Q3 2022 Earnings Call

Company Participants

- David J. Lesar, President & Chief Executive Officer
- Jackie Richert, Vice President, Investor Relations and Treasurer
- Jason P. Wells, Executive Vice President & Chief Financial Officer

Other Participants

- Anthony Crowdell, Analyst, Mizuho
- Durgesh Chopra, Analyst, Evercore
- Jeremy Tonet, Analyst, J.P. Morgan
- Julien Dumoulin-Smith, Analyst, Bank of America
- Steve Fleishman, Analyst, Wolfe Research

Presentation

Operator

Good morning, and welcome to CenterPoint Energy's Third Quarter 2022 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 Jackie Richert, Vice President of Investor Relations and Treasurer. Ms. Richert?

Jackie Richert {BIO 22513026 <GO>}

Good morning, everyone. Welcome to CenterPoint's earnings conference call. Dave Lesar, our CEO; and Jason Wells, our CFO will discuss the company's third quarter 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-Q, 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 a reconciliation of the non-GAAP measures used in providing guidance, please refer to the 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.

David J. Lesar {BIO 1519300 <GO>}

Thank you, Jackie. Good morning, and thank you to everyone joining us for our third quarter 2022 earnings call. Before we get started today, I want to congratulate Jason Wells on this morning's announcement of his pending promotion to President and COO of CenterPoint Energy. Since joining our team a little over two years ago, he has demonstrated that he has the strategic vision, executive mindset, deep industry experience and operational knowledge to be a great leader. Equally important, he has the confidence and support of our organization, our Board and our shareholders. This promotion is a product of an ongoing and thoughtful succession planning process and executive development journey that has been a top priority of mine and our entire Board. The Board and I have watched Jason grow as an executive over the last two years, and believe now is the perfect time to expand his role within our organization. And for those of you who are wondering, I am not going anywhere. I look forward to continuing to mentor and support Jason in his new role and to working side-by-side to execute on our strategy. I know I speak for many of you when I say, well done, Jason.

As you have seen from the press releases we issued this morning, this has been a very busy quarter at CenterPoint, and today's call may seem a bit like a mini Analyst Day update. When I became a CEO of CenterPoint nearly 2.5 years ago, the company needed to quickly establish a strategic path forward to, among other things, realign our relationships with our regulators, customers and investors. We look to immediately set challenging but executable goals by which you could measure progress, while collectively adopting a management mindset of over delivering on our commitments.

I want to highlight what that has looked like here at CenterPoint over the last 2.5 years. So what we've achieved so far. First, we committed to achieving industry-leading non-GAAP EPS growth, now including this quarter, we have met or exceeded that goal for 10 consecutive quarters. In addition, we have over delivered on that growth by raising our non-GAAP EPS guidance 5 times during that 2.5 year span and continue to reiterate that we will grow future earnings off of each new and higher base that we achieve.

Second, we committed to becoming a pure-play regulated utility that was not subjected to the earnings volatility of our now divested midstream investment. And now, more than 95% of our earnings are derived from regulated utility operations. The approximately $1.3 billion of after-tax midstream sale proceeds exceeded your expectations and allowed us to reinvest the money into our regulated utility businesses for the benefit of our customers.

Finally, we committed to funding our increased regulated utility investments without reliance on external equity issuances. This led to the sale of our Arkansas and Oklahoma LDCs, for which we obtained a landmark valuation and then recycled those cash proceeds efficiently back into our regulated businesses, all for the benefit of our customers and investors.

Now, let's look at today, we are in $0.32 in the third quarter on a non-GAAP basis. We are also reiterating full-year 2022 non-GAAP EPS guidance of $1.37 to $1.39 per share, which represents a 9% growth rate at the midpoint versus the comparable 2021 non-GAAP utility EPS of $1.27. And as Jason will discuss, we are also ahead of plan in terms of capital spend for 2022, in spite of supply chain pressures and we've deployed more capital than anticipated.

In addition, today we are initiating our full year 2023 non-GAAP EPS guidance target range of $1.48 to $1.50. At the midpoint, this represents an additional 8% growth over our previously raised 2022 non-GAAP EPS guidance. Beyond 2023, we continue to expect 8% non-GAAP EPS growth for 2024 and at the mid to-high end of 6% to 8% annually thereafter through 2030.

I also want to point out that these earnings growth rate targets do not reflect any potential earnings from the $5.3 billion in incremental capital opportunities that we will discuss next. Our track record of over delivering continues with today's announcement of what is now a third increase to our 2021 Analyst Day, $40 billion 10 year capital plan. We continue to anchor around this Analyst Day number to provide consistency, clarity and clearly marked goalpost for our investors to follow.

Our new incremental capital opportunities are based on customer-driven investments that were developed through our increased stakeholder engagement strategy. Our strategy initially kicked off with the City of Houston on our collective Resilient Now initiative under the leadership of Mayor Sylvester Turner. It has grown to include over 30 cities and some of our largest industrial customers. With their collective input, we have developed $5.3 billion in additional capital opportunities related to increased systems resiliency, reliability and grid modernization, as well as to facilitate eventual EV adoption.

Now there is a well-known saying that demographics is destiny. And then looking at its demographics, the City of Houston is destined for great things. As the only investor owned utility headquartered in Texas, we are fortunate to serve customers in the City of Houston and its surrounding areas. The Houston area is one of the fastest-growing and most ethnically diverse areas in the nation, averaging more than 2% annual population growth over the last three decades.

We believe that this diversity only strengthens Houston's future growth prospect, which benefits our customers and investors alike. Although Houston today is well-known as the Energy Capital of the world, not as well-known is that it's also home to one of the largest active ports in the nation and the Houston-based Texas Medical Center, which is the largest medical center in the world.

For example, the port of Houston is the largest port in the US by waterborne tonnage and it's also the US's largest exporter with over $140 billion of goods shipped annually. This is more than 35% greater than that of New York, the next largest US shipping exporter. The Houston Ship Channel's Petrochem complex alone, both 272 chemical plants, refineries and other industrial facilities, which generate about $800 billion a year in business annually.

Just this summer, an additional $1 billion project was started to widen and deepen the channel to support immense future growth. In addition, the Port Authority is now looking at electrifying its port operation, this will also benefit our customers and communities who live near the port by helping reduce emissions from idling cargo ships.

Turning to the Texas Medical Center, or TMC, if this complex was standing on its own would already be the 8th largest business district in the United States. And just last month, was announced that the TMC would nearly double its size in the next 5 years to 10 years. It is now anticipated that this doubling in size of the TMC will alone create over 100,000 new jobs, with a greater focus on the biosciences and biomanufacturing of critical medical products that TMC should continue to attract diverse talent for years to come.

Today, it already sees roughly 8 million patients every year, so much like the region, it continues to grow. Lastly and perhaps the purest illustration of Houston's incredible organic growth, there are over 70,000 births in the Houston area alone last year, that's a new baby born every seven minutes. While Houston's natural growth and positioning in the Gulf Coast provides a clear competitive advantage, we are also mindful of our exposure to severe weather.

Our Houston Electric customers know what's at stake, a day without power can equal a loss of up to $1.4 billion of GDP. This is one factor that drives a collective community desire for a more reliable and resilient energy supply. This desire has led to customer-driven investment opportunities that we will be folding into our 10 year capital plan through 2030.

For reasons to be discussed next, at this time, we're now only incorporating $2.3 billion of this additional $5.3 billion in capital into the balance of our existing 10 year investment plan through 2030. $1 billion of this is expected to be deployed by the end of 2025 and another $1.3 billion to be deployed by the end of 2030, all for the benefit of our customers. And while we are not updating our Analyst Day non-GAAP EPS guidance targets previously discussed, the deployment of this increased capital will clearly increase the potential future earnings power of the company.

The initial $2.3 billion in capital now being added to our investment plan reflects the subset of opportunities, we believe we can currently and confidently execute efficiently and is comprised of the following. $1.6 billion to $1.8 billion of this new capital will be dedicated toward our distribution system resiliency, reliability and expanded grid modernization. This also includes strategically undergrounding certain parts of our system, replacing poles with higher wind resistant ones and elevating parts of the grid, especially substations to help protect such structures from the threat of flood damage.

We recognize our customers want more resiliency more quickly, which is why we have already jumped ahead and began some of these projects in 2022. For example, $300 million of the $1.6 billion to $1.8 billion related to this category of capital spend is expected to be completed by the end of this year. $600 million to $800 million of this new capital will be focused on transmission upgrades.

As we've stated before, our Houston Electric service territory comprises just 2.5% of the geographic footprint of the state of Texas, but we consume nearly 25% of ERCOT's peak summer load. At the same time, our service territories need to import up to 60% of that load from generators outside our territory. This requirement to import a significant portion of the energy that is consumed in the Houston area, each and every day creates a risk of disruption.

As this summer is illustrated, when Houston endures sustained high temperatures, statewide power generation can struggle to keep up with demand and the need for additional transmission lines to deliver a cheaper and more diverse power supply for our customers in the Houston area becomes even more apparent.

On top of the $2.3 billion described above, we have separately identified other capital investment opportunities of $3 billion, which we will opportunistically integrate into our long-term capital plan. These additional opportunities include even more grid modernization and system reliability investments, as well as the increased investments for accelerated electrification in the Houston area, including EVs.

As a reminder, we conservatively estimate that each light duty EV brings approximately $80 in margin to us per year. The Houston area remains a laggard in the adoption with about 30,000 EVs on its roads today. None of the potential future earnings upside from additional EV penetration is reflected in our current earnings forecast.

Furthermore, the $3 billion in additional future capital spend I mentioned earlier, does not fully include the potential impact of increased or accelerated EV adoption. With nearly 5 million cars in the Houston area, that is a lot of potential upside. The remaining $3 billion of opportunities beyond the $2.3 billion that we've added to our investment plan through 2030 also provides capital upside and additional potential earnings power for us.

However, as is our management team's history, we are taking a prudent approach and are not yet adding it to our capital plan. We will start to add these amounts incrementally to our planned capital spend once we're convinced we can access the labor, nail down the availability of the equipment and deploy it to the benefit of our customers.

In other words, we fully expect to include the $3 billion balance of the $5.3 billion of these other new capital opportunities on our plan when we believe we can operationally execute it, efficiently fund it and prudently recover it. This approach is no different than our recent history of folding incremental capital into our plan once we are convinced we can efficiently deploy it to benefit our customers. The customer benefits of our revised capital plan are exciting and tangible, enhancing both reliability and resiliency, while also helping us to advance the restoration of service during outages.

To summarize this capital spend, this will increase our current capital plan by $2.3 billion, which now totals nearly $43 billion through 2030. As I stated today, we are only including $2.3 billion of investments in our updated capital plan, for which we believe we have the crews and materials can efficiently finance while remaining focused on overall affordability, at the same time, customers are facing rising energy costs.

The remaining $3 billion will be folded in, once it also meets that same criterion, which we believe will be achievable through prior securitization charges rolling off, our commitment to

O&M discipline and the continued organic growth in our Houston Electric service (Technical Difficulty) territory. This increased capital investment will also contribute to our ongoing efforts to reduce O&M over the longer term, which will help continue to keep customer bills affordable.

Included in our capital spend are grid modernization investments, such as circuit reclosers and other smart grid investments that will reduce the number of truck rolls to restore power, which should translate into lower O&M costs that directly benefit our customers. The benefit of O&M savings is exemplified by the fact that every dollar saved of O&M roughly translates to $8, that can be invested as capital for the benefit of customers. This ability to reduce O&M along with prior securitization charges coming off the bill in 2022 and 2024 and continued organic growth creates a perfect opportunity to invest incremental capital for the benefit of our customers, while keeping customer charges affordable.

We believe our continued O&M discipline in organically growing Houston customer base will also allow us to make these investments, while customer charge increases stay below the average historical level of inflation of 2%. This is in line with the increase to our charges that we've seen for our Houston Electric customers over the last 10 years, which averaged a little over 1% annually.

We also still expect to reduce our O&M by 1% to 2% per year on average over our 10 year plan. And in case you're wondering, this updated capital plan still does not require us to issue any additional external equity, nor does it rely on the use of strategic proceeds from the sale of any additional regulated CenterPoint assets as our cash flow remains strong. This is a nice combination and a great position to be in today. Jason will walk you through our capital investment financing plan in a few minutes.

Importantly, recovering our updated capital plan does not rely on any big bets, as approximately 80% of the total plan can be recovered through interim regulatory mechanisms. And again, Jason will go into more detail on the funding and financial details of this in his section.

So in summary, before I turn the call over to Jason, our management team is committed to executing on what we believe is one of the most tangible growth stories in the industry, which is driven by the growth profile of our largest jurisdiction, the Houston area. Our customer-driven investments are focused on meeting our customers' desire for reliable and cleaner energy, so they can continue to contribute to one of the country's strongest and fastest-growing economies.

We will look to deliver on those investments while keeping customer charges affordable, targeting charge increases at or below an average of 2% annually through 2030. As we continue to engage with stakeholders, we believe additional customer-driven opportunities can be identified and we look forward to furthering those customer discussions to help them achieve their own objectives.

We reiterate 2022 non-GAAP EPS guidance of $1.37 to $1.39, a 9% growth rate over 2021, while initiating 2023 non-GAAP EPS guidance of $1.48 to $1.50 per share, a further 8% growth. After that, we continue to target a further 8% growth through 2024 and at the mid-to-high end of 6% to 8% annually thereafter through 2030 and industry-leading growth rate. As a result of customer-driven initiatives, we have identified $2.3 billion of new capital and $3 billion of future capital to increase resiliency, grid modernization, as well as to facilitate expanded electrification that will drive additional potential earnings power.

We believe our continued focus on over delivering on our commitments has served our customers and investors well and will continue into the future. We are proud of our 10 consecutive quarters of execution and look to build on that streak, while also delivering above expectations for the benefit of both our customers and our investors. Lastly, we remain focused on achieving our value proposition, which is striving for sustainable, resilient and affordable rates for our customers, sustainable earnings growth for our shareholders and a sustainable positive impact on the environment for our communities.

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

Jason P. Wells {BIO 19168211 <GO>}

Thank you, Dave, and thank you to all of you for joining us this morning for our third quarter call. And thank you, Dave, for those kind comments. I sincerely appreciate your continued mentorship and I also want to take a moment to thank the Board for their continued support. I am humbled and honored to work alongside this great team we have here at CenterPoint in a different capacity starting next year. And I will remain committed to continuing to over deliver for all of our stakeholders as I approach this new role.

Now I'll start by covering the financial results for the quarter as shown on Slide 5. On a GAAP EPS basis, we reported $0.30 for the third quarter of 2022. Similar to the second quarter, our GAAP EPS results include a portion of the tax on the gain on sale of our Arkansas and Oklahoma gas LDCs, which we're required under GAAP to recognize over the course of the full year. On a non-GAAP EPS basis, we reported $0.32 for the third quarter of 2022, compared to $0.25 for the same period in 2021.

Growth in rate recovery contributed $0.05, largely driven by continued organic customer growth and capital recovery mechanisms for Houston Electric, which included TCOS and one month of DCRF recovery. Usage for this quarter was a favorable variance of $0.02 when compared to the same quarter of 2021, largely driven by warmer weather than normal that we've been experiencing here in the Greater Houston area.

Ongoing cost management was a benefit of $0.02 for the quarter, and we have been able to pull forward work for the benefit of our customers due to favorable weather through the second and third quarters of this year. This included accelerating additional vegetation management work into 2022, which began in the second quarter. We continue to expect to achieve our average annual 1% to 2% O&M reductions over the 10 year plan. These favorable drivers were partially offset by higher interest expense of $0.04, $0.01 of which related to absorbing costs previously allocated to our midstream segment in 2021.

Other items contributed another $0.01 of favorable variance over the comparable quarter in 2021. Included in these other drivers are miscellaneous revenues and the disallowance of the

2021 winter storm-related extraordinary gas cost recovery by the Minnesota Public Utilities Commission.

As Dave mentioned, we are initiating non-GAAP EPS guidance of $1.48 to $1.50 for 2023, which represents 8% growth over the midpoint of our previously increased 2022 non-GAAP EPS guidance of $1.37 to $1.39. We continue to target 8% growth through 2024 and at the mid-to-high end of the 6% to 8% range annually thereafter through 2030.

Before I turn to the future capital updates, I want to note that we are tracking nicely against our 2022 capital plan as seen on Slide 6. Through the third quarter, we spent $3.2 billion, which represents nearly 70% of the updated current year $4.6 billion capital plan target. Again, these figures include the incremental $300 million investment in grid hardening that Dave discussed.

Now shifting to the long-term capital plan and its corresponding earnings growth. As Dave already touched upon, we are updating our capital investment plan to include an incremental $2.3 billion of customer-driven capital, which now totals nearly $43 billion of capital to be deployed through 2030. Because we continue to update on our previously announced 10 year capital plan, which we're already two years into, this is really increasing the remaining eight years by $2.3 billion. Furthermore, we have an additional $3 billion of potential opportunities that we will continue to evaluate to determine the appropriate time to incorporate these in our capital plan.

You may notice on Slide 17 of the appendix, that the timing of our capital deployment has shifted somewhat from our last Analyst Day. As I will discuss later, the Posey solar project is now expected to be placed into service in 2024 rather than the end of 2023. In light of the supply chain delays and in line with what we previously communicated, this shift in our capital profile was not completely unexpected and does not change our view of our non-GAAP EPS guidance for 2023 or beyond, because of the capital investment we announced we executed on earlier this year.

It is also important to reiterate the recovery of this incremental capital is not based on any big bets. It is a series of small projects that we expect will be recovered through our routine and recurring interim capital recovery mechanisms. The result of the incremental $2.3 billion customer-driven capital investment will drive a rate base CAGR of over 9.5% through 2030.

We are not updating our longer-term non-GAAP EPS growth guidance of 8% in 2024 and at the mid-to-high end of the 6% to 8% range annually thereafter through 2030, despite this increase in capital investment. That is because it's very important to remember that we have a large number of rate cases in 2024 that will begin to set rates in 2025. We will update our long-term non-GAAP EPS growth estimates after those cases are resolved. However, I want to reiterate this additional capital investment we are announcing today will undoubtedly provide incremental earnings power for the company.

Our goal continues to be delivering industry-leading growth each and every year, while over delivering for our customers and our shareholders. On the matter of upcoming rate cases, we are taking measured steps to achieve constructive outcomes for all stakeholders. For example, we have already funded Houston Electric's current capital structure with 45% equity, despite the current improved capital structure being 42.5%.

When looking at other non-ERCOT Texas utilities, national averages and the fact we have potential exposure to severe weather, we believe a 45% equity ratio is the minimum level that should be considered going forward. We've not assumed an increase in our equity ratio and our long-term EPS growth guidance, but we will work with our stakeholders to find a constructive resolution in our next rate case.

Now turning to the financing of our capital plan. As Dave discussed, the updated capital plan does not require external equity financing, nor does it require the sale of any of our rate-regulated utility assets. The capital plan is expected to be funded through OpCo debt consistent with our regulatory capital structure and higher FFO from potential changes in capital structure or the cash currently funding the 45% equity ratio at Houston Electric, for which we only have approval for 42.5%.

I also want to point out that we used some conservative cash estimates at our previous Analyst Day, specifically around cash taxes associated with the sales of the energy transfer units and gas LDCs. This provided an additional source of cash that we can use to help fund this incremental capital. We believe we'll be able to deliver on this increased capital plan, while still targeting long-term FFO to debt of 14% to 15%. As of the end of the third quarter, our FFO to debt was over 15% above our stated target aligning with Moody's methodology.

Shifting gears, there has been some concern among the shareholders around the level of floating rate debt some utilities have. I want to address this topic. We intentionally entered 2022 with an elevated level of variable rate debt as we knew we were going to delever using the strategic proceeds from the sale of energy transfer units in the Arkansas and Oklahoma gas LDCs.

We have paid down over $1.6 billion in floating rate debt this year, resulting in a 35% reduction in floating rate debt since the beginning of 2022. In addition, as of the end of the third quarter of 2022, we have reduced our parent level to total debt by 9 percentage points from the beginning of the year and project to be around 20% by the end of the year.

With our continued focus on reducing parent level debt as a percentage of total debt and successful restructuring of the legacy vector and legal entities, next year we will look to finance SIGECO at the OpCo level, which should allow us to reduce parent level debt by another $640 million, resulting in a more normalized and efficient financing structure for both our customers and our investors.

One other item to note is, we have the ability to file rate cases earlier than previously communicated and will likely take this approach for CERC. We anticipate CERC filing a Texas rate case in mid-2023, which will allow us to update our revenue requirement for among other things, increased interest costs.

Moving on to a broader regulatory update on Slide 9. In Minnesota, we saw the full recovery of the $409 million of extraordinary gas costs incurred during the winter storm, Uri. While at the same time, we sought to minimize the impact on our customers by extending the recovery of that amount to five years. In May, the two administrative law judges that heard the evidence concluded that we acted prudently to procure gas to serve our customers during the extreme event.

Unfortunately, in a split decision, the Minnesota Public Utilities Commission disallowed recovery of approximately $36 million of the total $409 million incurred or about 8.7% of the total. Similar percentage disallowances were applied by the Minnesota PUC to other companies that had excess gas cost in the state. As this case continues, we will work towards an outcome that we believe is both fair for our customers and CenterPoint alike.

We also have a couple of securitizations that we continue to make progress towards completing. In Texas, the securitization related to extraordinary gas costs incurred during winter storm Uri continues to work its way through the regulatory process, and we expect to receive the approximately $1.1 billion of bond proceeds by the end of 2022.

In Indiana, we continue to work with stakeholders to finalize a first-of-its-kind $360 million securitization of the AB Brown coal facilities that will result in savings for our Indiana electric customers. We're expecting a decision by the end of this year and if the financing order is approved, a bond issuance would occur sometime in the first quarter of 2023.

Aside from the extraordinary gas cost and securitizations, we have a few other regulatory items I want to highlight. We had a constructive outcome in our gas rate case in Minnesota, where we settled our rate case, which resulted in a revenue increase of approximately $48.5 million. In addition, we filed for our second TCOS recovery in Texas for approximately $38 million, which we anticipate to start recovering in November this year.

Moving to our Integrated Resource Plan update. We're focused on delivering on our Indiana generation transition to support our net-zero goals. And as I just discussed, we are still on track to receive a securitization order by the end of 2022 and bond proceeds in Q1 of 2023. Our Posey County Solar asset was originally expected to be placed in service in the fourth quarter of 2023. The project is now anticipated to be placed in service in 2024, due to supply chain delays. Given this delay, the forecasted capital amount for 2023 on the electric side has been shifted to 2024. But as a reminder, we are able to begin recovery as soon as the plant is placed into service.

To enhance the disclosures around our progress of our energy transition, we have also published our first task force on climate-related finance disclosures report, which we committed to at our 2021 Analyst Day. 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.

David J. Lesar {BIO 1519300 <GO>}

Thank you, Jason. And once again, congratulations. As you heard from us today, we have 10 straight quarters of meeting or exceeding expectations. We are a pure play regulated utility, with industry-leading incremental growth opportunities driven by our customer demands.

Jackie Richert {BIO 22513026 <GO>}

Thank you, Dave. Operator, we are now ready to turn the call over to Q&A.

Questions And Answers

Operator

At this time, we will begin taking questions. (Operator Instructions) Our first question comes from Anthony Crowdell with Mizuho. Your line is now open.

Q - Anthony Crowdell {BIO 6659246 <GO>}

Hey, thanks so much for taking my questions. Congratulations, Jason and that's a lot in a new position and I guess, your new team goes (inaudible)

A - Jason P. Wells {BIO 19168211 <GO>}

Thanks, Anthony.

Q - Anthony Crowdell {BIO 6659246 <GO>}

Dave, if I could think -- it was the first question, just some insight or color into the CFO search. Are you looking internally to the utility sector externally? Just what's the ideal candidate? And I have a CapEx question after that.

A - David J. Lesar {BIO 1519300 <GO>}

Okay. No, I think this is going to be a really, really attractive job for a CFO. So we're going to cast that really, really wide essentially across the whole public spear in the US and see what we can find. But as I said, I think it's going to be a great opportunity, a great job, and I expect that we're going to see some really good candidates.

Q - Anthony Crowdell {BIO 6659246 <GO>}

Great. And then on Slide 7, I just wanted to focus on the $3 billion of incremental opportunities. Just if you give us some like structure and timing of that? Is that something that I could apply maybe linear throughout the forecast period as a back-end loaded? Just any color you could give on that $3 billion and where we should be applying that in our forecast?

A - David J. Lesar {BIO 1519300 <GO>}

Yeah. I think, the way to think about this is look at the track record that we've developed as a management team. I think, we've done a pretty good job identifying sort of incremental capital opportunities, finding a way to efficiently execute that, fund it and bring it into our rate base at the right time. And this is really no different. Maybe it's a little bit bigger than the ones we've had in the past. But I think from a context standpoint, if you think back to our first Analyst Day, this is the fifth time that we've raised capital. If you go to our second Analyst Day, this is the third time that we've raised capital.

So I think we've got a pretty good track record of identifying and bringing this into not only execution and then rate base, but then earnings. And as we said a couple of times, and hopefully, Jason sort of walked you through the numbers, our guidance targets do not include any of the earnings from this. But I think the really important thing to focus on is that, we still continue to believe that we will have industry-leading growth as we basically take on all the headwinds and the tailwinds that are thrown at us in this business. But I think the bottom line is, I think industry-leading growth.

Q - Anthony Crowdell {BIO 6659246 <GO>}

Okay. If I could just squeeze one in for Jason. Jason, you talked about you pulled forward some O&M from '23 [ph] to '22 [ph]. And I think you mentioned maybe some vegetation management. Are you able to quantify how much O&M you pulled forward to '22 [ph]?

A - Jason P. Wells {BIO 19168211 <GO>}

Anthony, I would think about it as a couple of cents of pull-forward work that we've incurred already, and we continue to look to optimize our plan in the fourth quarter. And I think this is just an incredible luxury that we have to continue to do more work on the system for the benefit of our customers, as well as kind of giving us additional flexibility as we enter '23 from an earnings standpoint. So we're happy to continue to executing on it. We've incurred about $0.02 of that and still have some to go in the fourth quarter.

Q - Anthony Crowdell {BIO 6659246 <GO>}

Great. Thanks for taking my questions. And David, the strokes need to win. I don't know if we can handle, if every successful Philly Sports mindset.

A - David J. Lesar {BIO 1519300 <GO>}

We're hoping for the best.

Operator

(Operator Instructions) Our next question comes from Steve Fleishman with Wolfe Research. Your line is now open.

Q - Steve Fleishman {BIO 1512318 <GO>}

Hey, good morning. Good morning, Dave. Congrats, Jason. So just the $2.3 billion of CapEx that's in the plan, but not kind of in the earnings power, how should we -- I mean, I assume you're not going to spend that if you're not going to get it recovered. So is it just a matter of kind of getting the certainty on the visibility of recovery to get that into the kind of earnings outlook instead of just earnings power?

A - Jason P. Wells {BIO 19168211 <GO>}

Thanks, Steve, for the question, and that's right. We wouldn't spend it, if we didn't have full confidence that we'll earn on it. We continue to stress that we've got great capital recovery mechanisms here across our jurisdictions, that this is capital that our customers are asking for. And so, we have confident that as we execute this work, we will fold it into rate base and earn on it.

Really, the fact that we haven't increased the long-term EPS growth targets is really a function of the point that I stressed in our prepared remarks. I mean, we are entering a period here in 2024, where we'll have several major rate cases, Houston Electric, Texas Gas, City and Electric, among others. And I think it's just prudent for us. We've taken conservative assumptions as we approach those rate cases. But I think it's prudent for us to kind of get to the other side.

I think the takeaway, though, is the capital we're deploying will flow at a rate base. We have confidence in that and undoubtedly enhances the long-term earnings power of the company. I think, the other thing just to point out beyond the capital from the standpoint of the long-term earnings power of the company, I want to reemphasize what I shared in my prepared remarks, we've already prefunded a higher equity ratio at Houston Electric as well. And while we have not assumed that increase in the long-term earnings growth rates that we provided, should we be successful in achieving that higher equity ratio, that presents yet another tailwind without a financing overhang. And so, I think we are just continuing to put ourselves in a position to over deliver for our shareholders, our customers and continue to enhance what is an already industry-leading growth rate.

Q - Steve Fleishman {BIO 1512318 <GO>}

Okay, great. That's helpful color. And when you talked about kind of incremental CapEx going back in the past. There was also a discussion of potential asset sales that could potentially help fund it. And I think there's been more concern in the market just on asset sale values given just the financial market conditions, higher rates. Could you just comment if anything changed in the strategy on asset sales and why maybe that's not discussed as part of this updated plan?

A - Jason P. Wells {BIO 19168211 <GO>}

Sure. Thanks for the question, Steve. No change in our strategy. Our strategy is to finance our incremental capital as efficiently as possible. We are fortunate today as part of this CapEx update to have identified sources of funding that are more efficient than incremental sales of our utility assets. We've had a handful of conservative assumptions around tax positions, which have all resolved themselves favorably for the company.

As I said, we prefunded the equity ratio at Houston Electric. We will either have higher FFO coming out of that as a result of that higher equity ratio, we can pull back and use the cash to fund the capital directly. And so, I think we have not changed our approach to strategy. We just continue to find the most efficient sources of funding this incremental capital.

More broadly, to your point though, we have not seen a softening in the private demand for utility assets as we've talked about extensively over the years. With our previous communications, we still continue to receive pretty extensive outreach and interest. We just have not, as I said, needed to take that approach, because we continue to find other sources that are more efficient to fund the CapEx that we've announced today.

Q - Steve Fleishman {BIO 1512318 <GO>}

Great. Very helpful. Thanks.

Operator

[Operator Instructions) Our next question comes from Julien Dumoulin-Smith with Bank of America.

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

Hey Jason, congratulations and good morning to the team. Thank you guys for the time. I think, if I may..

A - Jason P. Wells {BIO 19168211 <GO>}

Thanks, Julien.

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

Of course, absolutely. If I may just picking up on Steve's question there a little bit further here. Can you talk a little bit about when you get to a position to talk about that mid-to-high end of 6% to 8% here, I mean, as you describe it, you're going to wait until the other side of these cases, which puts you perhaps in the later half of '24 to give that update on the '25 onwards outlook. And at the same time, if I can, during the pendency presumably of a CEHE case, presumably there might be additional lag given the lack of the track or follow through. How do you think about the step up in '25 earnings power given the additional CapEx, as well as the related step up type earnings from the cases, given the trajectory of 8% in '24 and 6% to 8% in '25?

A - Jason P. Wells {BIO 19168211 <GO>}

Thanks, Julien, for the question. There's a lot there. Let me try to sort of unpack a handful of these items. I wouldn't ascribe an exact time line to the update on the long-term growth rates of company sort of post these rate cases. As you said, we want to resolve those cases constructively and favorably for all stakeholders as we have better certainty, we will provide an update.

I think, what I want to stress around this point, though, is we would not spend this capital if we didn't assume and have a high degree of confidence that it would be included in rate base. And so, as you model as others model, I would look at enhancing and increasing the long-term earnings power of the company sort of post these rate cases.

I think, as it relates to kind of navigating a handful of these time lines, we have a fair degree of flexibility with respect to the capital trackers just given the multiple jurisdictions that we operate in. We will not have access to the capital trackers here in our Texas businesses while we're in those rate cases. So that does present a small amount of additional regulatory lag as we look to earn on those. We have tried to get in front of that issue by accelerating additional capital here into '23 that we will file for recovery for -- sorry, here in '22 that will file for recovery in '23, and we'll be fully into the earnings power of the company in '24.

We also have a fair degree of flexibility in Indiana Electric, particularly with the generation transition that will coincide with the timing of these rate cases. As you may recall there, as we bring our renewable projects online, we can begin earning at the month they become operational. And so, there is minimal if any regulatory lag with respect to the investments in Indiana Electric. And so, we're sequencing these investments, either having accelerated as I said this year, we're balancing some of the chunkier projects over the next couple of years to sort of seamlessly work through the rate cases that are on the horizon. But the short of it is, again, we wouldn't spend this capital if we didn't believe and have confidence that we'd earn on it. And so, the takeaway should be, this enhances the long-term earning power of the company.

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

Got it. Indeed, it does. And if I may, just going back to the -- here and now, if you will. Thanks for the additional details on the reduced variable rate debt year-to-date. You mentioned accelerating rate cases and offset. You talked about timing of costs and accelerating some of those costs. What are the other mitigation opportunities at corporate or else or, frankly, to dampen the impact of these higher financing costs to maintain the EPS trajectory, which you obviously have, but what other latitude levers might there exist?

A - David J. Lesar {BIO 1519300 <GO>}

I would say, Julien, I think you hit on the cost side. I think the big one that we talked about that people sometimes forget about it as soon as we talk about it is our organic growth. I mean, we are spreading -- as we reduced our O&M where we're spreading a smaller amount of O&M across a larger rate base or a larger customer base year-after-year-after-year, and that's just the luxury most other utilities don't have.

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

Got you. Indeed, excellent. Well, good luck and we'll see you soon.

A - David J. Lesar {BIO 1519300 <GO>}

(Multiple Speakers) Thanks, Julien.

Operator

(Operator Instructions) Our next question comes from Jeremy Tonet with J.P. Morgan. Your line is now open.

Q - Jeremy Tonet {BIO 15946844 <GO>}

Hi, good morning.

A - David J. Lesar {BIO 1519300 <GO>}

Good morning, Jeremy.

A - Jason P. Wells {BIO 19168211 <GO>}

Good morning, Jeremy.

Q - Jeremy Tonet {BIO 15946844 <GO>}

Thanks for taking my question here. And just wanted to build a little bit more, I guess, in Houston opportunity. And what milestones are you looking for from Houston to incorporate more of this $3 billion potential incremental capital? I'm just trying to get a feel for timing possibilities here.

A - Jason P. Wells {BIO 19168211 <GO>}

Yeah, thanks again for the question, Jeremy. I mean, a couple of points that I'll stress that Dave made in his prepared comments. We have had a history here now 5 times since our first Analyst Day, 3 times since our second Analyst Day of increasing our CapEx. So hopefully, we've built a track record of that as we identify this capital that's in the best interest of our customers, we look to efficiently fold it in. I wouldn't, again, put a time line on it.

What we're looking at is kind of balance sheet in probably three factors, confidence in execution. We've been significantly increasing our CapEx over the last couple of years. We want to make sure that we have access to the materials, the crews and that we're putting away this capital effectively for our customers. And second, we always are cognizant of where we are with respect to rate increases for our customers and so, we try to balance that over the plan.

And then third and finally, we look to finance the incremental capital efficiently for the benefit of our shareholders and investors. And so, I wouldn't think about this as I'm not going to sign a specific time line. I wouldn't also look at this as a series of big chunky projects. This is sort of additional routine spend that we will look to fold in when we have confidence on those three factors. And hopefully, we've earned the trust that we have a track record of doing so.

A - David J. Lesar {BIO 1519300 <GO>}

Yeah. I would just like to add, I think Jason did a great job sort of covering the strategic aspects of it coming in and hit on the really important point at the end there. And then, I hope that with all of you, we've developed the confidence. You have the confidence in us that we're always going to do the right thing at the right time, what's best for our customer and what's best for our investors. And I think you should think about this $3 billion and no other context than that. When we kind of identify it, we'll execute it. We'll get it in the rate base, and it will help our customers.

A - Jackie Richert {BIO 22513026 <GO>}

Operator, if you would (Technical Difficulty) have time for one more call.

Operator

(Operator Instructions) Our next question comes from Durgesh Chopra with Evercore. Your line is now open.

Q - Durgesh Chopra {BIO 20053859 <GO>}

Thank you for taking my question. Jason, congrats.

A - Jason P. Wells {BIO 19168211 <GO>}

Thanks, Durgesh.

Q - Durgesh Chopra {BIO 20053859 <GO>}

Yeah, absolutely. Just one quick question, and then I'll follow up with Jackie on the other one. Could you just give us what the pro forma variable debt amount would be post securitization proceeds for the dollar amount? And then as a percentage of your total debt, please? Thank you.

A - Jason P. Wells {BIO 19168211 <GO>}

So the one point, it's for the Texas securitization, because we have two securitizations spending the Texas guests securitization, it's $1.1 billion of incremental debt that we will pay down, and then we have the second securitization in Indiana, which is about another $360 million in proceeds that we expect kind of at the end of the third quarter. That will leave us with about $1.5 billion of variable rate debt as we enter next year. Some of that, as I said, attributable to our Texas gas businesses that we will file a rate case for in the middle of next year that helps reduce any potential long-term earnings drag from that higher level of interest costs that we'll see there.

Q - Durgesh Chopra {BIO 20053859 <GO>}

Cost of $1.5 billion. Thanks so much guys. Appreciate the time.

A - Jackie Richert {BIO 22513026 <GO>}

All right. Operator, thank you so much for the time today, everyone, for the call. This will conclude our call, and we look forward to seeing everyone in EEI.

Operator

This concludes CenterPoint Energy's Third Quarter Earnings Conference Call. Thank you for your participation.

A - Jackie Richert {BIO 22513026 <GO>}

Thank you.