Q3 2022 Earnings Call

Company Participants

- Brian Savoy, Executive Vice President and Chief Financial Officer
- Jack Sullivan, Vice President of Investor Relations
- Lynn J. Good, Chair, President and Chief Executive Officer

Other Participants

- David Arcaro, Morgan Stanley
- Durgesh Chopra, Evercore ISI
- Julien Dumoulin-Smith, Bank of America
- Michael Lapides, Goldman Sachs
- Nicholas Campanella, Credit Suisse
- Shahriar Pourreza, Guggenheim Partners
- Sophie Karp, KeyBanc
- Steven Fleishman, Wolfe Research

Presentation

Operator

Hello all and welcome. My name is Brica[ph] and I will be your conference operator today. At this time, I would like to welcome everyone to the Duke Energy Third Quarter 2022 Earnings Conference Call. All lines have been placed on mute to prevent any background noise. And after the speakers' remarks, there will be a question-and-answer session. (Operator Instructions)

Thank you. Jack Sullivan, Vice President of Investor Relations. You may begin your conference.

Jack Sullivan {BIO 21652795 <GO>}

Thank you, Brica[ph]. And good morning, everyone. Welcome to Duke Energy's third quarter 2022 earnings review and business update. Leading our call today is Lynn Good, Chair, President, and CEO; along with Brian Savoy, Executive Vice President, and CFO.

Today's discussion will include the use of non-GAAP financial measures and forward-looking information within the meaning of securities laws. Actual results may be different than forward-looking statements, and those factors are outlined herein and disclosed in Duke Energy's SEC filings.

The appendix of Today's presentation includes supplemental information and disclosures along with the reconciliation of non-GAAP financial measures.

So with that, let's turn the call over to Lynn.

Lynn J. Good {BIO 5982187 <GO>}

Jack, thank you, and good morning, everyone. Before I begin, I'd like to take a moment and recognize the work of our team in responding to Hurricane Ian, one of the most powerful and destructive storms in U.S. history.

Duke Energy mobilized 20,000 people, working day and night to restore power over 2 million customers across Florida and the Carolinas. And what's more impressive is the speed at which we did it, with 99% of our customers restored within 72 hours. This is an amazing accomplishment and a testament to our strong preparation, the tireless effort of our restoration teams, and the value of our grid hardening investments.

Moving to our financial results today. We announced adjusted earnings per share of $1.78 for the third quarter. We continue to see strong volumes from the electric utilities offset by lower contributions from commercial renewables due to fewer projects placed in service compared to 2021.

Turning to the Commercial Renewables business, we've completed the strategic review and our Board has authorized the sale of this business. I'll provide more context about this decision in a moment, but first, I'd like to address what this means for our 2022 earnings guidance. Beginning in the fourth quarter, we will move Commercial Renewables to discontinued operations and remove it from guidance going forward. Bringing focus to our core regulated businesses, we are updating full-year 2022 adjusted earnings guidance to a range $5.20 to $5.30.

The $5.25 midpoint of this updated range represents our original guidance midpoint of $5.45, less the $0.20 contribution, we originally forecasted for Commercial Renewables. The regulated utilities remain on track for 2022. It was strong operating results offsetting rising financing costs giving us confidence in achieving earnings within this tighter range.

Turning to Slide 5. In August, we announced a strategic review of the Commercial Renewables business which includes our utility scale renewables platform in a smaller distributed generation business. As part of this review, we've worked with advisers to evaluate the strategic fit of these businesses and to test the market on valuation.

We've received indications of interest for the utility scale business at attractive valuations, and this process will continue through year-end. We expect to announce a definitive transaction in Q1, 2023, and close early as mid-year. We're preparing the sale process for the distributed generation business which includes REC Solar and expect this transaction will follow a similar timeline to closing.

The majority of proceeds from both transactions will be used to reduce holding company debt. This will strengthen the balance sheet and allow us to fund our clean energy transition with our common equity issuance through at least 2027. I'm very proud of our commercial team, who has remained focused on maximizing the value of the portfolio, continuing to expand our robust development pipeline, and operating a renewable fleet with excellence.

With this pending change in our business mix, I'd like to walk you through our earnings trajectory over the next few years. For 2023, we're introducing a guidance range of $5.55 to $5.75 with a midpoint of $5.65. This reflects 5% to 7% growth of the updated 2022 EPS midpoint of $5.25. It also includes a partial year benefit from lower interest expense after reducing HoldCo debt with sales proceeds.

Turning to 2024 and beyond, we expect to grow 5% to 7% of the $5.65 midpoint of our 2023 guidance range through 2027. The 2023 guidance range reflects what we know today, including the present interest rate environment, inflation, supply chain constraints, and an economic forecast that continues to support positive GDP growth in 2023. But the economic outlook remains uncertain and we'll continue to closely monitor trends. Consistent with past practices, we'll do all we can to control costs to match challenges in our business while maintaining excellent service to our customers.

As a result, we've increased our 2023 cost mitigation target from $200 million to $300 million. We expect about 75% of these savings to be sustainable over the long term. We will keep you apprised along the way and look forward to sharing our traditional guidance package on the year-end earnings call in February. Brian will provide more on our 2023 earnings drivers, but I want to underscore the strength of our underlying core utility business.

We operate premier regulated franchises and growing service territories with constructive regulatory jurisdictions and robust customer-focused investment opportunities. They have always been the lifeblood of our company and this portfolio transition will fully highlight the strong projectable transparent earnings and cash flows from our premier regulated utilities and strengthen our overall investor value proposition. Next, I'd like to take a few minutes to highlight some of the important strategic work underway throughout our jurisdictions.

Moving to Slide 6. In October, we filed our first performance-based regulation application under HB 951. We filed with a North Carolina Utilities Commission, requesting a review of the significant investments we're making for 1.5 million Duke Energy Progress customers served in North Carolina. The rate increase would cover upgrades we've made to improve grid reliability and resiliency and to facilitate a clean secure energy future. Our application contains the traditional base rate case, based on historical investments and known and measurable changes projected through April of 2023.

Our request is mitigated by a reduction in annual operating costs of over $100 million, since our last rate case. In addition to historic investments, our application includes gradual customer rate step-ups over the next three years to recover future investments we will make through the multi-year rate plan. This consists of roughly $3.8 billion of capital projects that are projected to go into service by 2025, approximately 75% of which is related to transmission and distribution investments. Evidentiary hearings are expected to begin in the May 2023 time-frame.

Consistent with past practice, we intend to implement temporary rates in June for the historic base case subject to refund. If approved, we expect year one revised rates to be effective by October 1, 2023.

Turning to Slide 7, our focus on providing customers with affordable, reliable, and cleaner energy continues to advance across each of our jurisdictions. In North Carolina, carbon plan hearing concluded in late September after almost three weeks and we submitted our proposed order at the end of October. During the hearings, we presented strong testimony that confirms the need for our near-term development activities. The NCUC will make a final decision on the carbon plan by the end of this year. We expect to file Duke Energy Carolina rate case with the NCUC in early 2023.

In South Carolina, we filed a rate case for Duke Energy Progress in September. As we continue to work on increasing system reliability and resiliency and enhancing the customer experience. To ease the impact of these investments on customers, proposed rates would go into effect over two years, beginning in the first half of 2023.

In Florida, the Public Service Commission approved our Storm Protection Plan update in October. Over the next 10 years, we expect to deploy $7 billion in capital investments through this riders.

Shifting to the Midwest. In Indiana, we're updating our integrated resource plan. We've held the first of three public information sessions with stakeholders to share information about plans under consideration and we anticipate filing CPCNs for new generation resource needs with the commission beginning in early 2023. And in Ohio, we completed a hearing in October for our electric distribution rate case. We expect to receive a final order by the end of 2022 or early 2023.

Moving to Slide 8. I'd like to update you on our ongoing review of the clean energy provisions under the IRA legislation. High energy costs are top of mind for our customers and the IRAs clean energy tax credits present opportunity to help address those issues. We expect to qualify for a variety of PTCs and ITCs that will generate billions of dollars in tax credits over the next decade. These tax credits will be returned to our customers, lowering our overall cost of service and providing for more affordable energy transition.

We will continue to evaluate the impact of the corporate minimum tax as new information and guidance from the treasury becomes available. Because of the credits generated by our substantial clean energy infrastructure investments, we do not expect, this to have a material impact on our cash flows.

In closing, we're advancing our strategy across our jurisdictions, balancing the progress of our clean energy transition, while preserving affordability and reliability for our customers and communities. I'm confident in our long-term earnings growth and ability to execute our strategy moving forward. As I look ahead, we're well-positioned to deliver exceptional value to our customers, stakeholders, and investors.

And with that, let me turn the call over to Brian.

Brian Savoy {BIO 18279960 <GO>}

Thanks, Lynn. And good morning, everyone. I'll start with a brief discussion on our quarterly results. Highlighting a few of the key variances to the prior year. As shown on Slide 9, we had reported earnings per share of $1.81 compared to $1.79 last year.

As Lynn shared, we are moving forward with the sale of our Commercial Renewables business and we'll move those results to discontinued operations in the fourth quarter. For presentation purposes going forward, our focus will be on the strong earnings profile of our core regulated operations which delivered $1.78 in adjusted EPS in the third quarter, and on a year-to-date basis, our core operations generated earnings of $4.15 compared to $4.10 for 2021.

Please see our non-GAAP reconciliation included in the earnings release for more details. Within our core business segments, electric utilities and infrastructure was up $0.06 compared to the prior year driven by higher retail volumes and lower O&M. Partially offsetting these items were higher depreciation costs on our growing investment base. We continue to be encouraged by the sustained retail load growth in the post-COVID environment and I will provide more on the volume trends in a moment.

Shifting to Gas Utilities and Infrastructure, results were $0.01 higher than last year due to increases in riders in the North Carolina Piedmont rate case. And in the other segment, we were $0.07 lower primarily due to higher financing costs, timing of tax expense, and lower returns on investments.

Turning to Slide 10. I'll touch on electric volumes and economic trends. On the 12-month rolling average basis, total retail volumes were up 1.7%, in line with our 2022 load growth forecast of 1.5% to 2%. In the third quarter, higher year-over-year volumes were driven by residential customer growth of 1.7%.

We continue to see strong and steady migration to our service territories and continuing expansion in the commercial class, including higher data center usage. This was partially offset by lower industrial volumes isolated to a few automotive customers experiencing supply chain constraints. We are closely monitoring how these factors and other potential economic dynamics are impacting our customer's usage, but we continue to expect 2022 volume growth to land within our 1.5% to 2% range.

Our economic development achievements to attract jobs and capital investment to our service territories were recently recognized by Site Selection Magazine, which named Duke Energy, a Top Utilities for Economic Development for the 17th consecutive year. We've continued to accelerate this work in 2022. We partnered with our states to win record-setting projects in North Carolina with semiconductor manufacturer Wolfspeed.

In South Carolina, with BMW is entering into the EVs market. And in Indiana, with a Stellantis Samsung EV battery plant. These projects and others announced throughout 2022 involve capital investments exceeding $20 billion and will bring more than 24,000 jobs to our growing service territories. We'll begin to see top-line growth from these business expansions as we progress through the five-year plan.

We break down the outlook for the fourth quarter on Slide 11. We're well positioned to achieve our updated $5.25 adjusted EPS midpoint for 2022. Year-to-date, our core regulated business has generated adjusted earnings of $4.15. We expect a solid finish to the year with a continued strong performance in regulated utilities. We have a good line of sight to the remaining $1.10 in the fourth quarter.

Let me take a moment to highlight some of the key drivers. Beginning with the electric segment, we expect year-over-year revenue favorability from higher volumes, which were impacted by the Omicron variant in 2021, a return to normal weather and the Florida multi-year rate plan, and other riders.

Turning to gas. We will benefit from rate cases and our integrity management riders. We will see lower O&M across our electric and gas operations. The timing of planned outages and shaping of O&M led the higher O&M in the first half of 2022 as compared to 2021. We saw this trend begin to reverse in Q3 and expected to accelerate in Q4. Finally, we expect the other segments to be unfavorable to the prior year primarily due to higher interest expenses.

Moving to Slide 12. I'll highlight the key growth drivers for 2023 that support our $5.55 to $5.75 EPS range for the year. 2023 reflects the acceleration of investments in our clean energy transition across our service territory and the implementation of key provisions from House Bill 951.

Beginning with the electric segment, we'll enter 2023 with load, that is 2% higher than pre-pandemic levels. Going forward, we expect load growth be back in line with our pre-pandemic assumption of flat to 0.5% growth per year. This will be offset by weather which is been favorable year-to-date in 2022.

Shifting to rate cases and riders. We have an active regulatory calendar across our jurisdictions. This includes three rate cases in the Carolinas and two rate cases in Ohio. In Florida, we'll move to the second year of our multi-year rate plan with an updated 10.1% ROE.

Finally, we see growth through continued investment in our electric and gas riders. Macroeconomic conditions remain dynamic. And as Lynn mentioned earlier, we're exercising our business agility by increasing our 2023 cost mitigation target from $200 million to $300 million. We have a strong track record of pulling both structural and tactical levers to flex our cost to meet business challenges head-on and are confident we can achieve these savings. Lastly, we will enjoy a partial year benefit of interest expense savings from reduced HoldCo debt with proceeds from the commercial renewable sale.

Before we open it up for questions, let me close with Slide 13. With the pending sale of our commercial business, we will transition to a fully regulated business with robust investment opportunities, roughly $145 billion over the next decade. This also positions the company with a de-risk earnings profile giving us confidence in achieving our 2023 adjusted EPS guidance range of $5.55 to $5.75 and a 5% to 7% growth rate.

With that, we'll open the line for your questions.

Questions And Answers

Operator

(Question And Answer)

Thank you. (Operator Instructions) We have the first question on the phone lines from Shar Pourreza from Guggenheim Partners. Your line is now open.

Q - Shahriar Pourreza {BIO 15145095 <GO>}

Hey. Good morning, guys.

A - Lynn J. Good {BIO 5982187 <GO>}

Hi, Shar.

A - Brian Savoy {BIO 18279960 <GO>}

Good morning.

Q - Shahriar Pourreza {BIO 15145095 <GO>}

Good morning. So when you guys put out a '23 guidance figure out there without a commercial deal actually being announced. I know obviously, you see robust interest but the ultimate transaction multiple here matters a lot. And can you maybe touch a little bit on your sort of level of confidence here ahead of selecting a better -- do you have some firm offers that's giving you this kind of visibility into '23 and to have this type of an EPS range or recent deals in New York a good proxy? Have you narrowed down the bidders? I guess just some more visibility on this pending deal that's kind of embedded in your '23 guide would be really helpful and if there's any conservative bend here. Thanks.

A - Lynn J. Good {BIO 5982187 <GO>}

Thanks, Shar. Sure. I would start by saying, sure, we have a lot of experience in dealing with portfolio transactions if you think about the history of Duke. And as we began the strategic review process, a lot of work has been done, not only to challenge our strategic assumptions, but also to do work in the market, hiring advisers, understanding the range of potential valuations, including soliciting feedback from the market and feedback from credible counterparties.

So we do have indications of interest, robust indications of interest from credible counterparties and have a high degree of confidence that we will transact on this business. All of that went into our decision to announce the sale. So that's kind of consistent with the way we would approach anything of this magnitude and this type of decision to do our homework before we announce.

So when we look at the guidance range for 2023, we not only have commercial renewables contemplated, but the high degree of confidence will execute, but we have strong regulated growth. And we also have strong cost mitigation already in place and ready to go in light of some of the headwinds that we're all experiencing in the economy. So I feel like we've put together a very credible guidance range for our company that represents one of the strongest regulated utilities in the industry, we feel like 2023 is off to a strong start.

Q - Shahriar Pourreza {BIO 15145095 <GO>}

Got it. And then just tax leakage, I guess you guys have enough in plan to offset any kind of leakage there from the sale?

A - Lynn J. Good {BIO 5982187 <GO>}

We believe we can manage within this range, Shar. We wouldn't have put it out there if we didn't think we could do that. So high degree of confidence in executing and a high degree of confidence in the range.

Q - Shahriar Pourreza {BIO 15145095 <GO>}

Okay. Perfect. And then lastly, when turning to the carbon plan. Obviously, the commission has been very clear at hearings and then filings that intends to meet that December 31 deadline to have a fine to order and an initial plan in place. I mean, obviously, you guys highlighted last week, you filed the proposed order in the docket supporting a real wide range of different technologies. But everyone seems to be kind of in different directions. It doesn't appear we have a lot of consensus among over a dozen parties that are involved. So it's a little bit more contentious than we would have thought. I guess how does the commission bridge these gaps, it seems to be a little bit of a tight time frame by year-end? Thanks.

A - Lynn J. Good {BIO 5982187 <GO>}

Sure. Shar, what I would say to you is the feedback in this process is something that looks reasonable and somewhat predictable to us. So the solar industry is interested in more solar. The industrials are interested in low prices. Low income, we're interested in the impact to low income. Attorney general and the environmental community want us to go as fast as we can to reduce carbon.

So as we look at how the hearing rolled out, the testimony that we presented, the case that we put forward, we felt like all of those positions were well understood, were well discussed in the hearing and didn't find them surprising in any way, frankly. But that's what creates kind of the fertile ground for the commission to make decisions.

And the good news is, in the near term, it's all about solar and battery. And we have time on the long term to make decisions about some of the more difficult pump storage, SMR offshore wind. And so we think there's a strength to our recommendation to use the next couple of years to look at development on those key technologies so that we're prepared by the middle of the decade to make the decisions about where to go.

So I would say a very good process, a very transparent process, not surprising in any way on where the parties put forward their positions. And I think the commission has a lot of good information on which to make their decision, and we expect them to do so by the end of the year.

Q - Shahriar Pourreza {BIO 15145095 <GO>}

Got it. Terrific, guys. Thanks so much and we'll see you in about a week. Appreciate it.

A - Lynn J. Good {BIO 5982187 <GO>}

Yes. Thanks, Shar.

Operator

Your next question comes from the line of Julien Dumoulin-Smith of Bank of America. Please go ahead when you're ready, Julien.

Q - Julien Dumoulin-Smith {BIO 15955666 <GO>}

Hey. Good morning, Lynn and team. Thank you guys very much.

A - Lynn J. Good {BIO 5982187 <GO>}

Hi, Julien.

Q - Julien Dumoulin-Smith {BIO 15955666 <GO>}

Hey. Good morning. Lynn, just following up on Shar's question, maybe a couple of details tied to it. Again, I see the discount off. So can you talk a little bit about the partial year assumption of lower interest expense? Just what's the timing assumed there? I know people are looking very carefully at these '23 numbers. So just if you can elaborate there.

And then related, actually, I'll just ask you the follow-up would be, can you elaborate a little bit on effectively the $0.30 of cost reductions of the $300 million? How does that square with the earlier sensitivity you provided against interest rates at this point? Effectively, where are you on '23 and beyond assumptions on sort of effectively fully offsetting that impact?

A - Lynn J. Good {BIO 5982187 <GO>}

Sure. And Julien, I think for planning purposes, we are thinking about the commercial renewables transaction is being mid-year. And we'll know more as we get into the final round, bidding, et cetera, and hope to be able to give you more feedback in the February call. But I think midyear is the partial year would be the right planning assumption.

And on the cost reduction, I think you'll recall that back in the second quarter, we had undertaken something that we call the work reduction initiative, really focused on ways we can simplify work, use digital technologies in order to streamline our governance processes, our reporting processes, et cetera, and we were targeting $200 million.

We were also, at the same time, looking at supply chain and looking at other things that we could do to potentially more tactically move O&M out of '23. And we were able to increase that $200 million target to $300 million. We have sized that, Julien, to give us confidence around the macroeconomic trends. So when I look at interest rates, for example, we are in a position with the work that we've done to be able to hit this guidance range despite the headwind of interest rates.

And as we look ahead beyond 2023, we have modest amounts of maturities in '24. And we also see the benefit of the IRA showing up more materially in 2024. I think we've talked about the nuclear PTCs being consequential for us. We see IRA is not only benefiting customers but being credit positive, cash flow positive to the utility.

So we feel like we've got good plans in place here and are really pleased that we got after cost reduction. As you know, we always do early enough in 2022 that we have a high degree of confidence for 2023 and beyond. We think that the $300 million, 75% of it is sustainable.

Q - Julien Dumoulin-Smith {BIO 15955666 <GO>}

Got it. And if I may, just to continue with that thought, the unsustainable piece, that remaining 25%. Is that order of magnitude pretty comparable to the interest savings that you get from the tailwind in the '24 from the first half of the year would be commercial renewables having a run rate impact on the sale?

A - Lynn J. Good {BIO 5982187 <GO>}

Julien, I haven't thought about it that specifically because the way I approach every year is looking for a way to save money. So we may come up with some new ideas in 2023 for 2024. The continuous improvement mindset at Duke runs pretty deep, and we're always trying to some ways to reduce costs.

Q - Julien Dumoulin-Smith {BIO 15955666 <GO>}

Got it. And so the cash flow uplift on the nuclear side to your credit metrics, just to elaborate on that, if you can. I know things are still in flux a bit, but if you can quantify that.

A - Lynn J. Good {BIO 5982187 <GO>}

Julien, it's several hundred million dollars, we believe. We believe our regulated fleet qualifies and we operate very low cost, very low cost nuclear units. And so we will be working with our regulators on the appropriate way to recognize those benefits. And those scenarios could have a range of passing it back over two years, three years, five years. And in the meantime, we have the opportunity to strengthen the balance sheet or the cash flows, if you will, from those credits.

Q - Julien Dumoulin-Smith {BIO 15955666 <GO>}

Thank you, again. Good luck. See you soon.

A - Lynn J. Good {BIO 5982187 <GO>}

Thank you.

A - Brian Savoy {BIO 18279960 <GO>}

Thank you.

Operator

Thank you. We now have the next question from the line of Steve Fleishman of Wolfe Research. Please go ahead when you're ready.

Q - Steven Fleishman {BIO 1512318 <GO>}

Hi. Good morning.

A - Lynn J. Good {BIO 5982187 <GO>}

Hi, Steve.

Q - Steven Fleishman {BIO 1512318 <GO>}

Hi, Lynn. So just I think you just answered this on Julien's question, but just to maybe ask again a little differently. So obviously, the cost cutting offsets a lot of pressures in '23 in '24 and beyond, as you mentioned, the cost cutting moderates, and it goes through regulated rates also and -- but the holdco debt refinancing and stuff continues, assuming rates stay high. But it sounds like what you're thinking is that the improved cash flow and performance at the utilities kind of could sustain the offset? Is that how to think about beyond '23?

A - Lynn J. Good {BIO 5982187 <GO>}

Steve, I would maybe expand the thinking to be a little broader on that. So we also use tools like interest rate hedging, which you would expect us to. We have $1 billion of proceeds from GIC coming in. we have the commercial renewable transaction. We have cost mitigation. We've sized it at $200 to $300 million in this year. That will carry forward, and we'll continue to look for ways to drive costs out of the business. We also have the IRA coming.

So I feel like we've got a variety of tools. And as we look at sort of the profile into '24, even in this present environment, we don't have a lot of additional headwinds because of a relatively light maturity period. So I would think about all of those factors together and recognize that we are working very strategically to minimize these costs and to manage the business effectively.

Q - Steven Fleishman {BIO 1512318 <GO>}

Okay. Great. And then just in terms of thinking about kind of dividend growth, should we -- given that there is some kind of reset a little bit on the earnings, just should we assume you continue at kind of a rate below the earnings growth for another couple of years before you move it up into the earnings growth range?

A - Lynn J. Good {BIO 5982187 <GO>}

Steve, it's a really good question. And one we're looking at closely, we had set a target of being in the 65% to 70% payout range. And in this 5-year period, we will be well positioned in that range. So our expectation would be to recommend a dividend increase at the right time in the 5-year period to match something closer to the growth in the business. But I think 2% is a good planning assumption for '23. We'll look at it again in '24 and beyond. But this is something that's getting a lot of attention in light of the derisking of the business in the light of the strength of the capital, the cash flow we're anticipating and the work that we've done to moderate the payout ratio.

Q - Steven Fleishman {BIO 1512318 <GO>}

Okay. Great. Thanks so much.

A - Lynn J. Good {BIO 5982187 <GO>}

Thank you.

Operator

Thank you, Steve. We now have David Arcaro of Morgan Stanley.

Q - David Arcaro {BIO 20757284 <GO>}

Hey. Good morning. Thanks so much for taking my questions.

A - Lynn J. Good {BIO 5982187 <GO>}

Good morning.

Q - David Arcaro {BIO 20757284 <GO>}

I was wondering if you could just maybe elaborate a little bit more around the load growth backdrop that you're seeing. And for the -- it sounded like flat to 0.5% growth assumed into 2023. What are the puts and takes there? Is that conservative based on what you've seen so far this year? And then would be just curious on that industrial slowdown that you've seen, do you expect that to continue into 2023 as well? Is that factored in?

A - Lynn J. Good {BIO 5982187 <GO>}

And David, I'll make a couple of comments and then turn it over to Brian. We use a conservative load growth assumption in our planning. We size our cost structure to be consistent with that. We -- but when I look at the strength of the economy that we are enjoying right now and the volumes that are coming through, we have -- we're very well positioned. And Brian made a comment in his remarks that we're already 2% above pre-pandemic levels, which I think is quite an extraordinary rebound. But Brian, how would you add to that and maybe talk a little bit about the industrial.

A - Brian Savoy {BIO 18279960 <GO>}

Sure. Yes. So first, on the general economy, David, we continue to see migration into our territories. And it's driving both the residential and the commercial class. So those growth profiles are strong. And as Lynn said, we use conservative assumptions as we look out in future years to really size our business.

On the industrial side, we've seen some companies with planned shutdowns this quarter. So we don't feel like it's a trend that's going to linger. It was planned as well as some of the supply chain bottlenecks that continue to show up in different pockets of industry. The automotive sector was one this quarter that surfaced. But again, those things are worked out over time and nothing systemic. So we're still bullish on all three sectors.

A - Lynn J. Good {BIO 5982187 <GO>}

David, some of the statistics we shared with you on economic development are also noteworthy. And that's not even a complete list of what's happened in 2022. North Carolina was rated number one for business for a reason, which low tax environment and a good workforce, great university system, and we have had an extraordinary year from an economic development standpoint, and we expect that to show up over the five-year period.

Q - David Arcaro {BIO 20757284 <GO>}

Got it. Thanks so much. That's helpful. And then was interested in just expanding a bit more on the cost reduction outlook into 2023. What are you seeing for inflationary pressures right now in the O&M budgets? Obviously, the backdrop has been tough in terms of inflation pressures, but you're expanding the cost reduction aspirations into next year. Wondering just how achievable that looks and what pressures you're seeing in the current environment?

A - Lynn J. Good {BIO 5982187 <GO>}

We do see some inflationary pressures. I would point to materials. I would point to labor, but all of that, David was a part of the analysis that went into our cost reduction efforts. So I don't see anything happening in the inflation environment that's impacting our commitment to drive these costs out of the business. And the other thing I would point to, a lot of the material inflation is showing up in our capital plan. And so, we're monitoring that as well to make sure that we're spending capital in a prudent way to benefit customers.

Q - David Arcaro {BIO 20757284 <GO>}

Okay. Understood. I appreciate it. Thanks so much.

A - Lynn J. Good {BIO 5982187 <GO>}

Thank you.

Operator

We now have Nick Campanella of Credit Suisse. Your line is now open.

A - Lynn J. Good {BIO 5982187 <GO>}

Hi, Nick.

Q - Nicholas Campanella {BIO 20250003 <GO>}

Hey. Good morning, everyone. Thanks. Hi. So I guess just -- thanks for the update on the CAGR. It sounds like you're now kind of including the inflation outlook going forward. So that's great. And I recall on just previous calls and talking about the CAGR, you kind of talked about getting to the higher end of the range as the multiyear rate plans kind of come into effect and you kind of execute on this carbon plan. So I'm just curious if you could just update the investment community on if that dynamic still exists as we get to the out years here in the new CAGR? Thank you.

A - Lynn J. Good {BIO 5982187 <GO>}

Yes. Nick, thanks for that question. Let me start by saying we believe our regulated business with this clean energy transition, $145 billion of capital over the 10 years has the potential to achieve at the high end of the range. But given the dynamic economic environment that we're in right now, we believe 5% to 7% is the right range to use for the planning assumption and know that we will work every year to be as well positioned within that range as we possibly can.

And we've talked about many of those puts and takes, IRA benefits, reducing O&M, all of these things represent opportunities as the plan unfolds and then further this very meaningful regulatory activity that's underway is another key ingredient. The first multi-year rate plan filing for DEP occurred this year.

We're expecting another one -- another filing for DEC in the coming year. So we're putting pieces in place and trying to address the macroeconomic environment at the same time. And we believe all of this given the premier regulating utilities that we offer is a very strong value proposition for investors.

Q - Nicholas Campanella {BIO 20250003 <GO>}

Thanks for that. And then I just wanted to pivot to renewables real quick, acknowledging that you are moving away from the Commercial segment. But as you mentioned, you're doing a ton in the regulated arena. So just -- maybe just a general state of the state on what you're seeing in the renewable supply chain at this point. I see that you're still kind of executing in Florida with the 300 megawatts that went into service in 2022 as planned. But just general kind of comments on supply chain and ability to kind of get things done in the five-year window. Thanks.

A - Lynn J. Good {BIO 5982187 <GO>}

Nick, thank you for that. And I think as we've talked over the last year with some of the challenges in the supply chain. We have always leaned to our regulatory -- regulated business and make sure we have adequate supply. And we have extended our purchasing relationship with our suppliers to extend on a multiyear period so that we have confidence around supply into '26 and beyond with options to continue.

We're putting similar arrangements in place for battery storage. So we are confident in our ability to execute the regulated plan and have just so many opportunities as we pursue this clean energy transition. We are working to make sure we've got the supply chain, the labor, et cetera, and have been successful so far and see that continuing.

Q - Nicholas Campanella {BIO 20250003 <GO>}

Thanks a lot, Lynn. See you soon.

A - Lynn J. Good {BIO 5982187 <GO>}

Thank you.

Operator

Thank you. Your next question comes from Durgesh Chopra of Evercore ISI. Please go ahead when you're ready.

A - Lynn J. Good {BIO 5982187 <GO>}

Good morning.

Q - Durgesh Chopra {BIO 20053859 <GO>}

Hey. Good morning, Lynn. I just had a quick follow-up, hopefully, quick, on the interest expense into 2023. Any color, Brian, that you can share as to what level of rates -- interest rates are you using as we look out to 2023, particularly related to your variable there, so we can kind of do the sensitivity as we look out to the interest rate outlook here?

A - Lynn J. Good {BIO 5982187 <GO>}

Durgesh, the sensitivity of 100 basis points, representing about $0.12 is probably the best and cleanest without getting into specific detail on commercial paper and long-term debt, recognizing the tenor can fluctuate. I think that's a really good proxy for you, and I would point you there.

Q - Durgesh Chopra {BIO 20053859 <GO>}

Okay. Perfect. Thank you. I appreciate it.

A - Lynn J. Good {BIO 5982187 <GO>}

Thank you.

Operator

Thank you. We now have Sophie Karp of KeyBanc. Please go ahead. Your line is now open.

Q - Sophie Karp {BIO 19699392 <GO>}

Hi. Good morning.

A - Lynn J. Good {BIO 5982187 <GO>}

Good morning.

Q - Sophie Karp {BIO 19699392 <GO>}

Thank you taking my question. A couple of questions here, if I may. First, with the sale of renewable business, does that present an opportunity for you to have conversations with rating agencies about reviewing and maybe improving your corporate trade trading? And what impact could it have on your borrowing costs?

A - Lynn J. Good {BIO 5982187 <GO>}

Yes. So we keep a close relationship with the agencies. And by that, I mean sharing with them all of our plans, what we expect in terms of this transaction, the de-risking of the business, I wouldn't expect though, given the magnitude of this, Sophie, it's only 5% of the business that it would have an impact on downgrade threshold or anything of that sort. But it gives us an opportunity to de-risk. It gives us an opportunity to bring in some cash and all of that, it's important to the agencies, and we'll keep them apprised every step of the way.

Q - Sophie Karp {BIO 19699392 <GO>}

Got it. Thank you. And then on the cost-cutting initiatives you're talking about the total project that you're talking about the ring process, especially given the inflationary environment that we are in and how some of your peers are struggling to control costs right now. So could you just maybe share some, for example, I don't know about what you're planning to do there. So we can get a better sense of what the initiatives are with cost control? Maybe (inaudible) from the ground.

A - Lynn J. Good {BIO 5982187 <GO>}

Yes. And Sophie, I appreciate that. And the 1 comment I would make is, this is where size and scale matters because we've had an opportunity to drive cost through the supply chain as a result of that size and scale that has been helpful but also a variety of other projects. We've been working on this over the course of the summer looking at work reduction efforts.

And Brian, you might have some perspective that you would share on specific examples, maybe some of the reporting, the governance, the digital.

A - Brian Savoy {BIO 18279960 <GO>}

Yes, certainly, Sophie. And good morning. So we really took a fresh look at the entire corporation and said, how are we going to get the work done, we need to get done. We prioritized certain roles over others. So we said some roles had more purpose five years ago, and now they need to be repositioned. We looked at our real estate footprint and said, how can we optimize the real estate in this post-COVID world. So there was an opportunity there to really reduce the amount of corporate real estate we operate.

And we just looked at governance across the company and making sure that we maintain our controls, but while run a leaner organization. And it was really a grassroots effort where we got input from all of our teammates to try to figure out what are the best areas to execute on. We have over 200 initiatives. So it isn't a one-shot thing. It's many, many small singles and bunts singles that are going to add up to this $200 million and that we've upsized to $300 million as we've looked at the opportunity set.

A - Lynn J. Good {BIO 5982187 <GO>}

Sophie, one example in Brian�s area that I would share, if you look at the amount of reporting that comes out of finance at Duke Energy, there's a lot of it. Not all of it results in decision-making. So we view this as an opportunity to sweep through what kind of information do we give our operating leaders in order to manage their business.

Similarly in IT, lots and lots of applications, right? Do we need all of them? Do we have applications that are only used for a handful of people? And can we transfer them? With that, you've got license fees, you've got cybersecurity expense. You have people who maintain those systems.

So it's things like that where you're just standing back and looking at all those corporate functions, the service levels we're offering and determine is there a way to do it leaner and more efficiently using technology. And as you would expect, when you look every few years, if those things opportunities arise.

Q - Sophie Karp {BIO 19699392 <GO>}

Thank you so much for the color. Very helpful.

A - Lynn J. Good {BIO 5982187 <GO>}

Thank you.

A - Brian Savoy {BIO 18279960 <GO>}

Thank you.

Operator

Thank you. We have our next question from the line of Mike Lapides of Goldman Sachs. Please go ahead when you're ready.

A - Lynn J. Good {BIO 5982187 <GO>}

Hi, Michael.

Q - Michael Lapides {BIO 6317499 <GO>}

Hey, Lynn. Thank you for taking my question, and Brian, I think this is your first earnings call, leading a CFO. Congrats. I may be wrong. I may be getting (Multiple Speakers)

A - Brian Savoy {BIO 18279960 <GO>}

It is, Michael. Thank you.

A - Lynn J. Good {BIO 5982187 <GO>}

Everybody remembers their first call, Michael. It's true.

Q - Michael Lapides {BIO 6317499 <GO>}

I could imagine. They should give out trophies or something like that. I'm a figure that out. Hey, a couple of questions. One, can you remind me -- one short term a little bit, Lynn, one is long term. Can you remind me the cadence and schedule for filing both the North and South Carolina at Duke Energy Carolinas? That's question one.

Question two is kind of think of much longer term, which is many of the stakeholders in North Carolina in the carbon plan have expressed support for offshore wind? And yet if you look at the company's developing offshore wind in the U.S. You've got 1 company on the East Coast that's trying to back out of its PPAs, the signed contracts that they signed less than 1.5 years ago. You've got a large European operator and developer of U.S.-based offshore winds in its earnings call this week that returns and the progress of developing and installing offshore wind is facing headwinds.

Can you just kind of talk about your views of some of the -- I don't know, I'll call it offshore wind still a bit of an emerging technology, but just kind of how you're thinking about the risk reward for Duke relative to doing something as significant as that?

A - Lynn J. Good {BIO 5982187 <GO>}

Yes, Michael, thank you. And let me -- I'll do first rate cases. So Duke Energy Carolinas, North Carolina will be filed in early 2023. You may recall that the sequence of these things, you host a technical conference to talk about the capital in the multiyear rate plan that occurred this week or last week recently. And then the rate case will follow. We have not yet announced timing or plans for a DEC case in South Carolina. So more to come on that, and we'll keep you updated along the way.

Offshore wind is something that we believe is an option over this 2030, 2040, 2050 period here in the Carolinas. It represents diversity of supply. It is a renewable resource system. But as I say all of that, we also recognize it's expensive. It has transmission requirements, particularly here in the Carolinas, where you've got to get the power to the load centers that are further west than the coast.

And so the approach that we're taking is one of studying and learning more and also allowing the commission and stakeholders and the communities that could be impacted by both the offshore and the onshore transmission to be involved as well. We will not move first and we will not move outside of the regulated business.

So the risk reward for investors and customers has to be appropriate in order for us to move forward. And so I would say we're in evaluation mode. We think it's an important resource. We think it is important over this clean energy transition, but we're being deliberate and thoughtful and cautious as we move into it.

Q - Michael Lapides {BIO 6317499 <GO>}

Got it. And then last question, just on energy reliability. Just curious how you're thinking about the near term, meaning next 3 to 5 years for your coal generation fleet, given the uptick in demand that you and some of your peers in the Southeastern states as well as in the Midwest. And just some of the details like in the Midwest and elsewhere, that the grid operators and others have put out concerned about near-term reliability constraints.

A - Lynn J. Good {BIO 5982187 <GO>}

Michael, it's a really good question. And what I would say to you is as we contemplated the various scenarios we presented in the carbon plan, as we contemplated the integrated resource plan in Indiana. And in fact, we're updating that integrated resource plan in India to include the new planning assumptions that MISO requires consistent with those reliability concerns.

We will not present a plan that does not maintain reliability. And we will not retire assets that are needed to maintain reliability. And so that's something that is being closely monitored. Our regulators completely understand and support that. And so I think we just have to work our way through it. Making sure that we have replacement generation, transmission ready to go. The combination of resources ready to go so that when we retire, our customers can expect reliability. That is our commitment, and that's the way we're planning and executing these transition plans.

Q - Michael Lapides {BIO 6317499 <GO>}

Got it. Thank you, Lynn. Much appreciate it.

A - Lynn J. Good {BIO 5982187 <GO>}

All right. Thank you, Michael.

Operator

Thank you. I would now like to hand it back to Lynn for some final remarks.

A - Lynn J. Good {BIO 5982187 <GO>}

Brica, thank you, and thanks to everyone who joined. We will see you in a week. We're pretty confident we'll get to do this again, a small room for EEI. So we look forward to seeing you then. Thanks again for your interest, your questions, and look forward to seeing you soon.

Operator

Thank you. That does conclude today's conference call. Thank you all again for joining. You may now disconnect your lines.