

Q1 2019 Earnings Call

Company Participants

- Lynn Good, Chairman, President and Chief Executive Officer
- Michael Callahan, Vice President, Investor Relations
- Steven K. Young, Executive Vice President and Chief Financial Officer
- Unidentified Speaker

Other Participants

- Ali Agha, Analyst, SunTrust
- Caroline Bone, Analyst, Deutsche Bank
- Julien Dumoulin-Smith, Analyst, Bank of America
- Michael Lapedes, Analyst, Goldman Sachs
- Michael Weinstein, Credit Suisse
- Praful Mehta, Analyst, Citigroup
- Steve Fleishman, Analyst, Wolfe Research

Presentation

Operator

Good day and welcome to the Duke Energy First Quarter Earnings Call. Today's conference is being recorded. At this time, I would like to turn the conference over to Mr. Mike Callahan, Vice President of Investor Relations. Please go ahead, sir.

Michael Callahan {BIO 19728882 <GO>}

Thank you, Allie. Good morning, everyone. And thank you for joining Duke Energy's First Quarter 2019 Earnings Review and Business Update. Leading our call today is Lynn Good, Chairman, President and CEO, along with Steve Young, Executive Vice President and CFO.

Today's discussion will include forward-looking information and the use of non-GAAP financial measures. Slide 2 presents the safe harbor statement, which accompanies our presentation materials. A reconciliation of non-GAAP financial measures can be found on duke-energy.com and in today's materials. Please note the appendix for today's presentation includes supplemental information and additional disclosures.

As summarized on slide 3, during today's call, Lynn will provide an update on the quarter including legislative and regulatory activity in the Carolinas. She will also discuss progress on our strategic initiatives. Steve will then provide an overview of our first quarter financial results

and insight about economic and load growth trends. He will also provide an update on our 2019 financing activities before closing with key investor considerations.

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

Lynn Good {BIO 5982187 <GO>}

Thank you, Mike and good morning, everyone. Today we announced reported and adjusted earnings per share of \$1.24 marking a strong start to the year. We are on track to achieve our 2019 adjusted EPS guidance range of \$4.80 to \$5.20 and our long-term earnings growth target of 4% to 6% through 2023. We remain confident in the strength of our business and the ability to grow with investments that deliver value to our customers and our shareholders. In the first quarter, we advanced our strategy to modernize the grid, generate cleaner energy and expand natural gas infrastructure. We added more than 400,000 smart meters and continue to deploy self-optimizing grid technology across our system. We made progress on the construction of the Asheville combined cycle unit as part of our Western Carolinas Modernization Project, and we filed for the next wave of solar generation projects in Florida. Our investments in these key areas combined with our attractive growing service areas are foundational to growth in our Electric and Gas Utilities.

We have several noteworthy accomplishments in the quarter, so let me highlight a few of them on slide 4. First, we continue to advocate for modern cost recovery mechanisms in our service territories, and we're pleased to see the introduction of related legislation in North Carolina, our largest jurisdiction. We also recently announced 1250 megawatts of regulated and commercial renewables projects that we will either own or procure on behalf of our customers. Approximately two-thirds of these projects will be built in our service territories. This was a remarkable start to the year as we expand these important resources in our portfolio. As we invest in new renewables, we are recycling capital from the existing projects having announced a transaction to sell a minority stake in our current commercial renewables portfolio to John Hancock. Finally, we received multiple recognition of our employees efforts to generate clean and reliable energy for our customers. EEI named Duke Energy, one of the industry leaders in safety for the fourth year in a row.

This is especially meaningful as safety is our highest priority and is foundational to operational excellence. And in April, Forbes recognized Duke Energy as a Top Employer for the second year in a row highlighting our efforts to engage, develop and retain our workforce. I'm proud of the work our employees do every day, keeping the customer at the center of everything we do and driving efficiencies across our business.

Turning to slide 5, let me update you on recent legislative and regulatory activities in the Carolinas. In early April, bipartisan legislation was introduced in both chambers of the North Carolina General Assembly that would give the utilities commission the authority to consider alternative cost recovery mechanisms. This will include multi-year rate plans, ROE bands and storm cost securitization. We were pleased to see this important legislation pass the Senate last week moving out of the House for consideration. If enacted into law, North Carolina would join 35 states across the nation that already have alternative cost recovery frameworks in place.

A multi-year rate plan would benefit customers with bill predictability and certainty as we make important investments for the future. It will provide the commission another tool to address the changing nature of utility investments while still retaining the authority to review investments and the prudence of incurred costs just as it does today. Similarly, storm cost securitization would provide the commission new authority to consider financing structures to mitigate customer bill impact from major storm activity. This legislation is a step in the right direction for North Carolina and we will continue to provide updates as the session progresses.

On the regulatory front, Piedmont Natural Gas filed its first rate case in North Carolina in six years on April 1. We requested an \$83 million increase in the revenue requirement to recover costs for necessary infrastructure investment. We expect new rates to be effective by the end of the year. In South Carolina, we received directives from the commission regarding our pending DEC and DEP electric rate cases. Aspects of the directives were constructive, including a 53% equity component of the capital structure and a 20-year flow back period for unprotected excess deferred income taxes.

However, we were disappointed with certain critical aspects of the rulings. Of note, the Commission adopted a 9.5% ROE and disallowed recovery of certain coal ash costs deemed to be related to implementation of North Carolina's coal ash management act. We will look for the written orders to be issued in the coming weeks to better understand the commission's position on these issues. However, it is clear the regulatory and related business environment in South Carolina has changed and this will affect the investment climate for the state in our industry and in others.

Our commitment to safe and reliable operations for our customers is unchanged. However, our appetite for further growth and discretionary investments will be influenced by our ability to earn a fair and reasonable return. At 9.5%, the ROE in South Carolina is the second-lowest in the Southeast and the lowest among our regulated utilities. Further, our coal ash management costs are consistent with our obligations under state and federal regulations and have been prudently incurred on behalf of customers in both North and South Carolina. Both states have enjoyed the benefits of a combined generation and transmission system over many decades, and the decommissioning of assets including storage of ash should rightly sit under the same sharing mechanism. We intend to make a motion for rehearing by the PSC and are prepared to file an appeal of these and potentially other portions of the case.

Moving to slide 6, let me update you on our strategic initiatives. Our transition to a cleaner energy future is well underway. Our \$1.1 billion Western Carolinas Modernization Project in Asheville remains on track for a late 2019 in-service date. The project combines various aspects of our cleaner energy strategy, retiring an older coal plants, building new natural gas units, installing renewables and upgrading transmission and distribution infrastructure. We also engage the community, increasing energy efficiency and demand response adoption and effectively collaborating on the successful solution to better serve the growing regions.

Renewables development is also off to a tremendous start in 2019. In Florida, we announced three new solar projects totaling a 195 megawatt as part of our commitment to add 700 megawatts of solar under our multi-year settlement agreement. We expect to begin recovering the cost of these investments under the solar-based rate adjustment mechanism once the projects are in service. In North Carolina, the independent administrator issued results of the

first RFP for renewable energy under House Bill 589 with 602 megawatts of utility scale solar projects clearing the auction.

In total, Duke Energy was awarded 270 megawatts with most projects coming online at the end of next year. Including those awarded under HB 589, our commercial renewables business has added multiple projects to their growing backlog. Combined with the earnings from our existing portfolio, these projects give us confidence in our ability to maintain the earnings contribution of this segment over the five-year plan. We have strong visibility to approximately 90% of the earnings target for 2019 and 2020 and approximately 60% of the target through 2023. This success clearly demonstrates our ability to capture a share of the robust market for contracted renewable generation. We expect this market to remain strong as it transitions away from tax incentives over the next few years.

Turning to the grid, we continue to add new technology to make it more resilient, secure and reliable. In Florida, base rate increases under our multi-year rate plan went into effect this January. Annual rate increases over the next three years support approximately \$1.1 billion of grid modernization investments at Duke Energy Florida including smart meter deployment and other system upgrades that will reduce outages, shorten restoration times and support renewable energy growth. We are also building electric vehicle infrastructure in Florida and awaiting approval of our proposed EV programs in the Carolinas. Our recently announced North Carolina initiative would be the largest in the Southeast and help to fund the adoption of electric school buses and public transportation with approximately 2500 new charging stations.

Shifting to natural gas infrastructure, I want to share a brief update on the Atlantic Coast Pipeline. Oral arguments before the Fourth Circuit Court of Appeals regarding the Biological Opinions and Incidental Take Statement are underway today. We expect an order in the case within 90 days.

We are also pursuing an appeal to the Supreme Court for the US Forest Service permit to cross national forests and the Appalachian Trail. We expect the petition to be filed in the summer and are optimistic that the Department of Justice and Solicitor General will join this request. As discussed on our February earnings call, we expect construction to resume this fall and the first phase of the project in service by late 2020 and the full pipeline in service in 2021. We continue to advance discussions with customers regarding this approach.

Our cost estimate remains in the range of \$7 billion to \$7.8 billion. We remain committed to this important project. ACP will provide much needed infrastructure to eastern North Carolina and drive economic growth across the region.

Turning to slide 7. I want to take a moment to update you on our ash basins closure efforts in the recent announcements in North Carolina. On April 1st, we received an order from the North Carolina Department of Environmental Quality stating that we must excavate all remaining low priority and more risk basins in the state. While we share the same goals of permanently and safely closing all basins, we disagree with DEQ's position. We estimate full excavation would cost an incremental \$4 billion to \$5 billion versus the cap-in-place or hybrid closure methods proposed by our utilities.

This will impose significant costs on customers without any measurable benefit to the environment. The agency's position also fails to recognize the environmental impact of open basins and excavation activities that would occur over decades. Under a full excavation scenario, the state would need to take action to extend closure deadlines under state and federal laws based on the amount of ash to be addressed. We recognize this within DEQ's authority to set the environmental policies of the state, however, in the interest of pursuing what is best for our customers, we submitted a comprehensive appeal to the North Carolina Office of Administrative Hearings. We expect the appeal will take approximately 9 months to 12 months. In parallel, we are developing a range of closure options to support compliance with the order, while also maintaining our focus on cost for our customers. Under a full excavation scenario, it's important to note that it would take time to pursue permitting and construction of new basins to receive excavated ash. As a result, the most significant financial impact would occur outside the five-year plan with about \$200 million to \$400 million of incremental closure costs incurred in the next five years. We will continue to safely and permanently close ash basins in the Carolinas. We are currently excavating basins where it makes sense to do so and have already removed more than 20 million tons of ash in North Carolina. We've also advanced the construction of three ash reprocessing units in the state. Our focus remains unchanged, we will protect the environment and do what's best for our customers. Before turning it over to Steve, our work in the first quarter demonstrates our ability to deliver on our commitments and create value for our customers and investors. We are executing our strategy to generate increasingly clean energy and make improvements to the energy grid.

We're expanding our regulated renewables footprint with significant deployments announced in North Carolina and Florida, and we remain on track for smart meters to be fully deployed in all of our jurisdictions by 2021. This technology will complement other grid enhancing investments to provide customers with the information they expect while improving grid resiliency and security. I'm proud of our progress in the first quarter as we continue transforming our business and creating a smarter energy future. Our goal is to position Duke Energy to be the leading infrastructure investment and I look forward to updating you on our progress throughout the year.

So with that, I'll turn it over to Steve.

Steven K. Young {BIO 7307044 <GO>}

Thanks, Lynn. I'll start with quarterly results on Slide 8, including our adjusted earnings per share variances to the prior year. For detailed information on variance drivers and the reconciliation of reported to adjusted results, please refer to the supporting materials that accompanied today's press release and presentation. On a reported and adjusted basis, 2019 first quarter earnings per share were \$1.24. This compared to reported and adjusted EPS of \$0.88 and \$1.28 respectively, last year. For the quarter, lower adjusted results compared to the prior year were primarily due to unfavorable weather and share dilution, partially offset by growth from investments at the Electric and Gas Utilities. Within the segments, Electric Utilities and Infrastructure was down \$0.10 compared to the prior year. These results were primarily driven by mild winter weather across the Southeast in the current quarter and lower retail volumes on a weather normal basis.

In addition, higher depreciation and interest expense impacted results. Partially offsetting these unfavorable drivers were base rate increases in Florida and North Carolina and higher rider

revenues. Shifting to Gas Utilities and Infrastructure, results were up \$0.10 in the quarter. The increase was primarily due to a true-up adjustment related to income tax recognition for our equity method Midstream Investments, higher margins at the LDCs also contributed to growth.

In our Commercial Renewables segment, results were down \$0.01 for the quarter. The decrease was primarily due to below normal wind resource this year. Finally, Other was up \$0.01 for the quarter and share dilution drove a \$0.04 decline due to the shares we issued in December to settle last year's equity forward agreements. Overall, these results and our strong execution to start the year give us confidence that we will achieve our full year earnings target and deliver on our commitments.

Turning to Slide 9, on a rolling 12-month basis, weather normalized retail electrical load growth was 0.5% while results in the quarter were weaker than expected, we believe they were driven by temporary factors and continue to expect load growth of 0.5% for the year.

Our residential class continues to drive growth with an overall increase in volumes of 0.6% on a rolling 12-month basis. Strong customer growth continues to support volumes and employment in our service territories remains robust with four of our jurisdictions in the top 15 states for job growth. We're also seeing strength in the commercial class with sales up 1% over the rolling 12 months, ongoing data center expansions and strength in hospitality and leisure segments helped offset ongoing weakness in retail. Finally, sales in our resident industrial class declined 0.3% on a rolling 12-month basis, an improvement from the 1% decline reported last quarter.

Growth in the quarter was driven by strength in the manufacturing of metals, rubber and plastics, as well as phosphate and chemical processing. We will monitor over the balance of the year. But overall, these retail volume trends along with a healthy economy and growth in our jurisdictions support our long-term planning assumption of 0.5% retail load growth for our electric utilities.

Turning to Slide 10, we were pleased to announce the sale of the minority stake in our Commercial Renewables business to John Hancock. Net proceeds of \$415 million will be used to offset long-term debt financing needs at the holding company. The minority interest represents approximately 1,200 megawatts of our existing portfolio and the partnership also allows for co-investment in certain renewables projects in the future. After adjusting for project level debt, the \$1.25 billion enterprise value is an attractive valuation for wind heavy portfolio in which we will retain the tax credits.

The transaction is modestly accretive to earnings and consistent with our financial plan. John Hancock's investment provides clear validation of the strength of our existing portfolio, and we look forward to working together to deliver long-term value for our customers and investors. Closing should occur in the second half of the year after customary approvals.

Now turning to our financing activity, in March, Duke progress -- Duke Energy Progress completed its first green bond issuance following a similar issued by Duke Energy Carolinas last November. These bonds help fund our utilities ongoing renewables investments and attract a diverse set of investors. Also in March, Duke Energy Corp issued \$1 billion in preferred stock,

the largest ever utility preferred issuance and a testament to investor confidence in our business.

These shares provide 50% equity credit with the rating agencies and fully satisfy the equity content securities target in our 2019 financing plan. As we outlined in February, our 2019 financing plan also includes a \$500 million common equity target and to-date we have priced or issued approximately half of that amount. Through early April, we priced \$200 million of equity under a forward contract through our ATM program. We expect to settle this equity forward in the fourth quarter of this year.

I'll close with Slide 11. Our attractive investor value proposition is founded upon our growing dividend, which currently yields approximately 4.1%, coupled with earnings growth of 4% to 6% from transparent, low-risk investments we offer a compelling risk adjusted total shareholder return of 8% to 10%. Our scale, constructive service areas and ability to execute make Duke Energy a solid long-term investment opportunity.

With that, let's open the line for your questions.

Questions And Answers

Operator

(Operator Instructions) We'll take our first question from Michael Weinstein from Credit Suisse. Please go ahead.

Q - Michael Weinstein {BIO 19894768 <GO>}

Hi, guys, good morning.

A - Lynn Good {BIO 5982187 <GO>}

Hi, Michael.

A - Steven K. Young {BIO 7307044 <GO>}

Good morning.

Q - Michael Weinstein {BIO 19894768 <GO>}

With the one-time true up on the gas side, on the gas midstream investment side that would -- is that included in your -- are you including that in your ongoing guidance after \$5 number 4% to 6% off that?

A - Steven K. Young {BIO 7307044 <GO>}

Yes, that's in our adjusted number. We often have adjustments and true ups in the tax arena with taxing authorities. We typically included them in adjusted earnings.

Q - Michael Weinstein {BIO 19894768 <GO>}

And that would imply that there is some other positive offset that's ongoing, right, that makes up for that, I guess?

A - Lynn Good {BIO 5982187 <GO>}

Yeah, Michael, the point I would make is, this is the first quarter of the year, we started with some weakness and weather in volumes. We expect those to turn around a bit in the second and third quarter as we look at the strength of the economy. So I would ask you to think about the full complexion of all the businesses we operate over the full year and we will have true-ups, whether it's in tax or in regulatory. These are things that happened over the course of the year and in developing our plans, we always assume that something will develop as the year progresses. So I'd put it in that context.

A - Steven K. Young {BIO 7307044 <GO>}

Yes. So we've typically not updated within the range till after the third quarter, when we get a feel for where things are going in the weather in that particular quarter.

Q - Michael Weinstein {BIO 19894768 <GO>}

Got you. Okay. What was the exact size of that?

A - Steven K. Young {BIO 7307044 <GO>}

It was about \$0.06.

Q - Michael Weinstein {BIO 19894768 <GO>}

Okay, all right, thank you.

A - Lynn Good {BIO 5982187 <GO>}

Thanks.

Operator

And we'll take our next question from Julien Dumoulin-Smith from Bank of America. Please go ahead.

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

Hey, good morning.

A - Lynn Good {BIO 5982187 <GO>}

Hi, Julien.

A - Steven K. Young {BIO 7307044 <GO>}

Good morning.

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

Hey, so perhaps just to focus first on the coal ash side of the equation, obviously you've had some developments of late, to which you've already referred to in your prepared remarks, I wanted to follow up a little bit on understanding the range of outcomes and the timeline for providing an update of the capital outlook just based on the appeals process that you described, the DEQ. It seems like there are some big decisions that have been made of late and obviously taken up seemingly by the governor, et cetera. Can you describe how some of these big variables could move and what that means for this incremental capital?

A - Lynn Good {BIO 5982187 <GO>}

Sure. And let me break it down, Julien, see if this answers your question and we can continue the conversation. The appeal process for the order will take 9 months to 12 months, there has been a series of dates established by the hearing officer, the administrative law judge. We expect that those dates could move a little bit as people respond to whether or not they'll be prepared. But I think 9 months to 12 months is a good planning assumption for the appeal process. I think in terms of capital, we've already begun to do some work on the closure costs and as we look at the next five years, we believe the order, if it stands as written, would add about \$200 million to \$400 million over the five-year period. And the reason it is relatively modest is because it will take time for permitting, for finding the land, for constructing the landfills and all of the other cost, dewatering and other things that would occur under any closure method. Those are already included in our capital plans.

So you should think about the majority of this impact being after the five-year period, giving us plenty of time to evaluate how that fits into affordability, reliability, customer rates and so on. And we'll just continue to update you as it moves through the legal process, and as we learn more moving forward .

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

Excellent. Just quickly back on the (inaudible) project, appreciate your prepared remarks there as well. Just wanted to understand a little bit on the timeline and process here. Obviously, you need to make strategic decisions and sourcing generation there or supplying and generation anyway, I'd be curious on the timeline there to -- that you need to come to terms. And then separately, just in terms of the -- with respect to the jeopardy argument and the Biological order here. How do you think about timeline and potential overlap with respect to permits and re-routing there as well, given the park permitting issues.

A - Lynn Good {BIO 5982187 <GO>}

Sure. And you know, Julien, I would point to two things, maybe three things that we're monitoring. So the Biological Opinion Incidental Take hearing is today and as you noted, there are discussions around impacts to the Biological Opinion, this is Rusty patch Bumble Bee that you'll probably learn more about, [ph] Court renders their opinion and then a number of questions around the Incidental Take statement which are really challenges that are coming in front of the court for a second time. So these are species that we understand well.

We would expect an order within 90 days, and if there is work to do as found by the Court then we would expect that to occur over a 1 month to 2 month period. I'm just estimating that within the construct of what we've seen before from the Court, but we'll know more when the order comes out and have an opportunity to give you more specifics on that. So that's the one thing I would be watching for. The second is the Appalachian trail that is progressing, a petition seeking the Supreme Court review will be filed this summer. We are optimistic the governor -- the government will support, and so we'll see milestones over the course of the summer on that item.

And then as you would expect, we are continuing discussions with customers, which are important part of this project, on the status, on the approach around phase construction, phase I, phase II Mountain, Buckingham South, revised timeline, revised costs and those discussions will continue over the course of the year as well. So we'll continue to update you on timeline, we understand, we've got some decisions to make depending on how all of these legal challenges play out, but we will continue to update you as we -- more and more and have more transparency on when construction will begin. We are planning that we'll be able to begin construction later this year.

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

Thank you very much.

A - Steven K. Young {BIO 7307044 <GO>}

Best of luck.

A - Lynn Good {BIO 5982187 <GO>}

Thank you, Julien.

Operator

We'll take our next question from Steve Fleishman from Wolfe Research. Please go ahead.

Q - Steve Fleishman {BIO 1512318 <GO>}

Hi, good morning.

A - Lynn Good {BIO 5982187 <GO>}

Good morning, Steve.

Q - Steve Fleishman {BIO 1512318 <GO>}

Hi. So on the -- first of all, on the South Carolina orders that you referenced, how much coal ash was disallowed in those orders?

A - Steven K. Young {BIO 7307044 <GO>}

There was an amount mentioned in the order of \$470 million for -- in the DEC order, I have not looked at the most recent directive. And again I would emphasize, I want to wait till I see the full order and that \$470 million number is a system-wide number. So the allocation would have to occur to that number. I want to look at the full number.

Q - Steve Fleishman {BIO 1512318 <GO>}

Okay.

A - Steven K. Young {BIO 7307044 <GO>}

And i'm seeing now that's about \$330 million is in the DEP order. Again that's a system-wide number.

A - Lynn Good {BIO 5982187 <GO>}

So you should be thinking Steve kind of in the 20% to 30% range for DEP and -- for DEC and, 10% for DEP.

Q - Steve Fleishman {BIO 1512318 <GO>}

Also those numbers.

Okay.

A - Lynn Good {BIO 5982187 <GO>}

That's right, that's right.

Q - Steve Fleishman {BIO 1512318 <GO>}

Okay. And then can the Commission still change it's view or they just -- before they put the written orders or the written order's just getting the detail around what they've already decided?

A - Lynn Good {BIO 5982187 <GO>}

So, we think about it this way, Steve. I think the order we're expecting to come out, kind of mid month, will be further documentation around the directive and then we have 10 days to file a request for reconsideration, which we intend to do. And then the Commission has about 20 days to respond to that request for reconsideration. So I think it would be that 20-day period where potential reconsideration of this -- the terms of the directive could occur. We are anxious to read the order because we have very limited information now on all of the elements here and the real depth of the legal reasoning that underpins us. So that is the work that remains, and we should expect to see those, as I said a moment ago, within a few weeks. After that reconsideration period, that's when we would evaluate appeal. And so then you'd move through an appeal process with a longer timeline, of course, to work through the court system.

Q - Steve Fleishman {BIO 1512318 <GO>}

Okay. And I know this is not directly related, but maybe indirectly, does this affect any interest you might have in Santee Cooper?

A - Lynn Good {BIO 5982187 <GO>}

Look Steve, we've been a part of the process, the competitive process. I think we've talked about that before, we believe we have a lot to bring to the table for the state, whether it's an outright purchase or management of those assets we've operated in the state for 100 years. Legislation is moving through the state, which we believe will establish a process in a way forward. That would include additional due diligence and other things, but I think it's fair to say that we will closely evaluate further investment in the state in light of these directives. But those decisions are yet to be made. We've had a long history in South Carolina. It's been a constructive jurisdiction, but I think with this directive we need to learn a little bit more.

Q - Steve Fleishman {BIO 1512318 <GO>}

Okay. And then one separate topic question just on the North Carolina legislation. Could you just -- is there any timeline for House ruling on it, has the Governor had a view, and just how would it actually then turn from a law and are being implemented in a case?

A - Lynn Good {BIO 5982187 <GO>}

You know, Steve there is no specific timeline for the legislature in North Carolina. So, you can expect it to move through the House over the coming weeks. It's really hard to forecast how long that will take, we believe the strong bipartisan support and sponsorship has been favorable certainly getting it out of the Senate and moving it to the House. We have strong bipartisan sponsorship in the House. We believe the policy is very sound. So this is one where we will continue to update as progress is made, but it's difficult to forecast a specific timing for the legislation. In terms of implementation, having a legislation in place allows us to include innovative solutions as we move forward with future rate cases, but the timing and approach for that is yet to be determined. So, more to come and we'll, as I said before, keep everyone updated as the session progresses.

Q - Steve Fleishman {BIO 1512318 <GO>}

Okay, thank you.

A - Lynn Good {BIO 5982187 <GO>}

Thank you .

Operator

We'll take our next question from Caroline Bone from Deutsche Bank. Please go ahead.

Q - Caroline Bone {BIO 17649172 <GO>}

Good morning and thank you.

A - Lynn Good {BIO 5982187 <GO>}

Hello.

Q - Caroline Bone {BIO 17649172 <GO>}

Good morning.

A - Steven K. Young {BIO 7307044 <GO>}

Good morning, Caroline.

Q - Caroline Bone {BIO 17649172 <GO>}

Hi, Okay, great. I was just hoping, I mean Steve actually just asked a few of my questions, but I was just wondering if you could talk a little bit more about how the South Carolina PSC directives might impact your longer term outlook does it -- does it have -- does it push you to the lower end of the growth rate, if it were the 9.5% ROE were to be approved? I'm just wondering if you could talk a little bit more about that.

A - Lynn Good {BIO 5982187 <GO>}

And you know Caroline, i think when we think about the scale that South Carolina represents to Duke, we believe we're still positioned to grow within the range of 4% to 6%, that ROE signal though does indicate to us an important factor in allocating capital as we go forward. And so when I talk about the growth capital and discretionary capital and other things, we will evaluate the placement of that capital based on where it's attractive to invest and that's a part of our five-year planning process and we'll have more to say about that both as this appeal progresses and as we share additional refinements to the five-year capital plan.

Q - Caroline Bone {BIO 17649172 <GO>}

All right, thanks very much. And then I know you sounded a very confident tone on the ability to achieve your outlook for the Commercial Renewables business, but I was just wondering if you could just help us understand the -- the earnings trajectory this year, as how you kind of close the gap between the \$13 million earned in Q1 and the \$230 million targeted for the full year?

A - Lynn Good {BIO 5982187 <GO>}

You know, Caroline, it's a -- that's a good question and a couple of things I would point to. So if you think about our renewables business between operating and wind assets, it's about 50% of what we expect. And there was a slow start to the year for wind resource. So the \$13 million, you should not consider to be a normal run rate, but it was reflected or impacted by weather. And then we will bring projects on in the second quarter and later in the year, solar primarily that will impact those numbers. So you've got a shaping issue on Commercial Renewables that, you know really leads to the question that you're asking this morning. Steve, would you add to that.?

A - Steven K. Young {BIO 7307044 <GO>}

Yes, that's correct, Lynn. And Caroline, we're going to bring a couple of projects and they're going to boost the earnings this year, get it up above the \$200 million level and we've got good line-of-sight as Lynn said to 2019 and 2020 earnings and good line-of-sight overall to 60% of the earnings. The projects we'll bring in the early part of our five-year plan, the solar projects are going to have income recognized in the one to two-year period. But just to give you a flavor for it, we've got a lot of longer-term win profile that we're building as well and a metric to think about is for us to keep the net income level above \$200 million through the five-year plan, given on what we've already built in place, we need to close about 250 to 300 megawatts of solar per year and that's on the one to two-year recognition schedule. And I think that's very doable. When you look at the amount of megawatts that we've put together already in 2019 and the CPRE process that we'll continue throughout, i think we have a good capability in earnings trajectory in Commercial Renewables.

Q - Caroline Bone {BIO 17649172 <GO>}

Thanks very much. Appreciate it.

A - Lynn Good {BIO 5982187 <GO>}

Thank you, Caroline.

Operator

We'll take our next question from Praful Mehta from Citigroup. Please go ahead.

Q - Praful Mehta {BIO 19410175 <GO>}

Thanks so much. Hi guys.

A - Steven K. Young {BIO 7307044 <GO>}

Hey

A - Lynn Good {BIO 5982187 <GO>}

Hi, Praful.

Q - Praful Mehta {BIO 19410175 <GO>}

Hi. So maybe just staying on Commercial Renewables. Congratulations on your asset transaction or the sale transaction. Just wanted to get a little bit more color in terms of, firstly, how competitive the process was, because there's a lot going on in that side? And two, why keep the tax assets, given you're unable to actually utilize them right now, given your tax profile? Why do you decide to keep the tax assets as a part of that transaction?

A - Steven K. Young {BIO 7307044 <GO>}

Sure, Praful. A couple of comments here, it was a competitive process, we did seek bids and then narrowed it down to a shortlist and worked from there and Hancock became the best partner, providing the best overall value so it was quite a competitive process and a lot of interest from financials and international global's and so forth. So we feel good about that process. And then regarding keeping the tax benefits of these assets, Hancock does not have a tax appetite and what we found as you look out, the people that are pursuing the underlying PPA cash flows, they're not looking for the tax attributes, people looking for the tax attributes are not looking for the underlying cash flows. So, it's a logical matching here. So we'll maintain those tax benefits as we move forward and we've utilized some of those tax benefits to date, you can only sell what's remaining, so we'll still have those to keep in our portfolio.

Q - Praful Mehta {BIO 19410175 <GO>}

Understood. And is there any plan to do further sales in the Commercial Renewables side or do you think at this point, you kind of have the transaction done for at least the near-term?

A - Steven K. Young {BIO 7307044 <GO>}

Well Hancock has an option on some development projects that could provide further proceeds that have been defined as part of this arrangement and we'll continue to look as we develop projects in the future, whether there is interest with our existing partner or others.

Q - Praful Mehta {BIO 19410175 <GO>}

Got you. Thanks. And then just finally on the effective tax rate point, Q1 effective tax rate was 9.6%, i'm assuming because of that one-time that you talked about, but just wanted to clarify that. And then also, longer term, do you still see the 12% to 14% as something that stays not just in '19. But going forward through your forecast or does that change over times?

A - Steven K. Young {BIO 7307044 <GO>}

You're correct, Praful, the quarterly effective tax rate of 9.6% was driven down by the booking of the tax adjustment and that won't recur in future quarters. I expect by the end of the year, we'll be within the 12% to 14% range. I don't want to try to handicap now all that's in front of us as to whether it's lower than that or where it would be, I'd stick with that for now.

Q - Praful Mehta {BIO 19410175 <GO>}

Understood. Thanks so much guys.

A - Lynn Good {BIO 5982187 <GO>}

Thank you.

Operator

We'll take our next question from Ali Agha from SunTrust. Please go ahead.

Q - Ali Agha {BIO 1509168 <GO>}

Thank you. Good morning.

A - Lynn Good {BIO 5982187 <GO>}

Good morning, Ali.

Q - Ali Agha {BIO 1509168 <GO>}

Lynn and Steve, I apologize if you may have addressed this, I did come on a little late on the call. The ROEs that were set on the South Carolina, both the rate cases of 9.5% are below obviously what you previously had and below what your budget is for this year of earning 10% to 10.5% overall in Carolina ROEs. Just wondering how that impacts or what kind of headwind, earnings headwind does that create and what are some of the offsets against that?

A - Lynn Good {BIO 5982187 <GO>}

Ali the -- the ROE that you referenced, of course, was disappointing. There were constructive elements to the order, the equity pad [ph] at 53%, the amortization of excess deferred taxes, and so as we look at '19 earnings, we always plan for a range of outcomes and believe that the results of this case fit within our planning. But as we talked about on the call and in some of the subsequent questions, we do intend to request rehearing on the coal ash and the ROE item as well as potentially some others and we'll also consider an appeal of the case and the ROE will have an impact on the way we think about additional growth and discretionary investment.

Q - Ali Agha {BIO 1509168 <GO>}

I see, and linked to that, Lynn, I mean from historical cases of precedence, do you find that the ROEs that gets set in South Carolina, that you'll see much influence when North Carolina rate cases are resolved and ROEs are set, is that a good correlation between the two?

A - Lynn Good {BIO 5982187 <GO>}

In my expectation, Ali, for North Carolina is that they will continue the good work that they've done over many years acting in an independent manner, reviewing the evidence in front of them and we would expect the commission in North Carolina to continue to behave in that fashion. So I think it's premature to reach a conclusion on cases yet to be filed in North Carolina on how South Carolina is going to influence now.

Q - Ali Agha {BIO 1509168 <GO>}

I see. Thank you.

A - Lynn Good {BIO 5982187 <GO>}

Thank you.

Operator

And we'll take our last question from Michael Lapides from Goldman Sachs. Please go ahead.

Q - Michael Lapides {BIO 6317499 <GO>}

Yeah, hey guys, thanks for taking my question.

A - Lynn Good {BIO 5982187 <GO>}

Hi, Micheal.

A - Steven K. Young {BIO 7307044 <GO>}

Hi, Micheal.

Q - Michael Lapides {BIO 6317499 <GO>}

Hi, Lynn, Steve. Real quick, and you've touched on this, I think a little bit, the attorney general's lawsuit. I know you're probably limited in what you can say, given its ongoing litigation. Is that just dealing with the last rate case and how that rate case deal with coal ash recovery or is that dealing with the broader policy of what is the level, what is the process for coal ash recovery or is the coal ash recovery something that should be recovered at all? I'm a little confused about just kind of the maintainant [ph] of that case and whether it's just a one-off of the last rate case that got resolved by the commission or is that more kind of a policy-focused one longer term?

A - Lynn Good {BIO 5982187 <GO>}

It's the former, Michael. It is an appeal of the rate case. And so I would have you look at it in that context, because that's exactly what it is and we believe the order out of North Carolina was very well written, very strongly supported on the regulatory laws in North Carolina and we'll be vigorously defending that case as you would expect. The timing on that is -- briefing will occur during 2019, we expect the hearing late this year, early next and then potentially decision in a six month or so time frame. You may remember the last appeal from the Attorney General in North Carolina was on ROE in our last case and that took about two years.

Q - Michael Lapidès {BIO 6317499 <GO>}

Got it and then follow-up question, a little bit on Florida. Legislation just passed, it's sitting on the Governor's desk in terms of storm hardening, how do you think that would impact your capital spend plans in Florida if the governor signs? And given your rate agreement, now would you still qualify for incremental rate increases tied to that legislation in the near term, next 2 years to 4 years, or do you have to wait for the rate deal to kind of expire or roll off?

A - Unidentified Speaker

You know, Michael, the way I would think about it is it's a very solid policy and legislation that I think will serve Florida well, particularly as you think about storm hardening and resiliency. Our multi-year rate plan runs through 2021. So I would think about that legislation as being impactful to our business after 2021. It really gives us an opportunity to look at how to extend and continue important energy delivery investment. You may recall, we've got \$1.1 billion being deployed through now and 2021. This would set the context for more capital spending beyond that period.

Q - Michael Lapidès {BIO 6317499 <GO>}

Got it. Thank you, Lynn. Thanks Steve.

A - Lynn Good {BIO 5982187 <GO>}

Thank you.

A - Steven K. Young {BIO 7307044 <GO>}

Thank you.

Operator

And then I'll turn the call back over to Lynn Good for any additional or closing remarks.

A - Lynn Good {BIO 5982187 <GO>}

Thank you, Allie, and thanks to everyone who joined today. We appreciate your interest and investment in Duke Energy, and as always, our team is available for follow-on questions and look forward to seeing you in the near future. Thanks again for joining.

Operator

And that does conclude today's conference. Thank you for your participation, you may now disconnect.

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