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CENTERPOINT ENERGY INC (CNP) Earnings Report: Q1 2016 Conference Call Transcript

The following CENTERPOINT ENERGY INC conference call took place on May 10, 2016, 11:00 AM ET. This is a transcript of that earnings call:

Company Participants

- David Mordy; Centerpoint Energy; Investor Relations
- Scott Prochazka; Centerpoint Energy; President & CEO
- Tracy Bridge; Centerpoint Energy; EVP & President, Electric Division
- Joe McGoldrick; Centerpoint Energy; EVP & President, Gas Division
- Bill Rogers; Centerpoint Energy; CFO

Other Participants

- Ali Agha; SunTrust Robinson Humphrey; Analyst
- Michael Lapides; Goldman Sachs; Analyst
- Brian Russo; Ladenburg Thalmann; Analyst
- Nick Raza; Citigroup Research; Analyst
- Charles Fishman; Morningstar; Analyst
- Lasan Jong; Avilia Research Consulting; Analyst

MANAGEMENT DISCUSSION SECTION

Operator:

Welcome to CenterPoint Energy's first-quarter 2016 earnings conference call with senior management. During the Company's prepared remarks, all participants will be in a listen-only mode. There will be a question-and-answer session after management's remarks. (Operator Instructions). I will now turn the call over to David Mordy, Director of Investor Relations. Mr. Mordy.

David Mordy (Investor Relations):

Thank you, Operator. Good morning, everyone. Welcome to our first-quarter 2016 earnings conference call. Thank you for joining us today.

Scott Prochazka, President and CEO; Tracy Bridge, Executive Vice President and President of our Electric Division; Joe McGoldrick, Executive Vice President and President of our Gas Division; and Bill Rogers, Executive Vice President and CFO will discuss our first-quarter 2016 results and provide highlights on other key areas. We also have with us other members of management who may assist in answering questions following the prepared remarks.

In conjunction with the call today, we will be using slides, which can be found under the Investors section on our website, centerpointenergy.com. For a reconciliation of the earnings guidance provided in today's call, please refer to our earnings press release and our slides, which, along with our Form 10-Q, have been posted on our website.

Please note that we may announce material information using SEC filings, press releases, public conference calls, webcasts and posts to the investors section of our website. In the future, we will

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continue to use these channels to communicate important information and encourage you to review the information on our website.

Today, management is going to discuss certain topics that will contain projections and forward-looking information that are based on management's beliefs, assumptions and information currently available to management. These forward-looking statements are subject to risks or uncertainties.

Actual results could differ materially based upon factors, including weather variations, regulatory actions, economic conditions and growth, commodity prices, changes in our service territories and other risk factors noted in our SEC filings.

We will also discuss our guidance for 2016. This guidance range considers utility operations performance to date and certain significant variables that may impact earnings such as weather, regulatory and judicial proceedings, throughput, commodity prices, effective tax rate and financing activities.

In providing this guidance, the Company does not include other potential impacts such as changes in accounting standards or unusual items, earnings from the change in the value of ZENS securities and the related stocks or the timing effects of mark-to-market accounting in the Company's Energy Service business.

The guidance range also considers such factors as Enable's most recent public forecast and effective tax rates. The Company does not include other potential impacts such as any changes in accounting standards or Enable Midstream's unusual items.

Before Scott begins, I have two reminders. The first is that this call is being recorded. Information on how to access the replay can be found on our website. The second is that, on our investor website, under financial information, you can find our debt maturities slides, which investors often find helpful.

And with that, I will now turn the call over to Scott.

Scott Prochazka (President & CEO):

Thank you, David. Good morning, ladies and gentlemen. Thank you for joining us today, and thank you for your interest in CenterPoint Energy .

I will start on slide 4.

This morning, we reported first-quarter 2016 earnings of $154 million, or $0.36 per diluted share, compared with $131 million or $0.30 per diluted share in 2015. Using the same basis that we use when providing guidance, first-quarter 2016 adjusted earnings were $138 million or $0.32 per diluted share compared with net income of $129 million or $0.30 per diluted share in 2015.

Increases due to rate relief, customer growth and midstream investments were partially offset by higher depreciation, O&M expenses and reductions in usage driven by weather.

Turning to slide 5, given our solid start to the year, we are reiterating our 2016 guidance of $1.12 to $1.20 per share. Our focus remains to invest in our current utility service territories, to address ongoing needs associated with growth, maintenance, reliability, safety and customer service.

Earnings growth will be driven by multiple factors, including customer and sales growth, capital discipline, timely recovery on and of our investments, as well as continued attention to managing financing and operating costs.

We anticipate utility operations to contribute 75% to 80% of CenterPoint earnings in 2016. On a guidance basis, utility operations contributed $0.23 per diluted share in the first quarter of 2016

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compared to $0.22 per diluted share in 2015. Combined, our gas and electric utilities added nearly 83,000 customers since the first quarter of 2015.

Rate relief from various 2015 regulatory filings was a significant contributor to earnings this quarter. While our service territories experienced milder weather, it had only a slight impact on our earnings in the first quarter of 2016 due in large part to the effectiveness of our regulatory mechanisms, including the benefit of a three-year decoupling pilot in Minnesota. Constructive regulation enables timely capital recovery and helps normalize for specific causes of variability.

Joe and Tracy will provide additional regulatory insights later in the call. Midstream investments contributed $0.09 per diluted share in the first quarter of 2016 compared to $0.08 per diluted share in 2015.

Slide 6 includes highlights from Enable's earnings call on May 4. Enable performed well in the first quarter of 2016 and continues to make balance sheet strength and financial discipline top priorities. We believe they remain well-positioned to navigate today's challenging market conditions.

Our strategic reviews around our ownership of Enable and possible REIT formation are progressing as planned. Our objectives remain to explore options that could help minimize earnings variability and create sustainable value for our long-term shareholders without impacting our ability to serve the needs of CenterPoint's growing service territories. We remain on track to provide an update later this year.

Before I close, I would like to thank our electric and gas employees for their response to the severe storms and flooding that have impacted the Houston area recently. Across multiple rain events, we had more than 400,000 power outages. Our teams, including crews from other companies, along with our grid automation technologies, were able to restore power to approximately 90% of the homes within 12 hours.

In closing, let me reiterate that we remain committed to our vision to lead the nation in delivering energy, service and value. We will continue to invest in our energy delivery systems to better serve our customers. We will continue to seek timely recovery of those investments. We will continue to constructively manage our O&M expenses.

Consistent earnings growth at CenterPoint is underpinned by strong utility growth and has helped our stock performance in recent months. We continue to focus on consistent performance and long-term value creation.

Tracy will now update you on electric operations.

Tracy Bridge (EVP & President, Electric Division):

Thank you, Scott.

Houston Electric had a strong quarter in line with our expectations. As you can see on slide 8, core operating income was $59 million compared to $68 million for the same period last year. The business benefited from higher rate relief and customer growth. These benefits were more than offset by higher depreciation as a result of increased rate base, higher O&M expenses, lower right-of-way revenue and reductions in usage, primarily driven by weather.

Higher depreciation expense was anticipated and due to both the amount and type of capital invested. The increased O&M expense and lower right-of-way revenue were both largely attributed to timing. We remain on track to hold O&M increases to under 2% for 2016, excluding certain expenses that have revenue offsets, and we continue to anticipate $10 million to $20 million in right-of-way revenue for the year.

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Turning to slide 9, Houston added approximately 159,000 new residents and over 15,000 new jobs in 2015. The Greater Houston Partnership has forecasted similar increases in 2016. Our year-over-year residential meter growth was in excess of 2%. We continue to forecast 2% customer growth for 2016, which equates to approximately $25 million to $30 million in incremental base revenue annually.

On April 4, we filed for $36 million in annualized rate relief for distribution capital invested in 2015. Similar to last year's filing, we expect new rates to go into effect in September. Overall, Houston Electric performed well this quarter. We will continue to operate and manage this business with a focus on safety, reliability, efficiency and growth.

Joe will now update you on the results for gas operations.

Joe McGoldrick (EVP & President, Gas Division):

Thank you, Tracy.

Our natural gas operations, which includes both our gas utilities and our non-regulated Energy Services business, had a strong quarter both operationally and financially. We experienced significantly milder weather across much of our territory, but weather normalization adjustments, our decoupling pilot in Minnesota and rate design in Texas have all worked to remove weather sensitivity as a material risk to our natural gas utility revenues.

As you will see on slide 11, operating income for our natural gas utilities in the first quarter was $160 million compared to $146 million for the same period in 2015. Operating income was higher due to significant rate relief and continued customer growth. These increases were partially offset by milder and unhedged weather effects in Texas and higher depreciation and amortization expense.

Customer growth remains strong in our natural gas utilities having added almost 29,000 customers since the first quarter of 2015. Texas led with nearly 2% customer growth followed by Minnesota, which added more than 1%. O&M expenses at our natural gas utilities were up less than 3% for the first quarter of 2016 versus the same period last year, excluding certain expenses that have revenue offsets. We remain committed to disciplined O&M expense management.

As I mentioned earlier, we are pleased to be in the first year of our three-year full decoupling pilot in Minnesota, which acts as a natural hedge against usage fluctuations, whether it's due to energy conservation or weather. We now have weather normalization adjustments or decoupling in every state we operate in, except for Texas, which tends to experience less variability as a result of higher non-value metric customer charges and less severe winter weather.

On the regulatory front, this is the first year we have filed GRIP mechanisms in all four Texas jurisdictions. On March 31, we filed for a combined $18 million in annualized Texas GRIP recovery.

Also on March 31, we filed for $5.5 million in rate relief using the Arkansas decoupling mechanism. And our Minnesota and Arkansas rate cases are progressing and we anticipate final decisions on both cases in the second and third quarters respectively. We are already experiencing higher revenues in Minnesota through interim rates and expect new rates in Arkansas to be implemented during the third quarter.

On slide 12, you'll see that operating income for our Energy Services business was $15 million for the first quarter of 2016 compared with $17 million for the same period last year, excluding mark-to-market losses of $9 million and $4 million respectively. The remaining $2 million decline was primarily from reduced weather-related optimization opportunities.

As you will notice on slide 13, we closed the Continuum Retail Energy Services acquisition on April 1 of this year. We are consolidating that business with a focus on customer retention, as well as integrating

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accounting, customer and risk systems. We believe our Energy Services business will provide annual operating income, excluding mark-to-market variations, in the $40 million to $50 million range in 2017, the first full year of combined operations.

Overall, our natural gas operations performed well this quarter. We will continue to operate effectively and efficiently as we focus on growth, safety and the reliability of our system.

I will now turn the call over to Bill, who will cover financial performance and forecasts.

Bill Rogers (CFO):

Thank you, Joe. Good morning to everyone.

I will begin on slide 15.

First-quarter earnings were $0.36 per diluted share versus $0.30 per share for the first quarter of 2015. The guidance basis of $0.32 was less than the GAAP basis of $0.36 due to a reversal out of a net $0.05 gain related to our marketable securities and index debt securities and the reversal out of a $0.01 loss related to our mark-to-market accounting of natural gas in our Energy Services business segment.

Our guidance basis earnings per share increased from $0.30 to $0.32 due to stronger performance in our utility operations segment and our midstream investment. We are pleased with the combined core operating income quarter-to-quarter improvement, which Tracy and Joe discussed. Given these results, as Scott mentioned earlier, we are reiterating our earnings guidance of $1.12 to $1.20. Additionally, we are reiterating our target of 4% to 6% EPS growth annually through 2018.

On slide 16, we have provided more detail on our earnings guidance. Our 4% to 6% growth target begins with the 2015 EPS on a guidance basis of $1.10 per share. The EPS from utility operations is expected to increase; whereas the EPS for our midstream investment is expected to decline in 2016. We anticipate utility operations to grow from $0.79 to $0.88 to $0.92 per share. Expected growth drivers include an increase in operating income from our utilities, a reduction in interest expense and dividend income from our investment in Enable's preferred securities.

On an ongoing basis, we expect the Enable-preferred investment to contribute $0.05 per year, with 2016 being a partial year. As the earnings contribution from utility operations continues to grow, our ability to minimize earnings volatility also improves.

On slide 17, we will provide an overview of our anticipated financing plans, interest expense and accrual tax rate. In the first quarter, our interest expense was lower on a period-to-period basis due to repayment of higher interest rate debt in the 2015 year.

For the full-year 2016, we expect interest expense to be lower compared to 2015 due to refinancing activity. Similar interest expense saving opportunities should be available with the refinancing of debt maturing in 2017 and 2018. In the first quarter, our effective tax rate was 36%, and we anticipate that as our effective tax rate for the year.

With respect to financing, internally-generated cash flow remains strong. In the first quarter, our operating cash flow positioned us to fund capital expenditures, pay dividends and pay down debt. For the full year, our anticipated net incremental borrowing needs are approximately $150 million relative to our year-end debt balance at 2015. This includes approximately $100 million for the recent acquisition of Continuum Retail Energy Services.

As stated in our year-end call, we expect to refinance $600 million of Houston Electric debt in 2016. We are not forecasting a need for equity in either 2016 or 2017. I will close by reminding you of the $0.2575

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per share dividend declared by our Board on April 28.

With that, I will turn the call back over to Dave.

David Mordy (Investor Relations):

Thank you, Bill. We will now open the call to questions.

In the interest of time, I will ask you to limit yourself to one question and a follow-up.

Operator?

QUESTIONS & ANSWERS

Operator:

(Operator Instructions)

Ali Agha, SunTrust.

Ali Agha (Analyst - SunTrust Robinson Humphrey):

Good morning. Scott, first question, just to understand your end game plan here with regards to your Enable ownership. Is the end game plan to essentially see two separate entities with the utility businesses separate from the commodity-exposed MLP business, or are you envisioning something where they are altogether, but the commodity exposure is less? Just wanted to understand what you're ultimately looking to get here.

Scott Prochazka (President & CEO):

Yes, Ali, I think it's difficult and not appropriate to comment on what I think the outcome here is going to be. We are continuing to look at this. It could take different forms and as you know, we are in the middle of this process and we will be in a position later in the year to I think clarify the questions -- or give answers to the questions you are asking.

Ali Agha (Analyst - SunTrust Robinson Humphrey):

Okay. So we should not assume that, at the end of the day, there are two separate entities with MLP and -- or at least not necessarily the case?

Scott Prochazka (President & CEO):

Yes, I don't think you can automatically assume that that's the outcome.

Ali Agha (Analyst - SunTrust Robinson Humphrey):

I see. And my second question, on the utility REIT structure, what's the milestone in your mind you are looking at right now? And at the end of the day, do you think that is indeed the best structure for Houston Electric to have given CapEx needs, given other factors that you will probably need capital for given your CapEx plans?

Scott Prochazka (President & CEO):

Yes, again, Ali, I think it's a similar answer here. We've been obviously observing what's going on at the PUC here in Texas, but we are in the midst of doing this evaluation ourself, and at this point, we are not prepared to comment on it. We will be in a better position to comment later in the year as we conclude our evaluation.

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Ali Agha (Analyst - SunTrust Robinson Humphrey):

Okay. I apologize, but one just accounting question. If you can clarify -- so Enable, when they reported, reported it down year-over-year. When you report numbers, in your consolidated numbers, you have Enable up year-over-year. Can you just explain why that's the case? (multiple speakers)

Bill Rogers (CFO):

Yes, Ali. We have higher accretion related to our Enable investment in 2016 relative to 2015.

Ali Agha (Analyst - SunTrust Robinson Humphrey):

Okay. Can you just tell me what those numbers are?

Bill Rogers (CFO):

And the accretion related to the Enable investment is a result of the accounting that comes out of the impairment charge that we took at third quarter and again at year-end. The accretion element for our EPS should be $0.07 per share this year relative to $0.01 per share in 2015.

Ali Agha (Analyst - SunTrust Robinson Humphrey):

That's for the full year?

Bill Rogers (CFO):

Yes, sir.

Ali Agha (Analyst - SunTrust Robinson Humphrey):

Thank you.

Operator:

Michael Lapides, Goldman Sachs .

Michael Lapides (Analyst - Goldman Sachs):

A couple of items. One, just looking at the Houston utility, you noted that you haven't filed for a transmission rate update. Normally, if I remember correctly, that's once or twice a year. Just curious about when the last one was implemented, what the amount was and when you expect to file again?

Scott Prochazka (President & CEO):

Hold on, Michael, we are trying to get the exact information.

Michael Lapides (Analyst - Goldman Sachs):

Okay. I can ask my follow-up because this one may be targeted to Bill. Bill, when you look at the debt capital structure, over the next two to three years, how much debt do you think you have outstanding throughout the Corporation where, either due to refinancing or where the NPV of the make-whole payments would make sense, you think you can significantly bring down the interest rate on?

Bill Rogers (CFO):

Michael, we have $6 billion of debt outstanding at year-end and less than that after first quarter. So we

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have significant maturities in 2016, 2017 and 2018, plus we had some maturities last year aggregating to approximately $1 billion. We do not expect to be a material increase in net borrowings over the next few years. I talked about that in my prepared remarks. And therefore, it's that $1 billion, which helps us reduce interest expense, as well as not increasing the amount of debt on the balance sheet.

Michael Lapides (Analyst - Goldman Sachs):

Okay. But there's no incremental debt outside of maturities where you think you could pay it down early, refinance at a lower rate and where the NPV of the make-whole makes sense?

Bill Rogers (CFO):

There aren't any economic opportunities at this time to do that.

Michael Lapides (Analyst - Goldman Sachs):

Got it. And coming back on the transmission question?

Tracy Bridge (EVP & President, Electric Division):

Starting with the last filing that we made, we filed on October 1, 2015, rates were effective November 23 of 2015 and the amount was $16.8 million. We haven't concluded the specifics of our filing for 2016, but it's very likely we will file in the third quarter and we don't have a dollar amount to share just yet.

Michael Lapides (Analyst - Goldman Sachs):

Got it. I appreciate it, Tracy. Thanks, guys. And congrats on a good start to the year.

Operator:

Brian Russo, Ladenburg.

Brian Russo (Analyst - Ladenburg Thalmann):

Good morning. Could you just maybe comment on the Minnesota PUC's vote earlier this month on the rate case and then historically, it's been the one jurisdiction where you've experienced lag, and I'm wondering with this vote and outcome, are you able to earn your ROE?

Scott Prochazka (President & CEO):

I will ask Joe to answer this.

Joe McGoldrick (EVP & President, Gas Division):

Yes, the Minnesota PUC deliberated on the final order last week and while we are not in receipt of the final order yet, we expect that early June sometime. They did make some decisions and especially with regard to the cost of capital. So let me share a few of those with you. They decided on a 9.49% ROE and a 50/50 debt equity capital structure. We were a little disappointed in that 7.7% of that debt capital was at short-term rates. But while we were disappointed in that, we do anticipate that the final rate increase amount when we get the final order will be in line with our expectations for the financial performance of the business and consistent with our overall guidance, and we do expect to be able to continue to earn right at that allowed ROE. And we really don't experience much lag in Minnesota once we've filed a case because we are allowed to put interim rates into effect, and those have been in effect at the $48 million level since sometime last year.

Brian Russo (Analyst - Ladenburg Thalmann):

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Okay, thanks. And I think the strategy is to file every two years in Minnesota. So in year two, do you experience any ROE degradation?

Joe McGoldrick (EVP & President, Gas Division):

There could be some, Brian, after we get the new rates into effect, but, as you said, we are on track to continue to file every other year, and we have substantial rate base additions that we are continuing to make there. And so we will do everything in our power with O&M and other decoupling mechanisms certainly helps because that captures the lag from -- or not the lag, but any under recovery from usage variation. So we will do everything we can to earn as well as we can towards that allowed return.

Brian Russo (Analyst - Ladenburg Thalmann):

Okay. And then, lastly, is there any changes or updates to your previously disclosed multi-year CapEx forecast and rate-based CAGRs?

Joe McGoldrick (EVP & President, Gas Division):

No, not to what we shared back at the fourth-quarter call back in February.

Brian Russo (Analyst - Ladenburg Thalmann):

All right, great. Thank you.

Operator:

Nick Raza, Citigroup Research.

Nick Raza (Analyst - Citigroup Research):

Thanks, guys. Really two quick questions. The first is relating to the Continuum acquisition. Is that acquisition going to require additional capital, or is that already part of the number that's been thrown out there, the about $80 million number?

Joe McGoldrick (EVP & President, Gas Division):

No, that won't require any additional capital. As you mentioned, the purchase price was $77.5 million plus working capital adjustments, and we are working very diligently to integrate that acquisition and we expect to have that completed within the next few months. And that will contribute to our growing income at CES, as I mentioned in my prepared remarks, of $40 million to $50 million on an annual basis starting in 2017.

Nick Raza (Analyst - Citigroup Research):

And I guess on an unrelated note, in terms of guarantees to Enable, specifically debt and performance for the [energy] business, understanding that one of the guarantees expired, I believe it was for debt on May 1, what should we think about in terms of what's left?

Bill Rogers (CFO):

Those guarantees relate to our tax basis in Enable and so they may expire or may look to put other guarantees on in order to manage our tax position.

Nick Raza (Analyst - Citigroup Research):

Okay, are all of them tax-based, or are some of them performance-based as well?

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Bill Rogers (CFO):

Yes. They are all tax (multiple speakers).

Operator:

(Operator Instructions). Charles Fishman, Morningtar.

Charles Fishman (Analyst - Morningstar):

Good morning. Tracy, I had a question for you. You made the comment that the depreciation was running higher because of the amount and the type. If you could just clarify that for me. Is that because the projects were not subject to the DCRF, or is it because the type of CapEx was shorter life? If you could just give a little more color there, I would appreciate it.

Tracy Bridge (EVP & President, Electric Division):

Sure. We closed a significant of projects to rate base in the fourth quarter of last year, so that contributed to increase in rate base and the increase in depreciation. We also had capital with shorter depreciable lives that increased the composite rate. So it's a combination of more rate base and a higher composite rate related to, including but not limited to, IT capital.

Charles Fishman (Analyst - Morningstar):

Okay. So the fact that -- we are really not seeing any increase in lag because of the 2% plus customer growth necessarily?

Tracy Bridge (EVP & President, Electric Division):

That's correct.

Charles Fishman (Analyst - Morningstar):

That creates an issue -- okay, okay. And then my second question is, Bill, this is for you on Continuum. I thought -- my memory might be off on this -- that when you closed that deal, you thought if things went well that it could maybe push your utility guidance to the upper end. I realize you are only a month into it, but are things going well?

Bill Rogers (CFO):

As Joe stated in his remarks, we are well on our way to integrating Continuum. We closed on April 1 and today is May 10, so we do expect it to be modestly accretive this year, but I think it's too early in the process to report as to how much that might be.

Charles Fishman (Analyst - Morningstar):

Okay. Fair enough. That's all I had. Thank you.

Operator:

Michael Lapides, Goldman Sachs .

Michael Lapides (Analyst - Goldman Sachs):

Just [wondering] about free cash flow. If I look at what you did in the quarter just cash from operating activities minus cash from investing activities generated if I recall correctly right around $100 million, and

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this isn't exactly your biggest quarter. If I look at various forecasts, consensus numbers, etc., you are in a position where you might be able to generate a decent amount of annual free cash flow before the dividend payment. How do you think about other uses, especially as CapEx kind of moderates in the 2017, 2018 timeframe? How do you think about other uses for that free cash flow?

Bill Rogers (CFO):

As I said in our prepared remarks, we are very pleased with our cash generation from operations, and the way we look at that is to back out the funds collected for principal amortization associated with transition bonds, as well as the interest expense associated with that. But that cash from operations the first quarter, you are right, covered our CapEx, covered our dividends and we paid down $100 million in debt, so very strong.

For the year, as I said, we are expecting to borrow incrementally $150 million and we said on the year-end call that 2017 looks like we will be paying down debt. So we've not thought beyond that with respect to other uses. It's a balance between capital investment on behalf of our customers, maintaining our solid credit quality and then thinking through what we do for our shareholders.

Michael Lapides (Analyst - Goldman Sachs):

Understood. As we look at the CapEx forecast you gave at the end of the year, with the continued moderation in the outer years, it almost seems like, unless you are targeting a significant lower debt to cap at the holding company level -- and you might be -- or a significantly different FFO to debt, or unless you are preparing for a deterioration elsewhere in the business, that you are going to be in a very strong cash position as we get a couple years further out in time. So I didn't know if there were some thoughts about allocating both to the debt and the equity side of the balance sheet?

Bill Rogers (CFO):

We will be thinking about that, but we've not shared any thoughts on that at this time, Michael.

Michael Lapides (Analyst - Goldman Sachs):

Got it. Thank you, Bill.

Operator:

[Lasan Jong], [Avilia Research Consulting].

Lasan Jong (Analyst - Avilia Research Consulting):

Good morning. Quick question on Continuum. Now that you've closed that transaction, could you go over what your strategy for the Energy Services business will be going forward? One of the most obvious question would be there's a big gigantic hole on the East Coast where there is no presence. Is that something you will look to fill in? Are you looking for more acquisitions? Are you looking for more organic growth? Are there new programs coming in? Give us a good idea of what you want to do with that business.

Joe McGoldrick (EVP & President, Gas Division):

We don't have a big presence in the East and we really don't add much in that regard with this acquisition, but it clearly gives us additional scale and reach in particular in some of the markets in the West; gives us a bigger presence in Colorado, for example, which we've been trying to do because we think there's opportunities out there. Some of the things that we are already finding in terms of synergies with that acquisition is they have some good relationships with government and school districts, and so

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we are using that to complement our national accounts and some of the other customers where we have a strong presence. And then just in general to take advantage of scale economies as we put these two businesses together. We think we are going to have several opportunities on the supply side and other areas to be more efficient and to hopefully capture better margins as we integrate the two businesses.

Lasan Jong (Analyst - Avilia Research Consulting):

So essentially tactical maneuvering, no big strategic initiatives like say we start a completely new line of business under the Energy Services banner?

Joe McGoldrick (EVP & President, Gas Division):

What we might get with the acquisition is they had some choice customers and we used to be in that business. What I mean by choice is residential customers being able to choose their provider for natural gas. And so we think that might present an opportunity to us within CES for a new line of business, as you say. And we've got a great customer platform in our utility business, and so we will see if we can pick up some additional opportunities in that particular segment of the business.

Lasan Jong (Analyst - Avilia Research Consulting):

Very good. Thank you very much for your time.

Operator:

Ali Agha, SunTrust.

Ali Agha (Analyst - SunTrust Robinson Humphrey):

I wanted to clarify, in your opening remarks, you were talking about usage [certain] customers may have come down. So is customer growth, that 2% number, is that still a good proxy for weather-normalized electric sales growth, or are you seeing a degradation there from customer usage coming down?

Scott Prochazka (President & CEO):

Ali, the answer to your question is yes. It is a good proxy for it. So we are not seeing a reduction in use per customer. The comments about reduced usage had to do with a year-over-year comparison based on the implications of weather, the changes in weather. So when we weather-normalize, we end up with usage that continues to hold essentially flat at the residential level.

Ali Agha (Analyst - SunTrust Robinson Humphrey):

Flat (multiple speakers).

Scott Prochazka (President & CEO):

Yes, flat on a use-per-customer basis.

Ali Agha (Analyst - SunTrust Robinson Humphrey):

Use per customer, okay. And then when you looked at the Houston Electric results, you were actually down year-over-year. Was that budgeted? How does that fit into the strength overall in [really] that you are planning for the year?

Scott Prochazka (President & CEO):

Yes, it doesn't change our forecast for the year. We still -- it's all part of our consolidated guidance that

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we've given. We anticipated some of this, I will say, because some of this is timing. There's a timing element involved with right-of-way revenues, as well as with some of the O&M expense. So it's down in large part due to what I will call timing-related events that we were anticipating, and those will be compensated for, reversed, throughout the balance of the year.

Ali Agha (Analyst - SunTrust Robinson Humphrey):

Okay, okay. And then, lastly, relative to normal or year-over-year, can you quantify for us what was the weather impact in the [utilities] business?

Scott Prochazka (President & CEO):

We are looking that up. Hold on one second.

Bill Rogers (CFO):

Ali, one way to think about this would be the heating degree days at the electric business, which is Texas, which were 86% of normal compared to 135% in the first quarter of last year. On the gas side, as Joe said, we are largely hedged, so those heating degree days were 87% this first quarter compared to 113% of last year.

Ali Agha (Analyst - SunTrust Robinson Humphrey):

Okay. Overall, Bill, on a bottom-line basis, was weather -- can you just give us a sense of what weather really did for earnings?

Bill Rogers (CFO):

Weather had some effect, but not material effect to us in the quarter, largely because of the hedging mechanisms that we have in the gas business that Joe reviewed, as well as our hedge in the electric business which we use for the winter. So we intend to mitigate weather impacts as much as possible and practical.

Scott Prochazka (President & CEO):

Ali, I think the non -- after the hedging, the impact was probably less than $5 million for the quarter.

Ali Agha (Analyst - SunTrust Robinson Humphrey):

I see. Pretax?

Scott Prochazka (President & CEO):

Yes.

Ali Agha (Analyst - SunTrust Robinson Humphrey):

Okay. Thank you.

David Mordy (Investor Relations):

And that concludes our first-quarter earnings call. Thank you, everyone, for your interest in CenterPoint Energy . Have a wonderful day.

Operator:

This concludes CenterPoint Energy's first-quarter 2016 earnings conference call.

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