Fourth Quarter 2022 Earnings Conference Call
February 17, 2023

<u>Jackie Richert – VP, Investor Relations and Treasurer</u>

Good morning, everyone. Welcome to CenterPoint's earnings conference call. Dave Lesar, our CEO and Jason Wells, our COO, will discuss the Company's fourth quarter & FY 2022 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-K, other SEC filings and our earnings materials. We undertake no obligation to revise or update publicly any forward-looking statement.

We will be discussing certain non-GAAP measures on today's call. When providing guidance, we use the non-GAAP EPS measure of adjusted diluted earnings per share, on a consolidated basis, referred to as "non-GAAP EPS."

For information on our guidance methodology and reconciliation of the non-GAAP measures 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 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.

<u>Dave Lesar – CEO</u>

Thank you, Jackie. Good morning and thank you to everyone joining us for our fourth quarter 2022 earnings call.

It has been nearly two and a half years since I was appointed CEO here at CenterPoint. They have certainly been eventful, and I am pleased with the significant amount of progress we have made. From managing through a global pandemic, to operating through historically extreme weather, to now, navigating the highest rate of inflation the US has seen in the last 4 decades. I believe this is a management team that can take on and overcome any challenge. Since I got here, there really hasn't been a dull moment, but make no mistake, I love leading this company and its many great employees.

Through these unprecedented times, CenterPoint employees stepped up and continued to deliver results for the benefit of our customers, communities, and investors. And, as most of you have seen, when Jason took over as CNP's President and COO on January 1st, we made a few more management changes to make sure that we are creating a deeper bench and continuing to execute on our succession plan to create a company where our employees have the opportunity to be challenged, grow in their careers, and help us execute our winning strategy. We have a more diverse leadership team than when I first started and one that has certainly become well-regarded in the industry. I firmly believe we have the right team to execute on what we believe is one of the most tangible long term growth plans in the industry.

And of course, we continue to execute well. I'm happy to share that the fourth quarter of 2022 is our 11th consecutive quarter of meeting or exceeding earnings guidance expectations. Today, we announced fourth quarter non-GAAP EPS of $0.28 and full-year non-GAAP EPS of $1.38. This annual 9% growth rate over 2021 establishes a new, higher base from which we will grow our annual earnings for the balance of our plan through 2030. Also, keep in mind, we also grew non-GAAP EPS by 9% in 2021. At CenterPoint, we don't use CAGRs for our EPS growth. We are focused on growing off our delivered results each and every year.

Today we are also reaffirming our 2023 non-GAAP EPS guidance range of $1.48 - $1.50, an 8% growth rate at the midpoint from the new, higher base of $1.38. Jason and I believe in

having transparency with our business operations, so we can present our investors visibility into our performance by having one of the tightest guidance ranges and one of the longest duration growth rate targets in the industry.

I also want to highlight what else we accomplished just last year…

- We became a pure-play, regulated utility with the complete divestiture of our investment in Energy Transfer in March of 2022. For the benefit of our stakeholders, we recycled those sales proceeds back into our regulated businesses. As a result of this divestiture, well over 95% of our earnings now come from our regulated utility operations.
- We closed on the sale of our Arkansas and Oklahoma LDCs for which we received a landmark valuation and once again, we were able to use the sale proceeds to further invest in our regulated businesses for the benefit of both our customers and investors.
- We completed the final few steps of our Vectren integration which resulted in a better aligned operational and financing structure to benefit customers and investors going forward.
- Additionally, we've made great progress on our Indiana Integrated Resource Plan with the approval of the 460MW gas plant earlier this year, the filings for several renewable projects, including our first wind project, and, as Jason will discuss, the regulatory approval for the **first-of-its-kind** Indiana securitization of the AB Brown coal facility in early January of this year. As we progress on our IRP, we continue to advance towards achieving our net zero carbon emission goals.
- And finally, in the third quarter of 2022, we increased our 10-year capital plan by $2.3B, taking it from $40B+ through 2030 to now $43B through 2030, with a focus on additional investments in grid reliability and modernization. This $2.3B in additional planned capital should not only allow us to provide safer and more reliable energy for our customers but should also allow us to continue to reduce O&M over the longer term

which additionally benefits both customers and investors alike. As we have stated in the past, the current capital plan can still be executed with no external equity issuance.
On top of the $2.3B we formally added to our capital plan, we've also identified an additional $3B of other potential capital opportunities. As we've said, we will fold in this additional $3 billion of capital when we believe we can operationally execute it, efficiently fund it, and minimize the regulatory lag associated in recovering it.
2022 was truly an exciting and productive year here at CenterPoint and we are confident that this strong momentum will continue into the new year.

Now turning to our earnings guidance -

As I stated at the top of my remarks, we earned $0.28 of non-GAAP EPS for the fourth quarter of 2022 and $1.38 for a full year 2022. This represents a 9% growth rate when compared to our 2021 non-GAAP Utility EPS. We continue to expect to grow non-GAAP EPS 8% in both 2023 and 2024 and in the mid-to-high end of 6%-8% thereafter annually through 2030. This is an industry leading growth rate. Jason will provide additional details regarding our financial results later.

Now, Let's Move to Capital investments:

In the fourth quarter of 2022, we deployed a CenterPoint record $1.6B of capital across our various jurisdictions bringing our total capital invested for the year to $4.8B.

The $1.6B of fourth quarter capital was approximately $200 million above what we previously indicated on our third quarter call. Some of this increase was due to initial investments made to facilitate the expansion of an already world class facility - the Texas Medical Center or TMC, as it begins its expansion to double its size over the next 5 years or so.

Over those next five years, we are anticipating investing over $200 million in the TMC and the surrounding community. These investments will consist of a large new substation and

several system hardening projects impacting and strengthening the resiliency in the TMC area. This will also include reinforcing transmission and distribution lines and strengthening current substation equipment.

The expansion of the TMC exemplifies the continued growth in the Houston area as it remains an attractive city in which to live and work. So, for those of you that worried that our organic growth would slow post covid…it just has not happened. Let's look at the numbers. Since the Covid recession, the state of Texas has added nearly 1.1 million jobs - A testament to the underlying fundamental strength of the Texas economy as a whole.

Looking at it more locally, amazingly, over the past year, the greater Houston area saw record employment growth with an estimated 179,000 jobs added. It also saw its population increase by almost 300,000 people to nearly 7 million. That is now like adding a city the size of Irvine, CA to our footprint in just one year. We see this trend continuing as the Texas Miracle keeps humming along. Housing starts for the combined Houston and Dallas area over the last year saw a combined 153,000 housing permits in 2022 – nearly 40,000 more units than the entire state of California during that same period – which, has nearly 25 million more people.

This business and residential organic growth continues to drive the potential for the additional upside to our existing $43B 10-year capital that I discussed earlier. Therefore, our plan also allows for flexibility and potential capital spend upside through 2030 and beyond as we see additional opportunities to support our customers own growth plans.

This growth is just one of the reasons we believe we are uniquely positioned as a company…

Despite the many moving parts impacting our plan, we remain confident in our continued ability to execute this industry leading growth plan. We've taken a conservative

approach to estimating organic growth and weather trends, among other assumptions, which we see as potential tailwinds to offset the headwinds of higher interest rates, inflation and other potential unknown issues that always arise in business. Additionally, our regulatory return assumptions across all our jurisdictions are generally consistent with what we currently have approved by our various regulators, and we are using to manage our business today.

With all of that being said, one of our key priorities is always to limit the impact of our investments on customer bills – especially during these times of high inflation, rising interest rates and a potential recession. We believe our capital plan not only benefits customers from a service reliability standpoint but also from an affordability perspective as well. For example, in the Houston area, which has the highest concentration of our planned capital spend through 2030, we anticipate that these investments, in combination with our O&M reduction goals and securitization charges rolling off, should result in an average customer bill increase of only 2% or less, per year, well below current inflation rates.

We are also encouraged by the recent decline in natural gas prices which should create some downward pressure on utility bills.

We believe our capital plan, around modernization of the grid here in the Houston area will enhance the customer experience for both our new and existing customers. It will also help accommodate the immense residential and industrial growth the Houston region is now experiencing. These investments should help reduce widespread outages and in turn, reduce service calls. Fewer service calls, a more reliable system and a strong growing organic customer base in the Houston area is also the perfect combination for us to stay on our path of 1% - 2% average annual O&M reduction over the 10 years of our plan.

Next, I want to also briefly discuss where we are in our CFO search…

First, Jason and I have been thrilled with both the number and the quality of the applicants for the CFO position. So far, the process has confirmed what we already knew – this is a really attractive job at a really great company.

We are in process of evaluating candidates to make sure we find someone who will provide a complementary skill set and be a good fit with the rest of our great team we already have in place.

And So, To Close…

2022 was a great year here at CenterPoint and all of our customers, employees and shareholders have a lot to celebrate – but we remain very much focused on building a long-term track record of execution for our investors and maintaining affordability for our customers. We continue to believe we have one of the most tangible growth plans in the industry as we are uniquely positioned with great opportunities to better serve our growing customer base. Continued organic customer growth – especially in the Houston area and our opportunities to reduce O&M give us confidence that we can execute our plan. I think I speak for all of us at CenterPoint when I say that we are looking forward to 2023 and building upon an already strong premium utility investment thesis.

Finally, I want to acknowledge and thank all the CenterPoint employees for a job well done last year - Especially those that worked through the year-end holidays to ensure the lights stayed on for our customers during the record cold weather that hit millions across the U.S. and also the recent tornado that devastated the cities of Deer Park and Pasadena and surrounding communities in the Houston area. This tornado stayed on the ground for 18 miles and caused more damage than any tornado in Texas in the past 30 years. This management team and all of the employees here at CenterPoint understand our unique responsibility in all our service

territories and appreciate the opportunity to serve our approximately 7 million metered customers.

With that, I'm going to turn the call over to Jason.

Jason Wells – President & COO

Thank you, Dave and thank you to all of you for joining us this morning for our fourth quarter call. I want to echo Dave's thanks to all our employees here at CenterPoint and express my sincere gratitude for the great work of our teams during these recent periods of inclement weather — from those who sacrificed their holidays so that customers throughout our service territories could enjoy theirs, to those who helped recently restore service after the extreme tornado activity in late January and now, recently, the crews who have helped with restoration efforts after the recent ice storms in other parts of Texas— it shows we have a committed and talented workforce dedicated to delivering for our customers and our shareholders.

Q4 2022 results

I'll start by covering the financial results for the quarter as shown on Slide 5.

On a GAAP EPS basis, we reported 19 cents for the fourth quarter of 2022. As in previous quarters, our GAAP EPS results include a portion of the tax on the gain on sale of our Arkansas and Oklahoma GAS LDCs which we were required under GAAP to recognize over the course of the full year.

The quarterly results also include a one-time, non-cash charge of 6 cents, net of tax, related to the de-risking of our long-term pension exposure which I will discuss in more detail in a few minutes. On a full year basis, we reported $1.59 per share, which also included the gains from the sale of the previously mentioned gas LDCs in addition to the sales of the Energy Transfer common and preferred partnership units earlier this year.

On a non-GAAP basis, we reported 28 cents for the quarter of 2022 compared to 27 cents in the fourth quarter of 2021 and $1.38 for full year 2022 as compared to $1.27 for full year 2021. This is 9% growth on top of 2021 in which we also grew 9%. This is an industry leading growth rate.

Growth and rate recovery contributed 6 cents, largely driven by continued rate recovery through our electric distribution capital tracker, the DCRF, and our electric transmission tracker, TCOS, in our Houston Electric territory. In addition, we continue to see strong organic growth in the Houston area – with another nearly 2% increase in residential growth over last year.

Weather and usage for the fourth quarter was also a favorable 2 cents when compared to the same quarter of 2021, driven by a combination of an extremely mild weather in Q4 2021 as compared to more seasonally normal weather in the fourth quarter of 2022.

These favorable drivers were partially offset by higher interest expense of 6 cents, primarily driven by higher interest rates and one cent related to absorbing costs previously allocated to our midstream segment in 2021.

I want to briefly touch on O&M for a moment. We continue to find savings opportunities to achieve our reduction target of 1% - 2% per year on average over the course of our 10-year plan through 2030. For the year, we were 2 cents unfavorable as compared to last year, however, as you'll remember, due to favorable weather during last summer's hot months, we were able to pull forward O&M from 2023 for the benefit of our customers. This is consistent with the approach we used in 2021 and, should we have weather benefits in 2023, we will certainly contemplate doing so again. Overall, I continue to remain pleased with our ability to drive efficiencies in our business and remain confident we can continue delivering on our goal of reducing O&M 1-2% annually, on average.

As Dave mentioned, we are reaffirming full year 2023 guidance range of $1.48 to $1.50 of non-GAAP EPS, which reflects 8% growth over full year 2022 non-GAAP EPS of $1.38, when using the midpoint of the previously increased guidance range.

Beyond 2023, and from the reaffirmed 2023 guidance of $1.48 - $1.50, we continue to expect to grow non-GAAP EPS 8% in 2024 and at the mid to high end of 6% - 8% annually thereafter through 2030. Our focus continues to be on delivering strong, industry leading, growth each and e very year.

Capital investments

Turning to capital investments on Slide 7 …

As Dave mentioned, for the benefit of our customers, we invested $1.6B in the fourth quarter and $4.8B over the full year 2022. This is $1B or a 25% increase from the target we provided at last year's analyst day. Much of this increase was due to our nearly $500 million investment in our temporary emergency mobile generation units and the accelerated resiliency-related investments we pulled forward as part of the nearly $3B increase to our capital plan outlined on our third quarter earnings call. The capital that was pulled-forward to 2022 included capital deployed in the fourth quarter to support the rapidly expanding Texas Medical Center. All of these investments are driven by our continued focus on safety, resiliency, reliability, growth, and clean energy enablement of our service.

Turning to our generation related investments, we have made good progress on our current Integrated Resource Plan, including:

- the last filing for generation –an owned wind project that we expect to come online sometime in 2024 or early 2025, and
- the IURC's approval of our 130 MW owned solar project, and we
  refiled PPAs associated with two solar facilities to accommodate various developer price increases.

These projects, in addition to ones already in service, total approximately 800MW of expected owned and contracted solar generation, which tracks well against our IRP goals that called for approximately 700-1,000MW of solar and approximately 300MW of wind. As it stands for the current projects, we expect to own approximately 60% of our renewable generation and contract the remaining roughly 40%.

With that said, with recent changes in law, namely, the Inflation Reduction Act, the proportion of owned and contracted renewables may be different for additional projects included in our next IRP, which we plan to file in the middle of this year. This upcoming IRP should provide guidance on our remaining coal-fired assets. As we've mentioned before, as a foundation for this IRP, earlier this year, we conducted an all-source Request for Proposal where we received nearly 100 proposals from several dozen participants including wind, solar and battery storage that will help inform our IRP process.

We look forward to working with stakeholders through the IRP process to develop a constructive outcome for our customers that allows customers to achieve bill savings through efficient renewable generation rather than coal generation, which requires significant ongoing O&M expense.

Moving to a broader regulatory update on Slide 8

We have securitization efforts continuing in a couple of jurisdictions. We anticipate receiving securitization proceeds in the coming months in Texas related to the incremental natural gas costs also related to winter storm Uri which will securitize approximately $1.1 billion of these costs. We had anticipated receiving these proceeds before year-end 2022 but it has been delayed.

This delay has been driven by various stakeholders in Texas exploring alternatives including potentially appropriating state surplus funds to pay this off in whole or in part for the

benefit of our customers. We are supportive of this customer focused process and anticipate resolution soon.

In addition to the Texas securitization, we recently received approval for our Indiana securitization for approximately $350 million of costs related to the retirement of two coal facilities. This is a first of its kind filing in Indiana allows for a more affordable transition to cleaner generation sources for the residents of southern Indiana. We want to thank all stakeholders, including the Indiana Utility Regulatory Commission in working through this unique process to achieve a constructive outcome for our customers.

Beyond the securitizations, we will continue to recover the $78 million in Texas related to the "traditional distribution capital" portion of the DCRF which went into rates in September.

We recently received a proposal for decision from the administrative law judges at the State Office of Administrative Hearings, an agency that is separate from the PUC, recommending to the PUC the disallowance of recovery on our temporary emergency generation units. We're disappointed in this proposed decision, as we don't believe this is the correct reading of the law, and now that the case is back in front of the PUC for a final decision, we look forward to a constructive resolution in this case.

As a reminder, we invested in these units following Winter Storm Uri, where more than half of our Houston-area customers were without power for extended periods of time. Texas lawmakers acted quickly and decisively after that event to enact certain measures that would mitigate the impacts of severe weather to Texans.

The passing of the bill to allow Texas T&D companies to use temporary emergency mobile generation, which can aid in reducing the number and / or duration of outages during significant load shed events, was perhaps the most significant mitigation measure passed into

law following Winter Storm Uri. In fact, these units were deployed as recently as a few weeks ago to get children back into the classroom after the previously discussed tornados caused outages throughout the Houston metro area and just last week, we sent some of our units to Austin to be ready to assist in recovery efforts from the recent ice storms.

We have, and we will continue to, advocate vigorously for the use of this critical tool for the benefit of our customers and in a manner that is consistent with the law. We expect a final ruling on our 2022 filing by the end of the first quarter.

Lastly to cover some Credit related topics –

As of the fourth quarter, aligning with Moody's methodology, our FFO/Debt as reported was slightly below 14% and approximately 15% when adjusted for the $1.1B of outstanding debt related to the Winter Storm Uri extraordinary gas costs. As a reminder, we are deferring the interest expense associated with this debt balance until that state-wide securitization is issued.

As I mentioned, we had anticipated receiving the bond proceeds associated with the Texas securitization before the start of 2023, which, in part, is the reason we are carrying higher than expected levels of commercial paper and floating rate debt at year-end. When we receive those proceeds, we plan to pay down a mix of floating rate and high-coupon debt. In addition, we also saw higher gas prices and usage during the December cold snap which also led to elevated levels of variable rate debt that we believe to be transient in nature as we expect to collect the majority of this balance over the coming months.

To revisit the pension item I discussed a few minutes ago… We entered into an annuity lift-out whereby roughly $140 million of pension plan obligations and corresponding plan assets related to previously divested businesses were transferred to an insurance company. This transaction allowed us to de-risk our future obligations for which we don't receive regulatory

deferral. As we've previously mentioned, we get deferral on approximately two-thirds of our pension expense. As a result of this lift-out, we recognized a non-cash settlement charge of $47 million, which represented the acceleration of unrecognized losses deferred under the pension smoothing rules. Through a combination of an increase in discount rates and lump-sum settlements, including the annuity lift-out, our total pension liability was reduced in 2022 by approximately one-third (or $700 million).

Our strong cash flow from operations, coupled with our efficient re-cycling of capital, puts us in the position of still being able to offer industry-leading growth that doesn't require external equity to fund our current 10-year capital plan through 2030.

Those are my updates for the quarter. As we continue to express, we take our commitment to be good stewards of your investment very seriously and realize our obligation to optimize stakeholder value.

I'll now turn the call back over to Dave.

Dave Lesar – President & CEO

Thank you, Jason. As you heard from us today, we have 11 straight quarters of meeting or exceeding expectations. We are a pure-play, regulated, premium utility, and on a course of continue execution of our plan with incremental growth opportunities to support our customers.

Jackie Richert VP of Investor Relations and Treasurer

Thank you, Dave, and thank you for all of you for joining. We'll now turn the call over to Q&A. And ahead of this long holiday weekend, we'll try and limit it to one question and one follow-up. Operator?

Q&A

Operator

Thank you. At this time we will begin taking questions. [Operator Instructions] Thank you. Our first question is from Shahriar Pourreza with Guggenheim Partners. Your line is open.

Shahriar Pourreza

Hey, guys. Good morning.

Dave Lesar

Hey, Shar.

Jason Wells

Good morning.

Shahriar Pourreza

Okay. Just wanted to start off with a question on the capital markets environment and how you're sort of thinking about debt metrics at this point. Deferred costs have obviously been elevated, including fuel. You had a securitization delay in 2022. You've seen around $0.06 of incremental interest drag across the utilities and parent in 4Q. I guess, how should we think about resolving some of the – some of these carry costs and managing the interest rate exposure and cost pressures in the near term?

Dave Lesar

Let me – yeah. Let me ask Jason to put his CFO hat back on for a minute and answer – and answer that one.

Jason Wells

Yeah. Good morning, Shar. I appreciate the question. Obviously, we're not immune to the interest rate headwinds that, you know, everybody's facing these days, but we're confident we can manage through this challenge as we continue to have more tailwinds than we do headwinds overall.

As it relates to kind of interest expense, let me make a couple of points. First is we saw interest rates rising last year. We embedded conservative assumptions around interest rate costs in a 2023 guidance that we initiated in the third quarter call. So, I can – I feel confident that we can accommodate some of the variability that we have recently been seeing.

The second thing, and as I kind of touched on it in my prepared remarks, we ended the year with slightly higher elevated working capital balances due to higher gas costs that we were purchasing in late third quarter, early fourth quarter. As gas prices have come down now, we expect those working capital balances to turn pretty quickly. That should take a little bit of pressure off.

And then, you know, as you mentioned, while we get to defer the interest expense on the extraordinary gas costs from Winter Storm Uri here in Texas, we still anticipate receiving that $1.1 billion in securitization proceeds in the coming future, and that will really help reduce the overall variable rate exposure. So, again, you know, we feel confident that we can manage through any interest rate headwinds.

Shahriar Pourreza

Perfect. And then, just lastly for me, just maybe touching base on sort of the expectations for the upcoming Texas rate case. I know we've had some data points from the Oncor process. And despite the confusion with the PFD, which was eventually rectified, there

seemed to be really a focus on finding rate relief for customers. And other peers, obviously, in settlement discussions.

Just maybe from a high level, Dave, what are sort of the major categories of that revenue relief you anticipate seeking? Is it primary rate base? Is it deferred cost? Is it O&M true-ups? And do you anticipate a noticeable rate increase from the 2024 filing? Or do you think you guys have enough levers in plan to show even a potential rate reduction despite the ask? Thanks.

Dave Lesar

Boy, that's a handful of a question. Let me just answer it by saying, I don't think it behooves us to try to front run what might happen, what bills might get put in. We're early in the session. Jason Ryan and his team are heavily engaged in Austin with respect to looking at opportunities that are going to be primarily focused on making sure we keep customer bills under control. But I don't think it would make any sense at this point to talk about specific efforts or bills that we would like to see put forward.

I would just say, watch this space. And I think when we come with our first quarter call, which will be later this spring, we'll be way more into the session at that point in time. And I think you and all of us will have a better idea where that might be headed and what bills are likely to get passed. But for now, I just don't see any upside saying anything more on it.

Shahriar Pourreza

Sure. Okay.

Jason Wells

Look, if I may add, you know, obviously, as Dave alluded to, we're early in the legislative session. On the regulatory front, though, as we look at the upcoming rate case for Houston Electric, obviously customer rates are top of mind for all of us here at CenterPoint. I don't anticipate at this point much in the way of a revenue requirement increase. You know, I'm proud of the work that the teams have done with respect to O&M. And as you look at, you know, where we set the test year for the 2019 rate case and kind of where O&M is currently trending, I think we can offer a fairly significant revenue reduction in the upcoming rate case. That would offset any of the other things that we are trying to pursue, like a more equitable equity layer. And in addition, I think we're pretty fortunate in the fact that maybe unlike Oncor, we have very little, relatively speaking, in a way of deferred costs as regulatory assets.

And so, I think we can, again, position the company sort of to have a more equitable equity layer relative to some of the non ERCOT T&D companies here in Texas but, at the same time, keep the revenue requirement very modest. So, we're in, I think, a fairly fortunate place as we prepare for that filing.

Shahriar Pourreza

Terrific. Thanks, Jason. That actually did exactly what I was trying to ask. Appreciate it. Thank you, guys.

Operator

Thank you. Our next question comes from Nick Campanella with Credit Suisse. Your line is open.

Dave Lesar

Morning, Nick.

Nicholas Campanella

Hey. Hey. Good morning. I cut out there, but I think I heard my name. So, I hope everyone's doing well. I guess just on the CFO search, I just wanted to tie that off. When is your intention to have something more formally announced here? Is it by the next quarter call or are you taking your time? Thank you.

Dave Lesar

No. I think by the next quarter call, we should have someone announced and on board. We're down to a handful of finalist candidates. As I said, part of it is just the process of getting an individual or individuals in, get them interviewed and, more importantly for me, making sure that they have a complementary skill set to not only Jason, but the broader executive committee we have here.

But I think, as we said in the call, we've been really pleased with the quality of candidates that we've talked to. This is a really great job believe me. I think Jason would attest to that. This is a great job and we're going to get a great CFO out of it.

Nicholas Campanella

Great. Thanks for that. And then, I just thought the annuity lift out comments were interesting. Can you just maybe walk us through that strategic action a bit more? And I guess if you weren't to pursue that, how – how would that affect your 6 to 8? Presumably, I guess it would be a headwind. And could you quantify that at all? Thanks.

Dave Lesar

Yeah. Let me ask Jason to put his CFO hat back on and answer that.

Jason Wells

Good morning, Nick. What I would say kind of overall, the annuity lift out was a strategic decision to de-risk our exposure to businesses that we've disposed of. Think about this as part of the continued effort to focus CenterPoint on a strong set of regulated operating companies. We've been very active in exiting unregulated businesses and, you know, a handful of – a couple of gas utilities in Arkansas and Oklahoma.

And so, this was really just a step to de-risk any of that tail exposure from those employees that are currently receiving pension annuity benefits. As I said, it was non-cash. There's a really kind of liquid market for this. Insurance companies took the obligation, they took the assets. It has no impact on our pensioners.

But to your point, we – now we don't have any P&L volatility associated with exposure to changes in interest rates, asset returns, etcetera. So it's a great way to de-risk future earnings. It's a great way to continue to execute on our strategy of focusing on a set of high-quality utility assets and really proud that we had get this work done here in the fourth quarter.

Nicholas Campanella

Thanks for the color and have a great long weekend.

Jason Wells

You too. Thank you.

Operator

Thank you. Our next question comes from Steve Fleishman with Wolfe Research. Your line is open.

Dave Lesar

Hey, Steve.

Steve Fleishman

Yeah. Hey. Good morning, Dave. Good morning, Jason and Jackie. So just maybe high level a little bit on Texas political regulatory, obviously, the backup generation has proven to be pretty valuable in the short time we've had it, and we still have this kind of disagreement on recovery. So just between that decision, legislature, next rate case, just how are you feeling about, you know, both commission and political leadership recognizing the importance of certainty and the value of kind of what you're doing?

Dave Lesar

Yeah. I will, let me start, and then I'll ask Jason to put his operations hat on and provide a little bit of color commentary. But I think if you – for those of you that sort of follow Texas closely, as the legislation – legislature, the governor, lieutenant governor came into this session, there is two main topics, gambling and the grid. I won't talk at all about gambling, but there's a big focus on the grid in Texas, making sure that the grid stays up with the economic development that is happening in the state. So, I think you're going to see sort of everyone rally around that aspect. Now, what does that mean? It means different things for different people, obviously, in the state. You know the T&D companies want one thing the generators another, the legislature another. I think I continue to go back to sort of our main mantra in this area we're laser focused on customer affordability.

So, everything we do in and around capital deployment, O&M reductions, things that we're going to push for in Austin are going to be focused and pivoted around customer affordability and that those – that set of topics. So maybe with that I'll turn it over to Jason to see if he wants to say anything else.

Jason Wells

Yeah. Thanks, Dave, and good morning, Steve. You know, overall, I would continue to echo Dave's comments on how constructive Texas is, you know, beyond the points that Dave raised. You know, we continue to see significant amount of corporate relocations to the state. And, you know, here, more specifically in the greater Houston area, we continue to see now a 30-year track record of 2% annual average customer growth. So, I think overall it continues to be very constructive, more specifically on the operational front. Maybe just a couple of brief comments.

You know, we continue to there's – a there's a law in place here in Texas that requires us to provide power to customers within12 hours of a load shed event. We continue to operate under that standard as we saw with winter storm Uri, load shed events can exceed the way the system designed. And so these mobile generation units are critical to meeting our reliability and in power quality requirements under Texas law. I think legislators understand that. I think the elected officials understand that and more importantly, as we continue to see the impact of more extreme weather tornadoes, ice storms, potential for hurricanes, I think the communities are starting to have a better appreciation of how we can strategically deploy these assets, as we did to bring kids back to school, after the recent tornadoes, as we can power hospitals before our restoration efforts reconnect, certain customers like that back to the grid.

And so, I think these are really powerful tools to help keep our communities energized during periods of inclement weather. So, I think that that's well-understood, and as we said in our prepared remarks, we're going to defend the actions we took under the law that was passed here in Texas.

Steve Fleishman

Great. Thank you.

Operator

Thank you. Our next question comes from Jeremy Tonet with JPMorgan. Your line is open.

Jeremy Tonet

Hi. Good morning.

Dave Lesar

Morning, Jeremy.

Jason Wells

Good morning.

Jeremy Tonet

Just wanted to touch a bit, I guess, portfolio rotation has been a part of the CenterPoint story in recent years, and asset sale attention appears higher now than ever across the space. But we've also witnessed, kind of, some mixed data points with regards to LDC asset sales. And so, has your thinking evolved at all in this area? And what are you seeing in terms of interest relative to a year ago? Granted you guys don't need to sell anything right now, but just that optionality, I guess, in the future.

Dave Lesar

Okay. Let me ask Jason to put his CFO hat back on and answer that one.

Jason Wells

Thanks, Dave, and I appreciate the question, Jeremy. I just want to reemphasize the point that you added with – right now, we don't have any need to sell any gas LDCs to fund the $43 billion equity capital investment plan that we – that we have announced.

That being said, you know, obviously, given our previous efforts in this space, we continue to receive a significant amount of outreach. I would say there remains tremendous interest in, I think, moderately-sized utility systems like the gas LDCs. We operate in a constructive set of states, places where it either gets very cold during the winter or states that are incredibly supportive of natural gas.

So, I think that interest remains strong for our assets, in particular. I also think maybe some of the transactions that you referenced sort of reflect a few things. First, you know, there needs to be at least a moderate size to the asset sales to get sort of the strongest interest from the largest possible place of buyers. Some of the sales that have transacted recently have been on the smaller end.

The size of the gas LDCs we have, I think, are sort of a sweet spot for attracting the most significant amount of attention. And then as well, as we've as we've talked about in the past, we think that there is benefit in terms of selling assets outright. There's a control premium that often gets lost as maybe some of our peer utilities pursue minority interest sales. And so, we don't need to do it. But we continue to see the market is deep and strong given the high quality of the assets we own.

Jeremy Tonet

Got it. That's very helpful. Thank you for that. And then, kind of shifting gears here, and you've touched on this a bit a number of times, but maybe just kind of bringing it all together. If you could kind of quantify the bill relief you expect to see based on the decline in natural gas prices. Just wondering how quickly that flows back across your jurisdictions? And, I guess, how you think of that rate, that relief could materialize over time.

Jason Wells

Yeah. I mean, I think our customers should start to really see the impact of that in about February. We have, obviously, different time periods for our purchase gas adjustment clauses in each of the different states. But largely, they start to kick in, in February, some a little bit in March. I think, kind of, system wide, on average, customers should really start to feel the benefit of that, across our system in April. And, you know, we're seeing gas prices less than half of what we were, kind of, buying into the winter season at. So, it should be pretty significant bill relief for our customers, as we head into the summer months. We're happy about that, and hope it holds up.

Jeremy Tonet

Got it. Very helpful. I'll leave it there. Thanks.

Jackie Richert

Operator. I think we have time for one more question.

Operator

Thank you. Our last question is from Durgesh Chopra with Evercore ISI. Your line is open.

Durgesh Chopra

Hey.

Jason Wells

Good morning.

Durgesh Chopra

Good morning, team.

Dave Lesar

Good morning, Durgesh.

Durgesh Chopra

Good morning, Dave. All my questions have been answered. Maybe just one, the wind project that you mention in the Indiana IRP update section, slide 8. Just any color you can share with us on that project?

Jason Wells

Thanks, Durgesh, I appreciate the question. I think it's early days in the application there. So, we anticipate that project probably being approved, kind of, towards the end of 2023. But just given, kind of, where we are in the stage of filing, as well as finalizing the bill transfer agreement, I'd rather keep the comments brief.

I think overall, what we tried to highlight in the prepared remarks is that, you know, when we set out on this first phase of the – of this Integrated Resource Plan, we had an objective of owning about 50% of the renewables that we're proposing and contracting for 50% of the balance. And the way it's working out with this wind project that we will ultimately own, as well as the solar projects that we previously filed, I think we're on track now to own roughly 60% of the renewables and contract for 40%. So, a slight improvement versus our original objectives as we are executing on this first round of the of the Integrated Resource Plan.

Durgesh Chopra

Understood. Thanks, Jason. Appreciate you wearing all the hats today. Thanks so much.

Jason Wells

Thanks, Durgesh.

Jackie Richert

All right, operator. That's going to be our last Q&A for this quarter. I want to thank everyone for joining the call today, and I hope everyone has a great afternoon and a long weekend. Take care.

Operator

This concludes CenterPoint Energy's fourth quarter earnings conference call. Thank you for your participation.

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, costs, prospects, capital investments or performance or underlying assumptions and other statements that are not historical facts. You should not place undue reliance on forward-looking statements. You can generally identify our forward-looking statements by the words "anticipate," "believe," "continue," "could," "estimate," "expect," "forecast," "goal," "intend," "may," "objective," "plan," "potential," "predict," "projection," "should," "target," "will," or other similar words. The absence of these words, however, does not mean that the statements are not forward-looking.

Examples of forward-looking statements in this document includes statements about capital investments (including with respect to incremental capital opportunities, deployment of capital, renewables projects, and mobile generation spend), the impacts of the February 2021 winter storm event on our business and service territories, the recovery and timing of recovery of associated gas costs and litigation, future earnings and guidance, including long-term growth rate, customer charges, operations and maintenance expense reductions, financing plans (including the timing of any future equity issuances, securitization, credit metrics and parent level debt), the impact of disruptions to the global supply chain on our business, including our generation transition plan and our capital plan, the Company's 2.0% Zero-Premium Exchangeable Subordinated Notes due 2029 ("ZENS") and impacts of the maturity of ZENS, tax planning opportunities (such as any potential use of the repairs expense deduction), future financial performance and results of operations, including with respect to regulatory actions and recoverability of capital investments, customer rate affordability, value creation, opportunities and expectations, and ESG strategy, including our net zero and carbon emission reduction goals. We have based our forward-looking statements on our management's beliefs and assumptions based on information currently available to our management at the time the statements are made. We caution you that assumptions, beliefs, expectations, intentions, and projections about future events may and often do vary materially from actual results. Therefore, we cannot assure you that actual results will not differ materially from those expressed or implied by our forward-looking statements.

Some of the factors that could cause actual results to differ from those expressed or implied by our forward-looking statements include, but are not limited to, risks and uncertainties relating to: (1) CenterPoint Energy's business strategies and strategic initiatives, restructurings, joint ventures and acquisitions or dispositions of assets or businesses, including the completed sale of our Natural Gas businesses in Arkansas and Oklahoma, the exit from midstream, and the internal restructuring of certain subsidiaries which we cannot assure you will have the anticipated benefits to us; (2) industrial, commercial and residential growth in CenterPoint Energy's service territories and changes in market demand; (3) CenterPoint Energy's ability to fund and invest planned capital, and the timely recovery of its investments; (4) financial market and general economic conditions, including access to debt and

equity capital, inflation and their effect on sales, prices and costs; (5) continued disruptions to the global supply chain and increases in commodity prices; (6) actions by credit rating agencies, including any potential downgrades to credit ratings; (7) the timing and impact of regulatory proceedings and actions and legal proceedings, including those related to Houston Electric's mobile generation and the February 2021 winter storm event; (8) legislative decisions, including tax and developments related to the environment such as global climate change, air emissions, carbon, waste water discharges and the handling of coal combustion residuals, among others, and CenterPoint Energy's net zero and carbon emissions reduction goals; (9) the impact of pandemics, including the COVID-19 pandemic; (10) the recording of impairment charges; (11) weather variations and CenterPoint Energy's ability to mitigate weather impacts, including approval and timing of securitization issuances; (12) changes in business plans; (13) CenterPoint Energy's ability to execute on its initiatives, targets and goals, including its net zero and carbon emissions reduction goals and operations and maintenance goals; and (14) other factors discussed CenterPoint Energy's Annual Report on Form 10-K for the fiscal year ended December 31, 2022, including under "Risk Factors," "Cautionary Statements Regarding Forward-Looking Information" and "Management's Discussion and Analysis of Financial Condition and Results of Operations — Certain Factors Affecting Future Earnings" in such reports and in other filings with the Securities and Exchange Commission ("SEC") by the Company, which can be found at www.centerpointenergy.com on the Investor Relations page or on the SEC website at www.sec.gov.

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

Use of Non-GAAP Financial Measures

In this document, CenterPoint Energy presents, based on diluted earnings per share, non-GAAP income, (in 2021) non-GAAP Utility earnings per share ("Utility EPS") and (in 2022 and 2023) non-GAAP earnings per share ("non-GAAP EPS"), as well as non-GAAP funds from operation / non-GAAP rating agency adjusted debt ("FFO/Debt") which are not generally accepted accounting principles ("GAAP") financial measures. Generally, a non-GAAP financial measure is a numerical measure of a company's historical or future financial performance that excludes or includes amounts that are not normally excluded or included in the most directly comparable GAAP financial measure.

2021 Utility EPS included net income from the company's Electric and Natural Gas segments, as well as after tax Corporate and Other operating income and an allocation of corporate overhead based upon Electric's and Natural Gas's relative earnings contribution. Corporate overhead consisted primarily of interest expense, preferred stock dividend requirements, and other items directly attributable to the

parent along with the associated income taxes. Utility EPS excluded: (a) Earnings or losses from the change in value of the Company's 2.0% Zero-Premium Exchangeable Subordinated Notes due 2029 ("ZENS") and related securities, (b) Earnings and losses associated with the ownership and disposal of midstream common and preferred units (including amounts reported in discontinued operations), net gain associated with the consummation of the merger between Enable and Energy Transfer, a corresponding amount of debt related to midstream common and preferred units, and an allocation of associated corporate overhead, (c) Cost associated with the early extinguishment of debt, (d) Impacts associated with Arkansas and Oklahoma gas LDC sales and (e) Certain impacts associated with other mergers and divestitures.

2022 non-GAAP EPS excluded and 2023 non-GAAP EPS guidance excludes: (a) Earnings or losses from the change in value of ZENS and related securities, (b) (for 2022) Gain and impact, including related expenses, associated with Arkansas and Oklahoma gas LDC sales and (c) (for 2022) Income and expense related to ownership and disposal of Energy Transfer common and Series G preferred units, and a corresponding amount of debt related to the units. In providing this guidance, CenterPoint Energy does not consider the items noted above and other potential impacts such as changes in accounting standards, impairments or other unusual items, which could have a material impact on GAAP reported results for the applicable guidance period. The 2023 non-GAAP EPS guidance range 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. To the extent actual results deviate from these assumptions, the 2023 non-GAAP EPS guidance range may not be met or the projected annual non-GAAP EPS growth rate may change. CenterPoint Energy is unable to present a quantitative reconciliation of forward-looking non-GAAP diluted earnings per share because changes in the value of ZENS and related securities, future impairments, and other unusual items are not estimable and are difficult to predict due to various factors outside of management's control.

Funds from operations excludes from net cash provided by operating activities accounts receivable and unbilled revenues, net, inventory, taxes receivable, accounts payable, and other current assets and liabilities, and includes certain adjustments consistent with Moody's methodology, including adjustments related to total lease costs (net of lease income), Series A preferred stock dividends, and defined benefit plan contributions (less service costs). Non-GAAP rating agency adjusted debt adds to Total Debt, net certain adjustments consistent with Moody's methodology, including adjustments related to Winter Storm Uri debt, Series A preferred stock, pension benefit obligations, and operating lease liabilities.

Management evaluates the Company's financial performance in part based on non-GAAP income, (in 2021) Utility EPS, (in 2022 and 2023) non-GAAP EPS and long-term FFO/Debt. Management believes that presenting these non-GAAP financial measures enhances an investor's understanding of CenterPoint Energy's overall financial performance by providing them with an additional meaningful and relevant comparison of current and anticipated future results across periods. The adjustments made in these non-GAAP financial measures exclude items that Management believes do not most accurately reflect the Company's fundamental business performance. These excluded items are reflected in the reconciliation tables, where applicable. CenterPoint Energy's non-GAAP income, Utility EPS, non-GAAP

EPS and non-GAAP FFO/Debt financial measures should be considered as a supplement to, and not as a substitute for, or superior to, income available to common shareholders, diluted earnings per share (in the case of Utility EPS and non-GAAP EPS) and net cash provided by operating activities to total debt, net which, respectively, are the most directly comparable GAAP financial measures. These non-GAAP financial measures also may be different than non-GAAP financial measures used by other companies.

Net Zero Disclaimer

Our **Scope 1 emissions** estimates are calculated from emissions that directly come from our operations. Our **Scope 2 emissions** estimates are calculated from emissions that indirectly come from our energy usage, but because Texas is in an unregulated market, our Scope 2 estimates do not take into account Texas electric transmission and distribution assets in the line loss calculation and exclude emissions related to purchased power between 2024E-2026E. Our **Scope 3 emissions** estimates are based on the total natural gas supply delivered to residential and commercial customers as reported in the U.S. Energy Information Administration (EIA) Form EIA-176 reports and do not take into account the emissions of transport customers and emissions related to upstream extraction. While we believe that we have a clear path towards achieving our net zero emissions (Scope 1 and Scope 2) by 2035 goals, our analysis and path forward required us to make a number of assumptions. These goals and underlying assumptions involve risks and uncertainties and are not guarantees. Should one or more of our underlying assumptions prove incorrect, our actual results and ability to achieve net zero emissions by 2035 could differ materially from our expectations. Certain of the assumptions that could impact our ability to meet our net zero emissions goals include, but are not limited to: emission levels, service territory size and capacity needs remaining in line with Company expectations (inclusive of changes related to the sale of our Natural Gas businesses in Arkansas and Oklahoma); regulatory approval of Indiana Electric's generation transition plan; impacts of future environmental regulations or legislation; impacts of future carbon pricing regulation or legislation, including a future carbon tax; price, availability and regulation of carbon offsets; price of fuel, such as natural gas; cost of energy generation technologies, such as wind and solar, natural gas and storage solutions; adoption of alternative energy by the public, including adoption of electric vehicles; rate of technology innovation with regards to alternative energy resources; our ability to implement our modernization plans for our pipelines and facilities; the ability to complete and implement generation alternatives to Indiana Electric's coal generation and retirement dates of Indiana Electric's coal facilities by 2035; the ability to construct and/or permit new natural gas pipelines; the ability to procure resources needed to build at a reasonable cost, the lack of or scarcity of resources and labor, the lack of any project cancellations, construction delays or overruns and the ability to appropriately estimate costs of new generation; impact of any supply chain disruptions; changes in applicable standards or methodologies; and enhancement of energy efficiencies.