Q2 2021 Earnings Call

Company Participants

- Jack Sullivan, Vice President, Investor Relations
- Lynn J. Good, Chair, President and Chief Executive Officer
- Steven K. Young, Executive Vice President and Chief Financial Officer

Other Participants

- Anthony Crowdell, Mizuho Securities USA
- Durgesh Chopra, Evercore ISI
- Jeremy Tonet, J.P. Morgan
- Jonathan Arnold, Vertical Research Partners
- Julien Dumoulin-Smith, Bank of America Merrill Lynch
- Michael Lapides, Goldman Sachs
- Shar Pourreza, Guggenheim Partners
- Steve Fleishman, Wolfe Research

Presentation

Operator

Good day, and welcome to the Duke Energy Second Quarter Earnings Conference Call. Today's conference is being recorded. At this time. I'd like to turn the conference over to Mr.Jack Sullivan, Vice President, Investor Relations. Please go ahead, sir.

Jack Sullivan {BIO 21652795 <GO>}

Thank you, Cody. Good morning, everyone. And welcome to Duke Energy's second quarter 2021 earnings review and business update. Leading our call today is Lynn Good, Chair, President and Chief Executive Officer; along with Steve Young, Executive Vice President and CFO.

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

A reconciliation of non-GAAP financial measures can be found in today's materials and on duke-energy.com. Please note, the appendix for today's presentation includes supplemental information and additional disclosures.

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

Lynn J. Good {BIO 5982187 <GO>}

Jack, thank you, and good morning, everyone. It's great to be with you for our second quarter 2021 earnings call. Today, we announced strong results for the quarter with adjusted earnings per share of $1.15. These results driven in part by economic recovery also demonstrate the continued strength of our clean energy strategy.

We are leading a transition to cleaner energy by adding significant amounts of renewables to our portfolio, hardening the grid through investments in our transmission and distribution assets, and collaborating with stakeholders and policymakers to advance supportive energy policy.

We have positive momentum going into the second half of the year and are reaffirming our 2021 adjusted EPS guidance range of $5 to $5.30. We're also reaffirming our long-term EPS growth rate of 5% to 7% for 2025 based off of $5.15 midpoint for 2021. And we remain fully committed to creating value for shareholders by recently increasing our quarterly cash dividend for the 15th consecutive year.

Looking ahead we have a number of strategic milestones that we're working toward the -- we're working toward in the second half of the year. We anticipate the closing of the minority sale of Duke Energy Indiana to GIC announced earlier this year at an attractive premium to our public equity valuation. This transaction satisfies our equity needs for the next five years.

We received CFIUS approval in June. FERC approval is the only remaining closing requirement, and we anticipate receiving approval at any time during the third quarter. We continue engaging with stakeholders on important work in the Carolinas on our 2020 IRPs and energy legislation, and in Indiana on our 2021 IRP. I will speak further about those in just a moment.

And operationally, we have four remaining months of hurricane season, and our team is ready to respond on behalf of our customers. In July, Elsa was our first official storm of the 2021 season. While we had minimal impact in our Florida and Carolinas service territories, we were prepared and restored power quickly to our customers. I'm very proud of our accomplishments to-date and we're poised for a strong finish to 2021.

Turning to Slide 5. We continue to advance our clean energy transformation powered by our five-year $59 billion growth capital plan. These investments are delivering value for our customers and communities and driving strong growth for our investors. I want to highlight a couple of recent accomplishments.

Renewables are playing a major role in our path to net zero. We continue construction on approximately 250 megawatts of new solar projects in North Carolina and Florida that we expect to bring online by the end of this year. And in recent weeks, we commissioned the 144 MW Pflugerville solar and 182 MW Maryneal wind projects in Texas.

With the completion of these two projects, we hit a significant milestone, surpassing 10,000 MW of solar and wind resources. This is a testament to the hard work and dedication of our employees and strong support we receive from the communities where we operate. In addition to carbon reduction and the benefits of creating a diverse energy infrastructure, solar and wind investments foster economic development, tax revenue and job creation in the areas we serve.

This milestone reflects our leadership in clean energy, and we are on track to pass 16,000 MW of renewables by 2025 and approximately 24,000 MW by 2030. By 2050, renewables will represent 40% or more of our energy mix.

Nuclear is also a foundational component of our strategy, providing the largest source of reliable carbon-free energy we have in our system. In June, we submitted our application to renew Oconee Nuclear Station's operating licenses for an additional 20 years which was accepted by the NRC for review. This is our first subsequent license renewal application among our six nuclear sites in the Carolinas, and the review process will move forward over the next 18 months.

Oconee is our largest nuclear station, with three generating units that produce more than 2,500 MW of carbon-free base flow generation, enough to power more than 1.9 million homes. Our nuclear fleet provided 83% of the company's carbon-free generation in 2020 and avoided the release of nearly 50 million tons of carbon dioxide. We'll pursue similar extensions for each of our remaining reactors as they approach the end of their respective licensing periods.

Our ambitious climate strategy also puts us in a strong position to help other sectors, such as transportation, meet their emission reduction goals. We continue to build out electric vehicle infrastructure in our service territories and one of our subsidiaries, eTransEnergy, was recently named a preferred provider by GM to help its fleet customers transition to electric vehicles. Electrifying vehicles is a win-win approach to reducing carbon emissions from both the electric and the transportation sectors.

Turning to Slide 6. We're actively engaging policymakers and stakeholders across our jurisdictions and at the federal level. In North Carolina, the House of Representatives recently passed House Bill 951. This legislation directs an orderly clean energy transition for North Carolina, including mandates to retire 12 coal units at 5 locations and replace them with cleaner forms of generation, renewed solar programs and modern ratemaking tools to better align clean energy investments with customer needs. We support House Bill 951 and will continue to monitor its progress through the legislative process.

North Carolina has a long history of constructive energy policy that was developed by finding common ground which has helped position the state as a leader in clean energy and in economic development. Advancing this clean energy transition continues to be a priority for the state and its leaders.

We also continue to work with the commissions in both North and South Carolina to advance our integrated resource plans. Regulators have been complementary of the extensive stakeholder feedback process and comprehensive data incorporated into the IRPs.

In South Carolina, we received an order from the commission requesting additional analysis and modeling, which will be filed later this month. And in North Carolina, the commission plans to hold additional proceedings and will be providing guidance on next steps. This is the first time we've presented multiple generation scenarios in the IRP, and we welcome the opportunity to provide our regulators with more input.

In Florida, we received the final order from the commission in June, approving the new multiyear rate plan settlement. The significant agreement includes the continued expansion of utility scale solar, energy storage, new electric vehicle charging station programs and provides rate certainty to benefit customers.

Among other things, our investments include 10 new solar power plants across the state that will deliver 750 MW of cost-effective renewable energy to customers. This multiyear rate plan is in addition to our Storm Protection Plan, which entails $6.2 billion in grid investments through 2029 to harden and strengthen the grid, protecting it against significant weather events and improving reliability for customers.

In Indiana, the commission approved Step 2 from our 2019 rate case, which updates rate base through year-end 2020 and trues up carrying costs back to January 1, 2021. As we prepare to submit our Indiana IRP in November, we continue to engage business customers, consumer advocates and environmental groups to solicit input on transitioning to cleaner generation sources while keeping a sharp focus on reliability and affordability for customers.

We took an important step in our last rate case by reducing the depreciable lives for our coal capacity and look to the IRP to continue this progress. We'll collaborate with stakeholders and policymakers to find the best path forward for the state's clean energy transition.

Shifting to the LDCs. We've filed rate cases in two jurisdictions this year. Across our gas segment, we've worked to keep O&M costs relatively flat during a period of strong customer growth and capital additions. Our Piedmont Natural Gas rate request continues to move through the regulatory process in North Carolina. This request includes construction costs related to our new natural gas storage facility in Robeson County. A hearing is scheduled for September. And if approved, rates would be effective by year-end.

In Kentucky, we've made strategic investments to improve the reliability and integrity of our natural gas delivery system and filed a request with the Public Service Commission to recover those costs. We've invested nearly $190 million in a variety of capital projects across Northern Kentucky since we last sought a natural gas base rate increase in 2018. We will present our case to the commission in October.

And finally, let me comment on the work in D.C. We're engaged with Congress and the administration on a wide range of issues, including infrastructure, tax and climate policy. The bipartisan infrastructure framework is the subject of much discussion and could serve as a powerful catalyst to modernize our nation's infrastructure. It includes funding for large-scale expansion of charging infrastructure to prepare for and further drive adoption of electric vehicles. And as charging infrastructure grows, so will the need for grid investments.

Innovation will also be a critical part of the journey to net zero because with our existing technologies, we can make important progress, but cannot close the gap. We're pleased to see the framework includes funding to accelerate the development of next-generation clean-energy technologies such as hydrogen, carbon capture and advanced nuclear. Robust and sustained government support is vital to ensure the commercialization of these advanced technologies. It's critical for us to tackle this issue today so the technologies are scalable when we need them.

In closing, our continued growth and strong second quarter results were driven by solid execution across all our jurisdictions as we lead the largest clean energy transition in our industry. I'm confident we will continue to build on this momentum to deliver sustainable value and grow earnings 5% to 7% over the next five years.

With that, let me turn it over to Steve.

Steven K. Young {BIO 7307044 <GO>}

Thanks, Lynn, and good morning, everyone. I'll start with a brief discussion on our quarterly results, highlighting a few of the key variances to the prior year. For more detailed information on variance drivers and a reconciliation of reported to adjusted results, please refer to the supporting materials that accompany today's press release and presentation.

As shown on Slide 7, our second quarter reported earnings per share was $0.96 and our adjusted earnings per share was $1.15. This is compared to a reported loss of $1.13 and an adjusted earnings per share gain of $1.08 last year.

The difference between second quarter reported and adjusted earnings per share is due to the onetime impacts of the initiative to redefine workspace usage in light of what we have learned from COVID. This effort involves consolidation of corporate office space and accommodating a hybrid work environment, resulting in a 60% reduction in square footage and annual savings of approximately $25 million to $30 million.

The adjusted earnings per share growth in the quarter continues to be strong, led by Electric Utilities and Infrastructure, which was up $0.24 compared to the prior year. Results were favorable due to benefits from base rate increases, favorable volumes, riders and weather. Partially offsetting these items were higher O&M costs due to COVID-19 mitigation efforts in 2020.

Shifting to Gas Utilities and Infrastructure, results were down $0.03, primarily due to the cancellation of ACP last year. In our Commercial Renewables segment, results were down $0.06 for the quarter, driven by lower investments in new renewables projects compared to prior year. This is consistent with our guidance in February, and we expect full-year 2021 earnings to be within our $200 million to $250 million range.

Other was unfavorable $0.04 for the quarter, principally due to less favorable market returns on certain benefit plans and higher income tax expense, partially offset by lower financing costs. Finally, segment results are impacted by $0.04 of share dilution related to the $2.5 billion equity issuance that closed in December 2020.

Overall, we had strong results compared to last year, supported by our continued execution and the rebounding economy. We remain confident in our ability to consistently grow our adjusted EPS at 5% to 7% throughout the five-year period off the 2021 base year.

Turning to Slide 8. Let me provide an overview of electric volumes and economic trends. Our results for the second quarter were up approximately 6.5% year-over-year. Keep in mind, we are comparing sales data to Q2 of last year, which experienced the largest impact from COVID-19.

Residential volumes were down 6%. However, given stay-at-home orders during the same period last year, the modest decrease indicates many people continue to work-from-home on at least a part-time basis. In fact, this quarter's results are more than 4% above the second quarter of 2019, highlighting the continued strength of the residential class which is supported by customer growth across our service territories.

As reported on our first quarter earnings call, nearly all large commercial and industrial customers have resumed operations in the sector and the sector is showing signs of optimism. The commercial class has rebounded considerably from prior year with an increase of 11.7%. Retail, dining and recreation were all driving the positive year-over-year comparison as most COVID restrictions have been lifted.

Similarly, industrial volumes have increased 11.8% for the quarter, whereas volumes had declined 15% last year. We expect improvement in the commercial and industrial classes as employment recovers and supply chain bottlenecks are resolved.

As we progress through the back half of the year, we are monitoring the pace of economic recovery and potential impacts of the Delta variant. At the same time, we are encouraged by the sales trends so far this year, along with strong customer growth across our service territories. With Q2 overall retail volumes returning to Q2, 2019 levels, we remain confident in our full-year expectation of 1% to 2% load growth for 2021 and are trending towards the top half of that range.

On Slide 9, I'd like to share an update on where we are with our financing plan and dividend growth. We remain on track with the financing plan we outlined on the fourth quarter call. The proceeds from the GIC minority interest sale, along with our overall financing plan, allow us to maintain a strong credit profile without the need for common equity issuances throughout our five-year plan.

We are on track to complete the North Carolina storm securitization this fall and we recently issued $3 billion of holding company debt at low attractive rates. Finally, we understand the value of our dividend to our investors. This year marks the 95th consecutive year of paying a quarterly cash dividend and the 15th consecutive annual increase.

Moving to Slide 10. I want to provide some perspective on timing considerations for the second half of the year and an update on our cost management efforts. We expect volumes will continue to recover over the balance of the year. But as we saw in the second quarter, we expect O&M to be unfavorable in the third quarter when compared to 2020. This is due to the actions we took to significantly reduce O&M during the pandemic, such as deferred outages at our generating stations.

Overall, we reduced O&M $320 million in 2020, equivalent to more than 6% of our non-rider recoverable O&M. On our February call, we shared that we plan to sustain 65% or $200 million of those savings and carry them forward into 2021. We are on track to achieve those savings. This is consistent with our cost management track record since 2016. On a consolidated basis, over the past five years, our net regulated electric and gas O&M has declined approximately 1% per year, and we expect this trend to continue.

Before we open it up for questions, let me close with Slide 11. We remain confident in our 2021 adjusted earnings per share guidance of $5 to $5.30 with a midpoint of $5.15. Our year-to-date results position us well to achieve full-year results within this range as we continue to invest in important energy infrastructure to benefit our customers and communities. Our attractive dividend yield, coupled with our long-term earnings growth profile of 5% to 7%, provide a compelling risk-adjusted return for our shareholders.

As Lynn discussed, we continue to advance our clean energy strategy, adding new renewable generation and taking steps to extend the lives of our carbon-free nuclear fleet. We continue to engage with state and federal leaders as they work to pave the way for a clean energy future.

We're executing our capital plan to support those efforts by investing in our energy grid, all while employing financing solutions that save customers money and add value for shareholders. Duke Energy is well positioned to lead as the pace of change in our industry accelerates, delivering sustainable value to our customers and investors.

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

Questions And Answers

Operator

(Question And Answer)

Thank you. (Operator Instructions) And we'll take our first question from Shar Pourreza with Guggenheim Partners. Please go ahead.

Q - Shar Pourreza

Hey, good morning, guys.

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

Hi, Shar.

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

Good morning.

Q - Shar Pourreza

So appreciate your prepared remarks around House Bill 951, Lynn. Where are we in the process as it stands today? Are you still optimistic? I mean, couldn't help, but notice some of the lack of bipartisanship going on. Should we be sort of concerned here at this stage?

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

Shar, the bill is moving and we are encouraged by what we're seeing. I think, you'd know that it passed the House, we've seen support from senate leadership, the energy legislation remains a priority and the governor has been clear for some time about his strong commitment to carbon reduction and to renewable investment in the state. So we're encouraged that the legislative branch, executive branch, and all of the broad stakeholders involved in this process will find common ground. And that has been the long history in North Carolina of bringing diverse parties together in advancing energy policy.

Q - Shar Pourreza

And just -- I want to just elaborate a little bit around sort of the common ground. And I know this isn't obviously a Duke Energy bill, and there's a lot of stakeholders involved. But passage of it is going to obviously impact your clean energy transition, right? In the state. Investors kind of want to know if there is a possibility of compromise i.e. between the draft bill versus legislators versus the governor's very vocal comments, right? It's not really your call, but could we see a faster coal retirement outlook, may be a little less dependency on gas, a bit more solar. I mean, the governor wants more. So do you see a path forward to kind of maybe bridge this sort of bid ask that's out there?

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

Shar, we do. And I think your comments around it's comprehensive, there are many elements to it, you have a broad range of stakeholders. It is natural and expected that there are going to be different points of view in that conversation. And what HB951 does is it outlines a path to a clean energy transition, and the discussion is centering around that pace the cost, maintaining reliability, and we would expect that legislators and the administration will evaluate all portions of this draft bill to find the right balance. So I think advancing clean energy transition remains a priority for the state and its leaders as well as its broad range of stakeholders, and we will keep you informed as the bill continues to move.

Q - Shar Pourreza

Okay, perfect. Thank you very much. Congrats on the quarter. That's all I have.

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

Thank you. Thank you, Shar.

Operator

Thank you. We'll take our next question from Julien Dumoulin-Smith with Bank of America.

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

Hi, Julien.

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

Hey, good morning. Can you hear me? Hey, thank you for the time.

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

We can.

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

Sure, we can.

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

So at risk of asking more on the legislation, perhaps I can pivot a little bit more strategically here if you don't mind. And I'd love to hear if you have any latest thoughts with regards to undertaking any further review of the company. I know that there's been a lot of, shall we say, noise out there. And I would love to hear your latest thoughts therein. I'll leave it as open-ended as you'd like to comment.

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

Sure. Julien, I assume that's a comment about Elliott Management. And so let me just answer it in that context and then we can take it any place you want to go. We regularly engage with our shareholders, we regularly review our portfolio, our operations and business strategy. And it has -- our approach around engagement has been similar with Elliott, and we have been in discussions with them for over a year, comprehensively reviewing all of the ideas, engaging advisors when we need to and discussing with our Board all of these ideas. And it's not appropriate for me to comment any further on the specifics, but I would confirm to you that we remain open to constructive engagement, we'll evaluate all proposals, act on those, that we believe, delivers value to our stakeholders.

And I would also say that we remain focused on the serving of customers, maintaining our assets, advancing the strategic priorities around our clean energy transition, and that remains unchanged as well.

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

Got it. Excellent. Thank you for the thoughts. Perhaps if I can pivot a little bit differently here, as you think about the non-utility side of the business, can you comment at all on just thoughts on scaling that or not? Obviously, it's not been too core of a focus of late, but given some of the pressures across the wider renewable businesses out there, would be curious what you're seeing, if that's impacting any of your timeline and/or aspirations in business put all together.

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

And Julien, we just crossed an important milestone of renewables, so 10,000 megawatts of renewables, which includes both regulated and non-regulated investment. And we see the growth of renewable energy is important to the clean energy transition. Our commercial team continues to deliver. They are forecasting to achieve $200 million to $250 million per year and have been consistent in accomplishing that. So it remains an important part of the company, it remains an important part of our commitment around carbon reduction or ESG story in general. And the team is on track to deliver in 2021, 2022 and beyond.

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

Right, excellent. And just to clarify, and to the extent that which you would get this legislation done, I know, it's always difficult to say. But any updated thoughts at the end of the forecast period, how that might change as you refine your planning, might be a little bit early. And I know it's transient what could ultimately be included. But I figure, I'd be remiss if I didn't ask.

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

Sure. No. Julien, the plan that we've put in front of you, 2021 to 2025, is not dependent on legislation. We have a high degree of confidence in the ability to achieve our 5% to 7% growth rate. But as we talked about in October of last year and we opened the horizon to what the back half of the decade could look like, we do see acceleration of capital, not only in pursuit of retirement of assets and building replacement generation, but also our grid investment as well. So we'll continue to update this in the ordinary course giving you a view in February of what we think 2026 looks like, but we continue to expect acceleration of capital in the back half of the decade.

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

Okay. All right, we'll clarify that later. Thank you so much and best of luck here.

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

Thanks so much.

Operator

Thank you. We'll now take our next question from Jonathan Arnold with Vertical Research.

Q - Jonathan Arnold {BIO 1505843 <GO>}

Hi. Good morning, guys.

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

Hi, Jonathan.

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

Good morning.

Q - Jonathan Arnold {BIO 1505843 <GO>}

Just on the North Carolina process, last quarter, then you sort of dissuaded us from being overly concerned about any particular dates. But could you just remind us sort of what the timing in the legislature is through the rest of the year? And if anything we should be looking out for -- procedurally or is it essentially open-ended?

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

Sure. Jonathan, what I would say is that the timing is difficult to predict in these processes. It is within the hands of the legislative leadership, and we will know more as the bill progresses through the Senate. There was in fact a hearing this morning in the Senate. So we'll continue to keep you updated. I think you know that the long session in North Carolina does not have a statutory end date. So we will continue to monitor as it moves through the Senate process.

Q - Jonathan Arnold {BIO 1505843 <GO>}

Okay. Thank you for that. And then just, I noticed the comment on feeling that you are trending towards the top half of the sales or load forecast for this year. Does that sort of translate into how you feel you're tracking on earnings as well or are there other things that are weighing on the other side?

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

Jonathan, we will reset and give you a finer look at where we were trending in the guidance range after third quarter. I mean, there's just so much weather volatility here in the Southeast, we have hurricane season underway. So we will continue to monitor that and give you an update third quarter. But I would say we're off to a strong start, strong start on the economic rebound, strong start on maintaining our focus on O&M, delivering on our key milestones around regulatory approvals et cetera. So I'm pleased with where we are, and also pleased to see the economic recovery. Those strong results on commercial and industrial are indicative of the economy opening up and I think that's a good thing.

Q - Jonathan Arnold {BIO 1505843 <GO>}

Great. Thank you. Just one -- very quick one on -- the annual savings you talked about for the office reconfiguration, were those sort of pre-tax or after-tax number, the $25 million to $30 million.

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

That's a pre-tax number, Jonathan.

Q - Jonathan Arnold {BIO 1505843 <GO>}

Great. Thank you, Steve.

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

Thank you.

Operator

Thank you. We'll take our next question from Steve Fleishman with Wolfe Research.

Q - Steve Fleishman {BIO 1512318 <GO>}

Thanks. Good morning,

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

Hi, Steve.

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

Good morning.

Q - Steve Fleishman {BIO 1512318 <GO>}

Hi, Lynn and Steve. So this may have -- I think, this may have been asked a little bit, but just wanted to better clarify the -- as we're watching the IRP and the different scenarios that come out, how should we think about what's embedded in your current capital plan versus what might be incremental? Or is it just mainly focused on beyond the current capital plan?

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

So Steve, the capital plan is basically the base of the IRP. And so you should think about it that way, the six scenarios as you move further to the right and you introduce additional technologies in the timeframe. That's where the legislation begins to come in, giving us some flexibility to move more rapidly on some of the retirements et cetera.

So when we talk about the implications of how IRP fits with the legislation, we've got a clear line of sight 2021 to 2025 based on present law, based on the present processes, present regulatory processes. And the opportunity really exists in the back half of the decade. So that's how I would respond. I don't know, Steve, if you'd add anything to that?

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

Yes. So I think as you move towards a more rapid decarbonization number then the capital increases, I think, within our current five-year plan, the upside would be at the back end of things, so to give that texture to it.

Q - Steve Fleishman {BIO 1512318 <GO>}

Okay. Great. Thank you.

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

Thank you.

Operator

Thank you. We'll hear next from Durgesh Chopra from Evercore ISI. Excuse me.

Q - Durgesh Chopra {BIO 20053859 <GO>}

Hey, good morning, team.

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

Good morning.

Q - Durgesh Chopra {BIO 20053859 <GO>}

Most -- good morning.

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

Good morning.

Q - Durgesh Chopra {BIO 20053859 <GO>}

Most of my questions have been answered, good morning, Steve. Just maybe big picture, Lynn, sort of what are -- sort of what are you and some of the other utility leaders are looking at Washington, the Infrastructure Bill sort of is being debated today, and then the reconciliation bill going into year-end. Maybe sort of -- what are sort of the top two or -- two or three things that you see coming out between now and year-end which impacts the sector?

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

Yes, Durgesh, I would say the infrastructure bill will continue to make its path. We're supportive of a bipartisan approach. I think, as an infrastructure builder, our success over many years has been in a bipartisan framework. We're encouraged by the focus on electric vehicles and electric vehicle infrastructure, as you know, that's been a priority for Duke. We have about a $100 million targeted on that investment, and there's certainly potential to expand it.

The President today also has been advocating for 40% to 50% of vehicles, electric vehicles by 2030. We are also pleased to see investment in zero and low-carbon technologies like advanced nuclear, hydrogen, carbon capture, because we believe those technologies are important for a net-zero world. So that's what I would say around infrastructure. I think on the remaining reconciliation process, tax policy, climate legislation are all being discussed. I think it's too early to tell how those shape up, but we are engaged with the administration and with congress, really talking about the tools that would be helpful for us to pursue our clean energy strategy, and see a lot of alignment over time. But as you know, in a tight Senate and House, it can be challenging at times to find the right path, but we remain engaged.

Q - Durgesh Chopra {BIO 20053859 <GO>}

Got it. Thanks so much. Appreciate the time.

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

Thank you.

Operator

Thank you. We'll hear next from Jeremy Tonet with J.P. Morgan.

Q - Jeremy Tonet {BIO 15946844 <GO>}

Hi, good morning.

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

Hi Jeremy.

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

Good morning.

Q - Jeremy Tonet {BIO 15946844 <GO>}

Hi. Just want to start off here. Thinking about the energy transition kind of from a different perspective, I know, Duke has some irons in the fire with regards to RNG investments. But do you see any potential to kind of upsize this, increase this over time? Are there policies out there at the federal, state level that could be helpful in these efforts?

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

We are getting started, I would say, Jeremy, on RNG. It's consistent with our overall climate targets, certainly our goals -- 100% methane goal, et cetera, and working actively to learn more about the technology, learn more about how it impacts our system and have made some very strategic investments. And so I do think there's an opportunity for it to develop over time, and the team is working actively with policymakers, with the communities, suppliers that would be relevant to this. And I think it will be a bigger story as we move forward.

Q - Jeremy Tonet {BIO 15946844 <GO>}

Got it, that's helpful. And then could you give any more color just kind of pivoting here on what we should be looking for with the IRP filing in Indiana later this year? What are some of the considerations versus maybe what we saw coming out of the Carolinas last year?

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

It's a really good question, Jeremy, because we are in the midst of stakeholder engagement in Indiana as well, engagement with the environmental community, with our large customers, certainly, the regulators and other policymakers who are relevant to that process. The goal is decarbonizing, the goal is diversifying. And if you look at our last IRP that we filed in Indiana, we had about 2,300, 2,400 megawatts of solar starting in 2023. We would expect that to grow.

And so we've got a couple of more months here in working through the stakeholder process. But we see this as a next step where we -- in the rate case, we accelerated retirement dates of coal plants, the IRP gives us a chance to expand that discussion on clean energy transition over the next 20 years. And I think, it's an important part of the ongoing conversation in Indiana on how the state will position itself for growth in the clean energy transition. So more to come on that. And as we look forward to November third quarter call, EEI, et cetera, we'll have more that we can share around Indiana.

Q - Jeremy Tonet {BIO 15946844 <GO>}

Got it. That's very helpful. Just a real quick last one for me. We've very recently seen some utility peers beef up their corporate governance with certain actions. I was just wondering if Duke has considered taking actions like this?

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

I think Duke has a strong track record on governance, Jeremy. If you were to look back at the feedback we've received from shareholders and the additional disclosures and adoption of certain practices that we've followed, we have been very open-minded about these and we'll continue to do so. So that becomes a key focus here in the fall as we engage with the shareholders, specifically focused on ESG topics. Our corporate governance committee is very involved in that, the Board is very involved in some of the conversations with shareholders as well. So you can expect us to continue to be responsive to our shareholders in this regard.

Q - Jeremy Tonet {BIO 15946844 <GO>}

Got it. I'll leave it there. Thank you.

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

All right. Thank you.

Operator

Thank you. We'll hear next from Michael Lapides with Goldman Sachs.

Q - Michael Lapides {BIO 6317499 <GO>}

Hey, guys. Hey, Lynn.

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

Hi, Michael.

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

Hey, Michael.

Q - Michael Lapides {BIO 6317499 <GO>}

Thank you guys for taking my question. Just curious, how are you all thinking about the commercial power business and what the growth profile of that business looks like over the next couple of years relative to investing in renewables in the regulated business? I guess to simplify, what's a better return on capital? Investing in renewables outside of the regulated utility or within the regulated utility, if you could allocate capital only to one of those alternatives?

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

Michael, it's a really good question, because we have -- we do a lot of work around capital allocation. Of course, what meets the needs of our customers, what fits the policy of our state, what delivers the highest return, those are all key considerations. And our Commercial Renewables business has performed well against our benchmarks of what we expect from that business in terms of returns. But what you're suggesting is, as we see more opportunity in the regulated business, how will that impact commercial? And I would say that'll be very closely reviewed as part of our capital allocation plan going forward.

I think you also know that we entered a joint venture with John Hancock on the commercial renewable business recycling, that capital in a way that has been quite effective and those are the types of transactions we will also evaluate over time. We like the business in the context of our ongoing ESG story and our pursuit of carbon reduction, but we'll closely scrutinize how capital is allocated.

Q - Michael Lapides {BIO 6317499 <GO>}

Got it. Also one follow up, a number of your peers, some of the other large caps, I think Exelon or AEP, have made investments in -- they're almost like venture capital like investments in various clean energy related companies, some of which have gone public in the last 6 to 12 months. Just curious, does Duke have similar type of investments? And have you ever made any disclosure? Are any of them material or something that would show up in kind of the income statement over time?

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

No. So Michael, we are active in this area and do make investments. Let me ask Steve to comment. We look at it from a couple of perspectives. Certainly, there's an opportunity to earn a return. But as importantly, there's an opportunity to learn about what's going on in various technology development and various methods of technologies to serve customers, technologies that could advance carbon reduction. And as part of our treasury corporate development organization, we are focused on investment in that area in a way that complements our business.

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

Yes. I would add that we have made investments in various venture funds, and we work closely with the fund managers to understand what the investment profile is? And as Lynn said, it's aligned with our strategy, looks at things like EVs and new technologies. And we also ensure that there is communication among our operating folks with the funds in the companies that we invest in. So we can transfer learnings there, and we've had some good success there. It's not been material, but we're certainly learning a lot from it.

Q - Michael Lapides {BIO 6317499 <GO>}

Got it. Thank you, guys.

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

Thanks, Michael.

Operator

Thank you. We'll take our final question from Anthony Crowdell with Mizuho.

Q - Anthony Crowdell {BIO 6659246 <GO>}

Good morning, Lynn. Good morning, Steve. Thanks for taking my questions.

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

Good morning.

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

Sure.

Q - Anthony Crowdell {BIO 6659246 <GO>}

Just I guess a quick question. Earlier in the year, Duke had been able to resolve rate case in North Carolina, Florida. I think last year, you resolved Indiana. But just are there any other Duke properties or Duke utilities under-earning allowed and maybe creating more of a headwind than you thought versus when you went in the year? I think you provided some disclosure on the fourth quarter slide deck of maybe adjusted book ROEs going into the year. Just is everyone on target or is some of them maybe performing better than you thought or less than you thought?

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

Anthony, they're performing well. We do look over time at our allowed returns and we've got a good history across our footprint of earning at or even above our allowed returns. And they'll move around a bit as you're building a rate base for an upcoming rate case. So you'll see some movement around the return based upon some of those profiles. But we feel good about our regulatory cadence, and our investments around that cadence, and the execution has been good, and the Indiana case and the Carolinas case are coming through nicely and we're preparing for the future cases that Lynn was discussing and we think that process is working well.

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

And Anthony, I would just add Just add that Steve runs a tight process around optimizing capital to make sure it's getting spent at a time that matches with that regulatory calendar. So we do all that we know to do to minimize lag.

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

Right.

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

And the result of that is that we have a good track record of earning our return.

Q - Anthony Crowdell {BIO 6659246 <GO>}

Great. And just a last one for me. You may have touched on it earlier, Lynn, in a question I think on maybe some stuff going on in Washington. There's talk of maybe a nuclear legislation or some maybe a subsidy for nuclear plants. You're talking about license extension on Oconee. Just any thoughts to maybe your view on nuclear legislation that maybe part of the infrastructure bill, and will -- would it impact Duke?

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

So Anthony, we are strong supporters of nuclear as you know. And I think, as you look here in the Carolinas in particular, 50% of the power comes from nuclear across the entire enterprise, 80% of our carbon free generation is from nuclear. So we are very active. We intend to pursue second license renewal as you indicated. And the discussion in Washington has really centered more around the plants that are exposed to markets, commercial markets, so think about plants in PJM and otherwise.

But we have had discussions with a number of people about the importance of nuclear in the transition, and I do believe it is being recognized by the administration and by Congress. And so that's, important area of advocacy for us. Not only in existing plants, but on new technologies that would keep nuclear as part of the solution set for the clean energy transition.

Q - Anthony Crowdell {BIO 6659246 <GO>}

Great. Thanks for taking my question and congrats on a solid quarter.

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

Thanks so much.

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

Thank you.

Operator

Thank you. And that does conclude today's question-and-answer session. Let me turn the conference back over to Lynn Good for closing remarks.

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

Well, thank you, Cody, and thanks to all of you who participated today, for your interest and investment in Duke Energy. And as always, we're available for further discussion in the IR team, Steve, and I as well. So thanks again for participating.

Operator

Thank you. And that does conclude today's conference. We do thank you all for your participation. You may now disconnect.