Q4 2023 Earnings Call

Company Participants

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

Other Participants

- David Arcaro, Analyst, Morgan Stanley
- Durgesh Chopra, Analyst, Evercore
- Julien Dumoulin-Smith, Analyst, Bank of America
- Nicholas Campanella, Analyst, Barclays
- Ross Fowler, Analyst, UBS
- Shar Pourreza, Analyst, Guggenheim Partners
- Steve Fleishman, Analyst, Wolfe Research

Presentation

Operator

Hello all, and welcome to the Duke Energy Fourth Quarter and End Year 2023 Earnings Call. My name is Lydia, and I'll be your operator today. (Operator Instructions)

I'll now hand you over to Abby Motsinger, Vice President of Investor Relations to begin.

Abby Motsinger {BIO 23109787 <GO>}

Thank you, Lydia, and good morning, everyone. Welcome to Duke Energy's fourth quarter 2023 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. Actual results may differ from forward-looking statements due to factors disclosed in today's materials and in Duke Energy's SEC filings. The appendix of today's presentation includes supplemental information along with the reconciliation of non-GAAP financial measures.

With that, let me turn the call over to Lynn.

Lynn J. Good {BIO 5982187 <GO>}

Abby, thank you, and good morning, everyone.

Today, we announced 2023 adjusted earnings per share of $5.56, finishing the year within our guidance range, and demonstrating once again our ability to exercise agility and managing our business and meeting our commitments. We also announced 2024 guidance of $5.85 to $6.10, with a midpoint of $5.98. This represents 6% growth from our original 2023 guidance. And we extended our 5% to 7% EPS growth rate through 2028 up to the midpoint of our 2024 range.

We entered the year with significant momentum. 2024 marks a fundamental repositioning of our investment proposition. With the commercial renewables sale, we've transformed our business to become a fully regulated utility for the first time in decades. Along with improved regulatory constructs, we're poised to deliver on our simplified 100% regulated growth plan.

Our Southeast and Midwest utilities operate in some of the fastest-growing and most attractive jurisdictions across the US. We expect growth in our service territories to accelerate as we move further into the energy transition driving substantial investment. We are now projecting $73 billion in CapEx over the next five years an $8 billion increase versus our previous plan.

Turning to Slide 5. 2023 marked another year of outstanding accomplishments across our business, building on our compelling growth story as we move into '24. As I mentioned, we completed our portfolio repositioning and delivered multiple constructive regulatory outcomes, while maintaining our commitment to safety and customers.

We executed five rate cases, and I'm proud of the constructive results the team has delivered. We received orders approving $45 billion in historic and future rate base investments that will provide growth to customers for years to come. There was also a recognition of the rising cost of capital with improving ROEs and equity ratios. And in North Carolina, we implemented forward-looking multiyear rate plans for the first time ever. The performance-based regulations authorized by HB 951 provides certainty, predictability and value to customers and the company. This milestone was accomplished through years of work with policymakers, legislators and other stakeholders.

Shifting to operations, our teams performed well throughout the year, serving our customers and extreme weather conditions and restoring power following historic storms in Indiana and Florida. Providing safe reliable power in all seasons and circumstances remains our mission. In fact, in 2023, Duke Energy Florida had its best reliability performance in more than a decade, largely due to our significant storm protection plan investments. These investments also aided restoration efforts in Hurricane Idalia, saving outage minutes and speeding return to service.

In the Carolinas, our nuclear fleet continues to generate safe reliable carbon-free power, achieving a capacity factor of 96%, the 25th year in a row above 90%. And underpinning all of this in a hallmark of our commitment to operational excellence, 2023 marked our best safety performance in Company history as measured by a total Incident Case Rate of 0.31.

Safety is a core value at Duke Energy, and I'm proud of our employees' commitment to event-free operations. Finally, the Piedmont team continues to excel and customer service. For the second year in a row, J.D. Power ranked Piedmont number one and residential customer satisfaction for natural gas services in the Southeast. And our Carolinas Electric Utilities continue to achieve strong results as well, remaining in the top quartile.

Moving to Slide 6. We started the year entering the next phase of our energy transition, a period of execution and record infrastructure build to meet the evolving energy needs of our customers and communities. We're working with stakeholders to develop resource plans to support the phenomenal growth in our communities.

In the Carolinas, demand is already outpacing the forecast used in our August resource plan filings, and we filed supplemental portfolios in January. We're committed to meeting this growth with a diverse and increasingly clean energy mix that includes renewables, natural gas, next-generation nuclear and storage resources, as well as energy efficiency and demand response tools.

We're also taking steps to build new generations. In North Carolina, we'll file CPCNs for over 2 gigawatts of new natural gas generation in '24. We'll continue to advance annual solar procurements targeting 1 gigawatt per year. And in Indiana, we will file CPCNs for new-generation resources around midyear. These new facilities will add to our diverse mix of resources and are critical to meeting growing customer demand as we reliably exit coal by 2035.

From a regulatory perspective, we've announced two rate cases in 2024 starting with DEC South Carolina in early January. Since the last case in 2018, we invested more than $1.5 billion to improve reliability and resiliency and meet the growing energy needs of our more than 650,000 customers. And in Florida, we notified the Commission of our intent to file a rate case in April. Similar to our current multiyear rate plan, which runs through 2024, this filing will cover three years of investments beginning in 2025. Our plan will add over a thousand megawatts of new solar and include over $3 billion of grid investments to serve population growth, increase reliability and reduce storm-related outages. Finally, since our last rate cases at Duke Energy Indiana, and Piedmont North Carolina, we've continued to make investments to strengthen our system and we're evaluating the timing of our next filings in these jurisdictions.

In closing, I'll move to Slide 7, which depicts the transition of Duke Energy over the last many years to the premier regulated utility that it is today. The strategic and financial clarity provided by optimizing our portfolio over the last decade has simplified Duke Energy to a powerful core regulated business operating in vibrant jurisdictions, growing through population migration and strong commercial and industrial economic development. Our growth potential is the highest it's been in decades and is reflected in our $73 billion capital plan. This plan is driven by grid investments to transform the largest T&D system in the US, and IRP-related generation investments to support our growing jurisdictions and fleet transition. And efficient recovery mechanisms allow us to translate these investments into customer and investor value.

In closing, we have positioned Duke for long-term value-creation and our path forward is clear as we navigate the coming decade of record infrastructure build. This pivotal point in our history drives a differentiated low-risk total return proposition going forward, and I'm confident we will deliver.

With that, let me turn the call over to Brian.

Brian Savoy {BIO 18279960 <GO>}

Thanks, Lynn, and good morning, everyone.

Turning to Slide 8. 2023 marked a year of solid growth for our utilities. We achieved full-year adjusted earnings per share of $5.56, which represents about 6% growth over 2022. For the year, we saw top line growth from constructive rate case outcomes, multiyear rate plans and rider growth across our jurisdictions. Additionally, we delivered on our cost and agility efforts, which offset record mild weather, lower volumes and higher interest expense. 2023 was a year full of significant headwinds, and I'm proud of the team for executing on our agility plans, including strong fourth quarter results to deliver on our financial commitment.

Turning to Slide 9. We are introducing 2024 guidance -- our 2024 guidance range of $5.85 to $6.10. The midpoint of $5.98 represents more than 7% growth over 2023. Within Electric, we expect normal weather and retail volume growth of roughly 2%. We also entered the year with updated rates for our North Carolina utilities, including the benefit of the historic base case, as well as year one of the multiyear rate plans. Additionally, we have updated rates at Duke Energy Kentucky, and expect updated rates for DEC South Carolina in August. We'll see growth from year three of the Florida [ph] multiyear rate plan currently in effect, and we will continue to see growth from grid investment riders in the Midwest and Florida. Partially offsetting these favorable drivers are higher interest expense as well as depreciation and property taxes on a growing asset base.

Our Gas segment continues to deliver strong growth with investments across all jurisdictions related to integrity management and to serve a growing customer base. Finally, we expect the other segment to be impacted by higher interest expense and a higher effective tax rate. We ended 2023 with an ETR of 10%. Although we continue to pursue a robust set of tax optimization strategies, we expect our 2024 ETR will increase to between 12% and 14%.

Turning to retail electric volumes on Slide 10. In 2023, we saw strong residential customer growth in all jurisdictions, highlighted by the Carolinas and Florida at 2.1% and 2%, respectively. In fact, over the course of 2023, we added 195,000 new customers, the largest customer increase in Company history, and a continuation of the trend we've seen over the past few years. As a reminder, residential decoupling in North Carolina began in DEP in October and at DEC in January. This will reduce volatility and align growth with positive customer migration trends.

We have also seen significant growth in economic development opportunities in our service territories, as reflected in the recent supplemental Carolina resource plan filings. As we evaluate which projects to include in our financial plan, we recognized that site selection processes are often very competitive. We generally only include the most mature and committed projects. Focusing on those with later agreements or in very late-stage development. This gives us upside potential should additional projects progress.

Economic development opportunities in our service territories are diversified across many industries. Semiconductors, EVs, batteries, pharmaceuticals and data centers to name a few, which will provide growth from the projects themselves as well as incremental growth from residential and supplier demand. This economic development and customer migration trends give us confidence in our 1.5% to 2% load growth expectation over the forecast period.

Turning to Slide 11. Duke's proven track record of cost management will support our ability to execute an energy transition that is rooted in discipline and a commitment to safety for our employees and reliability and affordability for our customers. As I mentioned before, we delivered on our significant O&M and agility target for 2023 in response to macroeconomic headwinds and unfavorable weather. In 2024, we expect O&M to be largely flat to 2023, offsetting inflationary pressures with sustainable efficiencies. And we will continue to target a flat cost structure over the five-year plan.

Duke Energy is a leader in the industry when it comes to cost-efficiency, driven by our culture of continuous improvement. We consistently rank in the top quartile across a variety of O&M measures, and our ability to manage our cost structure to create significant value for our customers and shareholders.

Turning to Slide 12, I'd like to provide an overview of our five year $73 billion capital plan, which has increased $8 billion over our previous plan. About half of the incremental capital as a result of the rolling plan for the year to include 2028. The update reflects an early estimate of the supplemental Carolinas resource plan filed in January, as well as approved spend in the North Carolina multiyear rate plans.

Over time, our capital plan has steadily increased as we move further into the clean-energy transition, supporting a 7.2% earnings base CAGR through 2028. Grid investments represent 50% of our five year capital plan and will improve the reliability and resiliency of our system. Significant generation spend ramps up in the latter part of the plan as we add more renewables and storage assets, extend the life of our carbon-free nuclear fleet, and make prudent investments in cleaner natural gas to better serve our growing customer base.

Looking ahead, about 90% of the electric investments in our capital plan are eligible for efficient recovery mechanisms, which is critical to maintaining a strong balance sheet, mitigating regulatory lag and smoothing customer rate impacts.

Moving to Slide 13. Our ability to execute our robust capital program is underpinned by a healthy balance sheet and we remain committed to our current credit ratings. With that in mind, we are introducing modest equity to fund the increase in the capital plan we announced today. We expect to raise $500 million annually over the five year plan, starting in 2024 using at-the-market and dividend reinvestment programs.

Turning to FFO-to-debt. We have provided a walk-up showing the path to achieve our 14% target by the end of '24. Compared to 2023, we expect improvements from normal weather, rate case activity, the collection of remaining deferred fuel balances, the monetization of nuclear PTCs and equity issuances under the DRIP and ATM programs. These credit-supportive drivers give us confidence in achieving 14% FFO-to-debt in 2024, and a minimum of 14% over the long term.

Let me talk a bit more about the nuclear PTC, an important element of the Inflation Reduction Act that will provide substantial savings to our customers over time. As an operator of 11 low-cost nuclear units in the Carolinas, we expect to qualify for several $100 million per year of nuclear PTCs beginning in '24. We intend to monetize the credits in the transferability markets established by the IRA. In North Carolina, we worked with the public staff on a settlement regarding the treatment of nuclear PTCs that was approved in our DEC rate case order last year. We will flow back the benefits to customers over a four-year amortization period. This treatment allows customers to benefit from billed reductions over time and then supportive of the utilities credit metrics.

Moving to Slide 14. Our robust capital plan, strong customer growth and constructive jurisdictions provide a compelling growth story, and our commitment to the dividend remains unchanged. We understand its importance to our shareholders, and 2024 marks the 98 consecutive years of paying a quarterly cash dividend.

We intend to keep growing our dividend, balancing the payout ratio with the need to fund our capital plan. Over the next five years, we anticipate a steady decline in the payout ratio, and we are adjusting our target payout ratio to 60% to 70% from 65% to 75%. This updated range provides additional financial flexibility, minimizes external equity needs over time, and is more consistent with the company investing in our current pace. As always, dividends will be subject to approval by the Board of Directors.

In closing, 2023 with a year of execution and we have tremendous momentum as we head into 2024. The fundamentals of our business are stronger than ever, giving us confidence in our ability to deliver sustainable value and 5% to 7% growth through 2028.

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

Questions And Answers

Operator

Thank you. (Operator Instructions) Our first question today comes from Shar Pourreza of Guggenheim Partners. Your line is open. Please go ahead.

Q - Shar Pourreza

Hey, guys, good morning.

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

Good morning, Shar.

A - Brian Savoy {BIO 18279960 <GO>}

Good morning.

Q - Shar Pourreza

Good morning. Lynn, just on the CapEx expectations, the $8 billion increase reflects quote-unquote obviously, an early estimate of the Carolina IRP filing at the end of March. Can you just maybe elaborate on what you mean by early? So what scenarios are embedded? Is there room for upside? And then to what extent does the plan include IRPs you'll be filing this year in Indiana and Kentucky? Thanks.

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

Yeah. Sure. Thank you. You know, an early estimate would say we've begun to contemplate what the January IRP includes. And I think you've seen us demonstrate that we've not only seen an increase in megawatts, but frankly, we've seen an increase in price for certain of the resources that we're adding. But we believe that the capital plan is subject to continued refinement. Not only as we move through the regulatory process in the Carolinas, but we will introduce more around Indiana. We have a 10-year site plan that we're filing in Florida this year.

So refinements will continue with the capital plan. But what I would leave you with, Shar, is we have a wealth of opportunities. I mean, there is growth that is strong throughout all of our service territories, and we'll be making along with our regulators, the decisions on reliability, affordability, and increasingly clean as we move through these IRPs. So just a really strong growth story for Duke.

Q - Shar Pourreza

Got it. Okay. So more to come. And then just, Lynn, on the nuclear PTC, it's a material driver of that FFO. I guess, what are you seeing in sort of that transferability market from a demand perspective? What discounts are you seeing? And then like we're getting questions on this all morning is like how do you price in the risk of an IRA repeal? And in a worst-case scenario, can you make up that lost FFO?

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

Yeah. So a couple of things. On the transferability market, sure, we have begun to test that market. We had a pilot transferability transaction in 2023. The discount on the transferability was right within our planning range. So very strong response to that initial test, and we -- the treasury group and team are already working on how we might execute in 2024 as well. So we do believe the market is developing, and I think around the industry, you've seen similar transactions executed in an effective way.

On the potential repeal, what I would say to you is, we continue to be very engaged with policymakers at the federal and state level around the need for infrastructure as we continue to pursue growth, onshoring of US manufacturing, leadership and artificial intelligence, battery, manufacturing EVs, et cetera. And we believe there's a lot of support to continue to build that infrastructure and to build it at a price that is affordable. And the point I would emphasize for us on tax credits around infrastructure, it goes directly to customers. It reduces price over time to customers dollar-for-dollar. And so I believe both of those messages continue to resonate with policymakers and we'll continue to make them. I think it's essential that we keep moving on this infrastructure build in order to serve the growth that we're seeing in our service territories.

On the impact of credit metrics, our goal, Shar, is to be a minimum of 14%. So even in the event that the credits could be impacted in some way over time, we still believe we will have time to adjust, we'll look at our overall plans and continue to run our business with a commitment to our balance sheet and with a strong balance sheet to pursue the growth.

Q - Shar Pourreza

Okay, great. Fantastic. Thank you, guys. See you next week.

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

Thank you.

Operator

Our next question comes from Julien Dumoulin-Smith of Bank of America. Your line is open.

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

Hey, good morning, Lynn, and team.

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

Hi, Julien.

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

Hey, thank you. Look, I just wanted to follow up on the last question, a little bit in the same focus on the nuclear PTCs here just as much as. Can you discuss the reductions in the forecasted rate base? Obviously, an increase in CapEx year-to-date and obviously, there's some timing-related matters as it pertains to the nuclear PTC impact rate base. But can you talk to what other factors might be impacting rate base, not just in the near here, but through the forecast as you think about the puts and take care?

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

Yeah. So maybe a couple of things. On the capital side, Julien, much as Shar described, we'll continue to refine these with the wealth of opportunities. I do believe we'll have an opportunity to continue to introduce really strong capital in all of our jurisdictions. But on translating to rate base growth, what we show you with rate base is capital offset by tax attributes. So the nuclear PTCs, because we're amortizing them over a four-year period in a very credit-supportive way, we have a reduction in rate base as a result of that.

So this is an opportunity for us to do both, grow and maintain the strength of the balance sheet. And we feel like we have developed a very constructive settlement in North Carolina to achieve exactly that.

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

Yeah. No, that makes sense. There's just nothing else that's impacting that. And then can you discuss the revised load growth outlook, right? And again, [ph] 2% is a real acceleration from 0.5% to 1% last year. And ultimately, I get that last year had down load if you will so it's a new starting point. But just to reconcile a little bit of the logo commentary, especially considering the commentary from the last call here, what is sort of re-accelerated? How do you think about both the near year and the longer term here, if you will, just a little bit more?

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

Yeah. Thank you, Julien. I'm going to turn to Brian to discuss that.

A - Brian Savoy {BIO 18279960 <GO>}

Yeah. Good morning, Julien. So when we look at 2024, the setup on load growth is really underpinned by three main points. So you start with economic development visibility we have in 2024, projects that are in late-stage construction that are coming online, and we've got that on one of our slides. Net debt represents a little under a 1% growth as we look into 2024.

On the residential side of things, we've seen this normalization coming out of COVID of return to the office, right? During COVID, we had a lot of residential usage at home. As a return to the office, you saw this kind of lower usage at homes, more in commercial businesses. And in the back part of 2023, we saw that level out. So we will start growing residential more in line with customer migration trends, which has been really strong 1.7%, 1.8% in recent years. And so residential growth we expect to be an upward trajectory. And then lastly, the existing C&I customers where we saw a reduction in load in 2023, and when we talked about it throughout the year. And those customers are very optimistic in 2024. They've kind of seen a rebound happening maybe mid-ish year.

So those three factors give us confidence that 2% load growth in '24 is definitely in our sites.

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

And then with the long-term, Julien, all of the things that Brian talked about, right, we're going to continue to experience customer migration or existing customer base continues to demonstrate some strength over the five year period. But probably the most new or significant driver is this economic development load. And we've given you a range of what we're seeing, and what we've put on the slide are the things that we believe have a high degree of confidence of being achieved. So dirt is moving, letters of agreement have been signed and we're moving forward. And so the combination of our existing base population migration and the strong economic development gave us confidence to raise the long-term growth rate.

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

Got it. Excellent. So it sounds like things have reaccelerated here, even just quarter-over-quarter just on the margin.

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

Well, and I think, Julien, we were continuing to grapple with this economic development all through '23, and came to our filing here in the Carolinas in January, really reckoning with where we think this is going. So I -- we have continued to mature our own thinking, working with our customers, working with the prospects coming to the area, and believe this represents a really solid range. And when we're looking at that range, the growth is going to come along with it on -- in megawatt-hours, and that's what you're seeing in our update.

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

Great. Thank you, guys. See you seen.

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

Thank you.

Operator

Our next question comes from Steve Fleishman of Wolfe Research. Please go ahead.

Q - Steve Fleishman {BIO 1512318 <GO>}

Thank you.

A - Brian Savoy {BIO 18279960 <GO>}

Good morning, Steve.

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

Hi, Steve.

Q - Steve Fleishman {BIO 1512318 <GO>}

Good morning, Lynn and Brian. The -- just one more on the nuclear PTC. Any sense on when we're actually, going to get details from the treasury and setting it? Any update there?

A - Brian Savoy {BIO 18279960 <GO>}

You know, Steve, our best intel is the first half of the year. So we're thinking kind of sometime in Q2, we would get the final guidance from treasury, and I think that's the general consensus.

Q - Steve Fleishman {BIO 1512318 <GO>}

Okay. And obviously, you need that to then go do the monetization, I assume.

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

Sure. Sure.

Q - Steve Fleishman {BIO 1512318 <GO>}

Yeah. Okay. On the financing, the equity plan, the DRIP and ATM, any kind of color on how much of that can be done through DRIP relative to ATM?

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

Yeah. So, Steve, you should think about DRIP as think about $200 million a year, so about 40% of it.

Q - Steve Fleishman {BIO 1512318 <GO>}

All right. Yeah. And then just on the gas plant filing in the Carolinas, what -- when would this -- would you be roughly targeting for these plants to come online?

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

So 2029, Steve. Combined cycle plant, two in '28 -- I'm sorry, CTs two in '28. CCs one in '28, one in '29. [ph]

Q - Steve Fleishman {BIO 1512318 <GO>}

Okay. And -- but obviously, some of the capital and -- would be hitting and AFDC hitting within (multiple speakers)

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

Yeah. We started to see it.

Q - Steve Fleishman {BIO 1512318 <GO>}

Yeah.

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

You know, the largest capital spend is in the last couple of years as construction as you know from history on these. But you'll see us beginning to ramp up well within this five year period.

Q - Steve Fleishman {BIO 1512318 <GO>}

Okay, great. That's it from me. Thank you.

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

All right. Thank you, Steve.

Operator

Our next question comes from David Arcaro of Morgan Stanley. Please go ahead. Your line is open.

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

Hi, David.

Q - David Arcaro {BIO 20757284 <GO>}

As we think about the 1.5% to 2% load growth, I was just curious, is that concentrated in certain service territories more than others? Are you seeing certain states growing faster versus others in your footprint?

A - Brian Savoy {BIO 18279960 <GO>}

David, I would think about the Carolinas has seen the largest portion of the economic development prospects we see, but we do see healthy growth across our jurisdictions. I mean, Indiana with this reshoring of manufacturing has really seen economic development. Growing Florida continues to grow in a really strong way at 2% customer migration trends as well as the commercial businesses have supported. So I would say, Carolinas is slightly ahead of the others, but all that really -- really good growth.

Q - David Arcaro {BIO 20757284 <GO>}

Okay, got it. Not several percentage points faster in any specific state, but fairly tightly grouped around there.

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

And you know, David, I wouldn't say, building on what Brian said, residential growth has been stronger in the Carolinas and Florida. Commercial and industrial in the Midwest has been good and it's also been good in the Carolinas.

A - Brian Savoy {BIO 18279960 <GO>}

That's right.

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

So the growth kind of varies by customer class. But I would go back to where I commented, and I think [ph] we have a wealth of opportunities. And these are not only good for Duke Energy's growth, but they're are good for our state, its capital investment and job creation. Supply-chain is coming with a lot of these manufacturers. So it's good for the service territories that we are serving.

Q - David Arcaro {BIO 20757284 <GO>}

Understood. Yeah, that's helpful. And I'm not sure if you gave this level of color, but just going forward, as you're thinking about all of these other CapEx opportunities to add to the plan, how are you thinking about financing that? Is there a rule of thumb for how much incremental equity you would need kind of per dollar of CapEx as you're expanding the investment going forward?

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

You know, David, I think it's premature to talk about that because the first thing that we'll do is run through capital optimization and allocation, putting the capital in the area that both delivers the most customer value and is delivering the best returns. And I think we'll have more on this refinement of capital as we move through IRP approvals in the Carolinas this year, and then Indiana next year 10-year site plan as well. So we'll continue to keep you updated, and our commitment remains growth and a strong balance sheet.

Q - David Arcaro {BIO 20757284 <GO>}

Okay, great. I appreciate the color. Thanks so much.

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

Thank you.

Operator

The next question comes from Nicholas Campanella with Barclays. Please go ahead.

Q - Nicholas Campanella {BIO 20250003 <GO>}

Hey, thanks for taking my questions today. Good morning.

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

Hi.

A - Brian Savoy {BIO 18279960 <GO>}

Good morning, Nick.

Q - Nicholas Campanella {BIO 20250003 <GO>}

Hey, good morning. So I guess just the payout ratio, you're taking that down obviously, which seems very prudent. I know you've already been kind of growing into a lower payout ratio over time. The dividend growth has been lower than the EPS growth here. So just -- I'm kind of wondering just how to think about your 5% to 7% EPS CAGR now, like where you are in that range. Are you at the high, low, or midpoint of that? And then when do you get back into this kind of 60% to 70% payout ratio in the plan? Thank you.

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

Yeah. So, Nick, pulling that all together, we're very confident in our 5% to 7% growth rate. We have been building the capital plan to accomplish that, as well as the regulatory mechanisms for several years. And so what we're putting in front of you, we have a high degree of confidence on. And as a result of that, we see the payout ratio declining. Over the next five years, it will be under 70% in 2024. And so as we look at our commitment to the dividend, we intend to continue growing it. We're committed to the dividend, as we have been for a long period of time. But believe in this moment with the level of capital that we have that introducing some financial flexibility in our range so that we can make good choices around dividend, capital and growth is just prudent. And so, as you know, we look at dividends every year. The Board is involved in that approval process. But given the the total composition of growth in dividends, we believe that 60% to 70% payout ratio is appropriate at this point.

Q - Nicholas Campanella {BIO 20250003 <GO>}

Okay. I appreciate that. And then I guess, just -- I know you just recently filed in Florida. You have a history of -- there's a history of settlements in that state in constructive outcomes is just anything kind of changing in regulatory strategy that wouldn't allow you to pursue another settlement in the future.

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

No, Nick. What we have accomplished so far is procedurally what we need to do to provide notice and the filing would follow late March, early April. As you know, we have a history of engaging with intervening parties in all of our jurisdictions as part of the regulatory process, and we will do -- endeavor to do that in Florida as well. And we'll keep you posted every step of the way.

It's a very constructive jurisdiction in Florida. Understanding the need for infrastructure to balance the growth that the state is maintaining or achieving, and also maintaining critical infrastructure investment for reliability, storm response, et cetera. So we'll look forward to keeping you updated on the rate case.

Q - David Arcaro {BIO 20757284 <GO>}

Thank you.

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

Thank you.

Operator

The next question is from Durgesh Chopra of Evercore. Your line is open. Please go ahead.

Q - Durgesh Chopra {BIO 20053859 <GO>}

Hey, good morning, Lynn.

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

Good morning.

Q - Durgesh Chopra {BIO 20053859 <GO>}

Thank you for -- good morning, Lynn. Maybe just -- I think the equity $500 million a year, two and a half [ph] total for the plan versus the CapEx raise towards the low-end. I think you might have said 30% to 50% funded with equity in the past. So maybe just a little bit more color at kind of what puts you at that low end of the range since we discussed this in November last year.

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

Yeah. And Durgesh, I think about all of these variables, the capital, the regulatory outcomes, the equity issuance, the fact that we see nuclear PTC is something that we've been able to negotiate in a credit-supportive way. You've got all of those variables that we evaluate in establishing the plan that we have in front of you. And believe that at this level, that 30% ratio gives us the best match between the growth we're trying to achieve, as well as the strength of the balance sheet. And so that'll be -- that's always our goal is to achieve both for investors, and we believe we've accomplished that.

Q - Durgesh Chopra {BIO 20053859 <GO>}

That's helpful, and thank you. And then the rate base is -- you know, when I look at the year-over-year growth rate in rate base, it's pretty healthy. It's within your 5% to 7% EPS -- long-term EPS growth guidance. Do we think about annual EPS growth rates within that range as well in that 5% to 7% range? Or is that more kind of a CAGR approach and back-end weighted?

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

No, Durgesh. We endeavor to hit it every year. Every year. And that's how we plan our investments. That's how we plan our strategies around regulatory and otherwise. And so that's how I would share with you year-over-year.

Q - Durgesh Chopra {BIO 20053859 <GO>}

That's very clear. Thank you, Lynn. Appreciate the time.

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

Thank you.

Operator

And our next question is from Ross Fowler of UBS. Please go ahead.

Q - Ross Fowler {BIO 16864050 <GO>}

Good morning, Lynn. Good morning, Brian. How are you?

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

Hi, Ross.

A - Brian Savoy {BIO 18279960 <GO>}

Good morning, Ross.

Q - Ross Fowler {BIO 16864050 <GO>}

So first one may be to follow up on Nick's question just shifting that Indiana. How are you thinking about the timing, and what consideration should we be thinking about for the Indiana rate case?

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

So, Ross, we evaluate as you know periodically, where we are with the capital investment, rate case cycle. And in Indiana, we have a lot of investment in riders, but some of those riders are 80% of the investment. So we need a general base rate case to pick up the other 20%. We also have in front of us in Indiana CPCNs for generation that are in our regulatory mines, our regulatory calendar.

So we'll continue to evaluate that what is the right timing, when do we go in and how does that relate to other things that we're trying to accomplish in Indiana. And by flagging it for you in this call, we're indicating that it's under review, and we'll keep you posted as we get closer to a final decision.

Q - Ross Fowler {BIO 16864050 <GO>}

Thanks, Lynn. I appreciate that very much. And then maybe one for you, Brian. Excuse me, little under the weather today. But as I look at the bridge to 2024, over 40% of that's coming from this $0.12 of other, and I think I get the higher interest rates impact. And maybe can you scale the or scope the other things in there for me? There is a lower tax rate and then there's return from investments. I think that's probably coming from either pricing the insurance side or the NMC stuff in Saudi Arabia around petrochem. Or how do I think about that as I look at my 2024?

A - Brian Savoy {BIO 18279960 <GO>}

Yeah. I would point to the tax optimization rise. In 2023, we had an opportunity for an item in tax optimization that was I would say outsized from our normal tax optimization work. That was part of our agility efforts so which you would expect us to do because we had record mild weather, we were looking at every opportunity to offset that.

As we look forward in 2024, we're seeing a more consistent level of tax optimization that we had in previous years. So that's the other major driver in the other section. But we still have a robust set of tax optimization, and our tax team is doing a fabulous work in that front. But that's what I point to. And we signaled our agility of $300 million that we were pursuing in 2023, about half of it would be sustainable. And I would point to that tax-up optimization as about that half that's not sustainable.

Q - Ross Fowler {BIO 16864050 <GO>}

Okay. Okay, I got it. Thank you, Brian, for that clarity. Aappreciate it very much.

A - Brian Savoy {BIO 18279960 <GO>}

Yeah.

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

Thank you.

Operator

This concludes our Q&A session for today. So I will turn the call back over to Lynn Good for any closing comments.

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

Well, let me close by just thanking everyone for participation today. I know when we do these annual updates, we give you 44 to 50 slides to digest so we're also available for questions and comments. The IR team, Brian, I am available and really appreciate your interest and investment in Duke. Thanks so much

Operator

This concludes today's call. Thank you for Joining. You may now disconnect.