gives us a really efficient way to fund incremental capital investment for our customers going forward.

Operator:

Our last question will come from Insoo Kim with Goldman Sachs.

Insoo Kim:

Yeah. Thank you. My first question is on that additional CapEx that you're talking about, the \$1.5 billion – it's definitely pretty impressive. And whenever we talk about the upside to CapEx, one of the questions that comes up is customer bill impact. And I think definitely through this 1% to 2% O& M decrease plan that you've laid out, it definitely helps with that somewhat as it moderates the balance of the customer bill impact. How does this incremental CapEx – how do you plan to deal with the potential increases in bills and are there some other moving parts besides just cost management efforts that could help on that effort?

Dave Lesar:

I think you know it's a good question and it's something that we debate internally all the time because at the end of the day, we exist to serve our customers at a good rate. But I think you put your finger on one of them, the continuous improvement program and focus there passing some of that along to our customers. But I think the thing that we have that most other utilities don't that people forget in the equation is our organic growth. So by continuing to grow, for instance, our Houston Electric business 2% to the quarter-over-quarter, year after year, you know, you're spreading essentially that fixed cost across a wider base, which also helps in terms of the impact on customer billing. So, you know, we're cognizant of the sort of responsibility we have. And I think the combination of continuous improvement, organic growth and, you know, just bringing new technology and more resiliency and hardening of the grid, which, you know, sort of pays benefits over time is the key to doing that. But we're confident that, you know, we can pass muster with the PUC here in Texas and our other jurisdictions with respect to the CapEx that we're going to spend.

Insoo Kim:

Got it. That makes sense. My last question is on that Natural Gas Innovation Act in Minnesota, just for my purposes to clarify, is that basically allowing these investments full rate base treatments knowing that utility? I know – I think currently, there's like a feed-in tariff type of system in place. So I just wanted to clarify there. And piggybacking off of that, are there any similar proposals or initiatives that in some of your other jurisdictions that, you know, would also allow for certain rate base treatment of RNG type of investments? Thanks.



**Second Quarter 2021 Earnings Conference Call
August 5, 2021**

Jason Wells:

We'll work with the Minnesota Commission obviously on the implementation of the Innovation Act. But the way that we rate it is it would provide incremental rate base opportunity for our utility there to help invest in the decarbonization of the gas that we provide our customers up there. And so, we do see this as a potential additional driver of incremental CapEx in the future. And sort of more broadly, yes, we are working with our other jurisdictions and a focused effort to help reduce the carbon intensity of the gas we supply to our customers across our footprint. And, you know, obviously, that – we've got a green hydrogen pilot that will come online here in Minnesota at the end of the year. You know, it gives us a great opportunity to begin to kind of understand that technology how our system responds to green hydrogen and we're looking to take those learnings and see if we can expand it across the broader part of our gas system as well as working on renewable gas, renewable natural gas opportunities. And so, I think Minnesota is taking a leadership position with respect to helping reduce carbon intensity of the gas we provide our customers and we're looking to take that beyond the work we're doing there.

Phil Holder:

Again, thank you everyone for joining us today and for your interest in CenterPoint.

Operator:

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



Second Quarter 2021 Earnings Conference Call August 5, 2021

About CenterPoint Energy, Inc.

As the only investor owned electric and gas utility based in Texas, CenterPoint Energy, Inc. (NYSE: CNP) is an energy delivery company with electric transmission and distribution, power generation and natural gas distribution operations that serve more than 7 million metered customers in Arkansas, Indiana, Louisiana, Minnesota, Mississippi, Ohio, Oklahoma and Texas. As of June 30, 2021, the company owned approximately \$36 billion in assets and also owned 53.7 percent of the common units representing limited partner interests in Enable Midstream Partners, LP, a publicly traded master limited partnership that owns, operates and develops strategically located natural gas and crude oil infrastructure assets. With approximately 9,500 employees, CenterPoint Energy and its predecessor companies have been in business for more than 150 years. For more information, visit CenterPointEnergy.com.

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 and the February 2021 winter storm event on our business and service territories, 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 presentation include statements about our growth and guidance (including earnings and customer growth, capital investment and related opportunities, utility and rate base growth expectations, taking into account assumptions and scenarios related to COVID-19), the impacts of COVID-19 on our business, the impacts of the February 2021 winter storm event on our business and service territories, the reopening of the economy, our analyst day, 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 announced merger of Enable and Energy Transfer LP (“Energy Transfer”), including proceeds therefrom, and minimizing our exposure to midstream, our regulatory filings and projections (including timing and amount of recovery of natural gas costs associated with the February 2021 winter storm event), impact of legislation, our credit quality, financing plan and balance sheet expectations, the announced sale of our Natural Gas businesses in Arkansas and Oklahoma, environmental, social and governance related matters, including our carbon emissions reduction targets 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.



Second Quarter 2021 Earnings Conference Call August 5, 2021

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) the performance of Enable, the amount of cash distributions CenterPoint Energy receives from Enable, and the value of CenterPoint Energy's interest in Enable; (2) 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; (3) financial market and general economic conditions, including access to debt and equity capital and the effect on sales, prices and costs; (4) industrial, commercial and residential growth in CenterPoint Energy's service territories and changes in market demand; (5) actions by credit rating agencies, including any potential downgrades to credit ratings; (6) the timing and impact of regulatory proceedings and actions and legal proceedings, including those related to the February 2021 winter storm event; (7) 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 carbon reduction targets; (8) the impact of the COVID-19 pandemic; (9) the recording of impairment charges, including any impairments related to CenterPoint Energy's investment in Enable; (10) weather variations and CenterPoint Energy's ability to mitigate weather impacts, including impacts from the February 2021 winter storm event; (11) changes in business plans; (12) 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; (13) 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 announced sale of our Natural Gas businesses in Arkansas and Oklahoma, which may not be completed or result in the benefits anticipated by CenterPoint Energy, and the proposed merger between Enable and Energy Transfer, which may not be completed or result in the benefits anticipated by CenterPoint Energy or Enable; (14) CenterPoint Energy's ability to execute operations and maintenance management initiatives; and (15) other factors described CenterPoint Energy's Form 10-Q for the quarter ended March 31, 2021, Form 10-Q for the quarter ended June 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. CenterPoint Energy undertakes 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 CenterPoint Energy and to communicate important information about CenterPoint Energy, 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.



Second Quarter 2021 Earnings Conference Call August 5, 2021

Use of Non-GAAP Financial Measures by CenterPoint Energy

In this document, in addition to presenting its financial results in accordance with generally accepted accounting principles ("GAAP"), including presentation of income (loss) available to common shareholders and diluted earnings per share, CenterPoint Energy provides guidance based on non-GAAP income and non-GAAP Utility earnings per share ("Utility EPS"). 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.

2021 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. 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) Midstream Investments segment and associated income from the Enable preferred units and a corresponding amount of debt in addition to an allocation of associated corporate overhead and impact, including related expenses, associated with the merger between Enable and Energy Transfer, (d) cost associated with the early extinguishment of debt and (e) gain and impact, including related expenses, associated with gas LDC sales. 2021 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. 2021 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 2021 Utility EPS guidance range assumes a continued re-opening of the economy in CenterPoint Energy's service territories throughout 2021. To the extent actual results deviate from these assumptions, the 2021 Utility EPS guidance range 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 2021 Utility EPS 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 and Utility EPS. 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 and Utility EPS 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.