

Q1 2017 Earnings Call

Company Participants

- Lee T. Mazzocchi, Senior Vice President-Grid Solutions
- Lynn J. Good, Chairman, President & Chief Executive Officer
- Michael Callahan, Vice President-Investor Relations
- Steven K. Young, Chief Financial Officer & Executive Vice President

Other Participants

- Ali Agha, Analyst, SunTrust Robinson Humphrey, Inc.
- Andrew Levi, Analyst, Avon Capital/Millennium
- Greg Gordon, Analyst, Evercore Group LLC
- Jonathan Philip Arnold, Analyst, Deutsche Bank Securities, Inc.
- Julien Dumoulin-Smith, Analyst, UBS Securities LLC
- Michael Lapedes, Analyst, Goldman Sachs & Co.
- Michael Weinstein, Analyst, Credit Suisse Securities (USA) LLC
- Praful Mehta, Analyst, Citigroup Global Markets, Inc.

MANAGEMENT DISCUSSION SECTION

Operator

Please standby. We're about to begin. Good day and welcome to the Duke Energy First Quarter Earnings Call. Today's conference is being recorded. At this time, I'd like to turn the conference over to Mike Callahan. Please go ahead, sir.

Michael Callahan {BIO 19728882 <GO>}

Thank you, Noah. Good morning, everyone, and thank you for joining Duke Energy's first quarter 2017 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 two presents the Safe Harbor statement which accompanies our presentation materials. A reconciliation of non-GAAP financial measures can be found on the Investor Relations section of our website and in today's materials. Please note the appendix for today's presentation includes supplemental information and additional disclosures.

As summarized on slide three, during today's call Lynn will briefly discuss our financial and operational highlights for the quarter. She will also provide an update on the progress we have made against our long-term strategy including additional details about our grid modernization

efforts. Steve will then provide an overview of our first quarter financial results, insight about economic and low growth trends, and an update on our regulatory and rate case activity.

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

Lynn J. Good {BIO 5982187 <GO>}

Thank you, Mike, and good morning, everyone. Today, we announced adjusted earnings per share of \$1.04 for the first quarter. We had solid growth in our electric and gas utilities in the quarter driven by our ongoing investment programs. This was offset by the warm winter weather experienced across all of our jurisdictions. We're already taking action in leveraging our agile operations and ability to manage costs to offset the effects of the weather which Steve will discuss in more detail in a moment. With our strongest quarter ahead, we remain on track for 2017 and have affirmed our full year guidance range.

Through all of this, our focus on operational excellence has not changed and our commitment to safety is unwavering. Over the last six months, we've welcomed our Piedmont colleagues and I'm proud to share the recent accomplishments in safety and environmental stewardship as outlined on this slide. I may not quite sound like myself today. We're suffering from a spring cold so thanks for your patience and interest in Duke. The integration of Piedmont is well underway and we're pleased with the progress to-date. Merger integration can be a time of uncertainty but our Piedmont teammates have consistently delivered strong operational, financial, and customer performance. We're looking forward to a strong full year contribution from Piedmont in 2017.

Let me highlight a couple of very recent successes. In the Midwest, the American Gas Association awarded our Midwest LDCs the 2016 Safety Achievement Award. Our employees had the lowest incident rate for days away from work compared to our peers last year. Also, Piedmont was recognized as an environmental champion for the third consecutive year based on a nationwide survey. This is the result of our efforts to reduce vehicle fleet emissions and make our facilities more energy efficient. These awards are a testament to our industry-leading operational excellence and I'm proud of our employees and their continued focus on safety and efficient operations.

As we turn to slide five and six, we thought it would be appropriate to briefly revisit our strategic vision for the company which we discussed with you in February. Our industry is undergoing transformation from increasing customer and stakeholder expectations to rapid technology development and new public policy requirements. The companies that succeed in this environment are those who anticipate and adapt. We see great opportunity in this period of transformation to invest in infrastructure, our customers' value, and deliver sustainable growth for our investors. This strategy defines priorities for us every day, from investments to regulatory and legislative initiatives.

Slide six depicts how this vision is manifested and establishes our investment priorities over the next 10 years. We will invest in areas that position us well for the future including strengthening our energy delivery system, generating cleaner energy, and expanding natural gas infrastructure. Everything we do begins with customer service and we also understand that working collaboratively with our stakeholders is critical to our success.

On today's call, we want to highlight the investments we're making in the energy delivery system by, first, providing more details on our investment plans and, secondly, by sharing our recent experience in the Carolinas. Turning to slide seven, let me provide more details in our grid investment plan. The energy grid is a critical part of our nation's infrastructure, directly impacting nearly every part of our economy. Duke Energy's grid is the largest in the nation, stretching more than 300,000 miles. We have developed a comprehensive plan to create a smarter delivery system that positions our states for the future, delivering the reliability and services our customers expect.

While some tend to think of grid modernization primarily in terms of smart meters, our plan is more comprehensive. Our investments will help us to automatically reroute power and accelerate restoration through new technologies and core infrastructure upgrades. This will add connectivity, capacity, and control to the grid allowing the system to self-identify problems and react automatically to shorten or eliminate outages. Our targeted undergrounding program will replace select sections of poorly performing overhead lines, many located in hard to access areas.

Our plan will strengthen the grid as we upgrade transformers, replace aging cable and poles, install additional protective devices, and expand our flood mitigation work. We will also improve the grid's resilience against cyber attacks and physical threats through enhanced system intelligence programs. And to give our customers the tools to help them lower their bills and improve their experience, we are investing in smart meters, communications technologies, and upgraded systems. These investments will help us improve outage detection and better manage new grid devices including distributed generation.

Turning to slide eight, let me highlight an important example of recent progress in the Carolinas. In April, we announced our 10-year plan to upgrade and strengthen our energy grid in North Carolina. The initiative called Power/Forward Carolinas will allow us to reduce outages and better serve our customers, helping to keep the lights on and businesses running. But the investment will do more than modernize our energy grid. It will enable more cost-saving solutions, provide additional reliability to customers, and serve as an economic stimulus for North Carolina communities.

We commissioned Ernst & Young to study the potential economic impacts of Power/Forward Carolina. According to the study, our investment will create \$21.5 billion in economic output over a decade, bring nearly 14,000 direct and indirect jobs to North Carolina, and contribute nearly \$1 billion in state and local taxes that will flow directly into local communities to continue making North Carolina one of the top places to live and work. This long-term initiative was announced in April and the response has been positive as we continue to educate our customers and stakeholders on our plan and the benefits it will provide to the region. Our vision is to create a smarter energy grid. We have bold plans and I'm confident in our ability to execute the strategy across our service territories to better serve our customers in the future.

Turning now to slide nine, let me take a moment to update you on a few of our nearer-term strategic initiatives that lay the foundation for our future success. Progress continues on smart meter deployment around our system. To-date, we've installed over 2 million smart meters in our utilities including over 1 million in the Carolinas. In Indiana, our grid modernization efforts

are well underway as we continue to roll out a smarter network in the state through the TDSIC program.

We're also moving forward with our work to generate cleaner energy with our investments in natural gas plants and renewables. Construction of our W.S. Lee, Citrus County, and Western Carolinas combined cycle natural gas plants remain on track and on budget. For more than a decade, we've been working toward a lower carbon future by modernizing and diversifying our system, including retiring older coal plants and building new natural gas plants and renewables. So far, we have reduced carbon emissions by 29% since 2005 and we're committed to advancing these efforts. With the recent release of our latest corporate sustainability report, we've introduced a new ambitious goal. By 2030, we plan to reduce carbon emissions by 40% from the 2005 level.

Work also continues in our three interstate natural gas pipelines as we invest in the needed infrastructure to improve access to this cleaner, cheaper fuel. In Florida, the Sabal Trail Pipeline is on track to be in service in June and construction of the lateral to our Citrus County plant remains on time to meet the planned service date. This summer, we expect the final environmental impact statement for the Atlantic Coast Pipeline, keeping the project on time to begin construction in the second half of this year. State and local governments in West Virginia, Virginia, and North Carolina continue to support the project as they understand the economic benefit of this critical infrastructure. Final FERC approval is expected by late summer or early fall which will require a quorum on the commission.

Regarding the Constitution Pipeline, we continue to believe this FERC-approved project will benefit customers in New York and New England, bringing much needed low-cost natural gas to the region. We're disappointed in the ruling by the U.S. District Court for the northern district of New York which was related to New York state permit requirements. However, we're still pursuing our appeal associated with the Clean Water Act water quality certification. We anticipate a decision on our appeal from the U.S. Second Circuit Court of Appeals as early as the second quarter of this year. And our discussions with stakeholders continue and we will work diligently to complete the project with our partners.

In addition, we continue to engage with federal lawmakers and administration officials in Washington as they consider potential reforms to tax and infrastructure policies. We're actively advocating on behalf of our customers and shareholders as we meet with industry organizations such as the [EI] and congressional leaders. We will remain active on key issues facing our industry and support policies that keep customer bills low and spur economic growth while also ensuring the reliability of our system in protecting the environment.

We're off to a good start to the year. The fundamentals of our businesses are strong and we have a great team of dedicated employees focused on executing our strategy safely and efficiently. I look forward to updating you throughout the year about additional milestones we reached.

Now, let me turn it over to Steve.

Steven K. Young {BIO 7307044 <GO>}

Thanks, Lynn. Today, I will walk you through the key earnings drivers from the first quarter, discuss current retail volume trends and economic indicators as well as provide an update on regulatory activity underway in several of our jurisdictions. I'll close with a summary of our key investor considerations.

Let's start with the quarterly results. I will cover the highlights on slide 10 and discuss our adjusted earnings per share variances compared to the prior year quarter. For a more detailed information on segment variances versus last year and a reconciliation of reported results to adjusted results, please refer to the supporting materials that accompany today's press release and presentation. On a reported or GAAP basis, 2017 first quarter earnings per share were \$1.02 compared to \$1.01 last year. First quarter adjusted diluted earnings per share were \$1.04 compared to \$1.13 in the first quarter of 2016. Lower results in the current year reflect the absence of International Energy results due to the successful sale of the business in December 2016 and the effects of warm winter weather. Removing the impact of weather, we see strong growth in the regulated businesses and a solid contribution from Piedmont.

Electric Utilities and Infrastructure quarterly adjusted results were \$0.03 per share, lower quarter-over-quarter. This performance was primarily driven by the warm winter weather that we experienced over the past few months. In fact, this was the second warmest February and sixth warmest winter on record in the U.S, and our service territories in the Carolinas and Midwest set new record warm temperatures.

Partially offsetting weather was favorable O&M largely due to lower storm restoration costs in the quarter compared to last year and our ongoing cost management efforts across the business. Our target for 2017 reflected the reduction of non-recoverable O&M cost from 2016 levels and we're well on our way to achieving that goal for the year. In a moment, I will discuss additional cost efficiencies we're implementing to offset the warm winter weather in early 2017.

Results were also favorably impacted by higher revenues from energy efficiency riders in the Carolinas and grid investment riders in Ohio and Indiana. Additionally, we had new rates effective in Duke Energy Progress South Carolina and base rate adjustments in Florida. Retail volumes were also higher in the quarter. I'll speak to those results in greater detail in just a moment.

Gas Utilities and Infrastructure results were primarily driven by the contribution from Piedmont Natural Gas. For the quarter, Piedmont delivered \$0.14 of earnings, excluding financing cost and share dilution. Despite the warm weather, Piedmont's quarterly results were consistent with their plan. Piedmont's LDC business benefited from existing weather normalization mechanisms in South Carolina and Tennessee and margin decoupling in North Carolina. These mechanisms help reduce volatility associated with volumetric change due to weather.

In the quarter, our average customer growth for our gas utilities was 1.2%, consistent with our expectations. This was underpinned by a strong customer growth of 1.5% in the Carolinas and Tennessee. Looking ahead, it is important to note that LDCs traditionally earn the majority of their profits in the colder months of the year and very little during the remaining months. Piedmont achieved nearly half of their full year plan in the first quarter and we expect the LDC to deliver the bulk of the remainder in the fourth quarter of this year.

Moving on, our Commercial Renewables segment was flat for the quarter. Increased production from new projects brought online in 2016 was offset by lower solar ITCs in the current year. Other was down \$0.01 for the quarter. This was driven by higher interest expense at the holding company which was partially offset by increased contributions from our equity investment in National Methanol Company. Finally, recall that we completed the sale of our Latin American generation business in the fourth quarter of 2016, removing \$0.17 of earnings from the quarter before consideration of the use of sale proceeds.

Cost management continues to be a strong focus for Duke Energy. Our continuous improvement efforts including the use of lean techniques to streamline our business processes and risk management assessments to eliminate low-value work from our operations align our cost structure to the evolving needs of our business. When we experience weaker weather such as that in early 2017, we will look for flexibility in our cost management practices.

As Lynn mentioned, we already have additional cost control plans in place and we'll mitigate approximately \$100 million of the weather impact in the first quarter. Some of the opportunities we have identified will be sustainable cost reductions providing benefits for both our customers and shareholders for years to come. Given our size and scale, we can execute these efficiency efforts and we're confident in our ability to finish within the targeted range of \$4.50 to \$4.70 per share.

Moving to slide 11. Let's review our retail customer volume trends. On a rolling 12-month basis, weather normalized retail load growth was 0.2%. This was largely driven by lower than expected 2016 results in the industrial sector and the loss of leap day in the first quarter of 2016. However, first quarter 2017 results were strong. We achieved growth of 0.1% even with the loss of the leap day in the prior year. Taking that into consideration, sales volumes in the first quarter were up over 1%. One quarter is certainly not a trend, but it is encouraging and aligns with our long-term expectations for approximately 0.005% load growth over our five-year planning horizon.

The residential sector grew 0.5% on a rolling 12-month basis driven by strong new customer growth of 1.4% particularly in the Carolinas and Florida. As we've experienced over the past few years, utility-sponsored energy efficiency programs, for which we're compensated, and more energy-efficient building codes and standards continued to partially offset this customer growth. Current trends and new job and wage growth as well as recovery in the housing market are positive signs for continued residential growth. In fact, we've been closely monitoring the recent shift away from starts of multi-family homes to single family homes. New permit applications for single family housing starts are up over 10% across all of our service territories.

Commercial sales have improved by 0.5% across our jurisdictions over the past quarter and is up 0.6% over the rolling 12 months. Non-manufacturing employment continues to strengthen and office vacancies continue to decline across many of our service territories. In addition, we're seeing positive trends related to leisure activities including entertainment and restaurants.

Turning to the industrial sector. Though the class is down 0.6% on a rolling 12-month basis, industrial performance in the quarter was strong with 0.8% growth. Industries that support construction and housing continue to do well. This strength is partially offset by industries that are more dependent on global trade given that the U.S. dollar remains strong. However, we're

cautiously optimistic about the continued recovery of global economies as well as the resurgence of business investment. We will continue to closely monitor economic conditions and our customer usage patterns and update you throughout the remainder of the year.

Before closing, I want to highlight key regulatory activities underway in a few of our jurisdictions as highlighted on slide 12. In Florida, we have completed filings for the Osprey gas-fired plant that we acquired in January and our completed Hines Chiller upgrade project. Both of these filings were made under the generation base rate adjusted mechanism and were approved with new rates effective in February and April, respectively.

In Indiana, we completed our second semi-annual filing under the TDSIC rider for the next installment of costs covering the period July through December 2016. TDSIC-1 was filed last October and approved in March with rates effective April 2017.

On May 2, we filed our 30-day advanced notice with the North Carolina Utility Commission for our upcoming DEP rate case. We anticipate filing the notice for the rate case at DEC later this summer. New rates associated with these cases are likely to be effective in the first half of 2018.

I'll close with slide 13. Duke Energy has tremendous scale, offering an attractive investor value proposition which includes balanced growth and earnings and reliable dividends over time. The assets we have coupled with the strategy that produces real results offer a solid long-term investment opportunity. We're positioned to deliver growth and earnings and dividends in a low-risk, predictable, and transparent way, providing an attractive risk-adjusted shareholder return for our investors. As a capital-intensive business, our growth is supported by the scale and strength of our balance sheet which remains a continued focus for our company.

In short, our attractive yield and demonstrated ability to reliably grow our regulated businesses positions Duke Energy as the leading infrastructure investment.

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

Q&A

Operator

Thank you. We'll pause for a moment to allow everyone an opportunity to signal for questions. And we'll take our first question from Jonathan Arnold with Deutsche Bank.

Q - Jonathan Philip Arnold {BIO 1505843 <GO>}

Good morning, guys.

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

Good morning, Jonathan.

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

Good morning.

Q - Jonathan Philip Arnold {BIO 1505843 <GO>}

I have a question about the Carolinas grid plan, the \$13 billion. Is the \$4.9 billion of undergrounding reasonable for the proxy for the proportion to hold the \$25 billion broader plan that would be from undergrounding or is that sort of more specific to this piece of it?

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

Jonathan, if you're referring to slide eight...

Q - Jonathan Philip Arnold {BIO 1505843 <GO>}

Yeah. I think so.

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

Yeah. That's the Carolina view.

Q - Jonathan Philip Arnold {BIO 1505843 <GO>}

Yeah. So if we look at the \$25 billion, would the \$4.9 billion sort of scale proportionately?

A - Lee T. Mazzocchi {BIO 17700119 <GO>}

So it would not scale exactly proportionate. This is Lee Mazzocchi with the Grid Solutions group. We found that our heaviest concentration of densely vegetated lands that cause outages are really preponderantly in the Carolinas. We do have investments in Florida and the Midwest but they're not quite to the scale and the magnitude of what we're seeing in the Carolinas in the \$25 billion.

Q - Jonathan Philip Arnold {BIO 1505843 <GO>}

Okay. So it's almost 40% of the Carolinas plan, that's what prompted the question.

A - Lee T. Mazzocchi {BIO 17700119 <GO>}

You would see it less than 40% in the other jurisdictions.

Q - Jonathan Philip Arnold {BIO 1505843 <GO>}

Okay. And then just conceptually, how are you proposing that that would be socialized? Is it locally to the communities that sort of benefit from it or is that more across the whole system?

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

Jonathan, we think there is a basis to treat this like any electric plant and service, and treat it as a rate base item. And what we're planning to do or are doing is using data analytics to identify the sections of our service areas that are affected by this, and that then has an implication to lowering our outage and outage costs which we believe all of our customers will benefit from. So it's a long-term investment around the improved reliability of the total system and we believe it brings great customer benefits and, of course, benefits to investors as well.

Q - Jonathan Philip Arnold {BIO 1505843 <GO>}

That makes sense. Great. Thank you. Other than FERC, what else do you need to move forward on ACP, if anything?

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

So, Jonathan, there are other permits. Water processing permits, for example, in the states and we are working actively with all of the states to progress those permits on a timeline consistent with the FERC approval. And so we feel like we're on track with the timeline that we've laid out for you.

Q - Jonathan Philip Arnold {BIO 1505843 <GO>}

Okay. And then if I may. I think last quarter's call, when you sort of hinted that if you execute well on the plan the upper end of the guidance range could be in scope, I think the growth rate is based off the midpoint of the 2017 guidance. Having had this slower start to 2017, is that still something you think you can get to with cost offsets and the like or that's the case now?

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

Jonathan, we remain on track. I mean, this is three months of a year against a five-year plan. The actions that we've identified for 2017 are really consistent with actions that we've taken when you have variability around weather. And so we've identified about \$100 million and we'll continue executing on that on 2017. And then the investments that will ultimately drive growth are something that'll build over time, and we've given you some visibility on what those look like and where they're located and we're executing on all them.

Q - Jonathan Philip Arnold {BIO 1505843 <GO>}

Steve mentioned some of \$100 million might flow through would be sustainable, I think was the word he used. Can you be sort of more specific as to what percentage of it?

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

At this point I think it's pretty immature to get that granular, Jonathan. So when we go after costs, we're always looking for things that can be sustainable but also recognize just flexibility

within the year can be helpful. So it's a combination of both. I don't have any more specifics that I'd share with you at this point.

Q - Jonathan Philip Arnold {BIO 1505843 <GO>}

Okay. Great. Well thanks very much.

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

Thank you.

Operator

Our next question is from Julien Dumoulin with UBS.

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

Hi. Good morning.

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

Hi, Julien.

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

Good morning.

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

Hey. Perhaps just to elaborate a little bit on the last question. On the cost offsets here for the first quarter, I think you said about \$100 million or so. Does that have any kind of ongoing benefit or is that really kind of a transient phenomenon? I think you suggested the former.

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

Well I think it will have an ongoing benefit. I think many of these costs are accelerations of the cost efficiency efforts that are underway, so I think many of them will be sustainable. It's hard to define precisely at this point. But I would also discuss and mention last year, in 2016, we came out of the gate with storms and low volumes and we accelerated cost reductions of \$100 million. Then when the weather came in the third quarter, we moved some work into 2016. So that type of dexterity can go both ways but, certainly, many of the cost reductions in 2016, and I think many that we're doing in 2017, will be sustainable throughout our five-year plan. It's hard to be granular at this point given the flexibility that we try to exercise.

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

Right. So just to be clear about this. This is basically fungible with the wider cost reductions you've been contemplating in the five-year program, right?

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

That's certainly part of it. Absolutely.

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

Julien, what I would add to that is I think this point of cost flexibility is what we want to emphasize with this. So we believe we have the scale and the expertise from the work that we've done over a number of years to be flexible with cost management. And every time we go after cost in a given area we're always working to make it sustainable, and in that event it could be incremental to some of the things we've shared with you previously. But I think the expertise that we're developing around cost management is really fundamental to the business, and we had a good track record of executing.

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

Got it. Follow-up question here on coal ash if I can. Really just kind of curious. Are your plans at all changed given the shift in what seems like ELGs and CCRs at the federal level? I imagine not but I just wanted to clarify that.

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

At this point, our plans are moving forward, Julien, and you can think about at least the North Carolina business is having an implication not only from CCR but from CAMA, the laws in North Carolina. And so we're on track. We don't have any specific change of plans just to resolve all of these new executive actions.

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

Got it. And lastly, can you give us a little bit of a sense of what kind of size of rate increase that we're talking about as a function of the forthcoming cases in North Carolina? Do you have a sense yet and how that might net against cost?

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

Well on the increase, and maybe get to that second one in a second, Julien. On the increase, we'll share more specifics when we file for the increase which will be in about a month for DEP and then there'll be a notice and then a filing for DEC. So we'll, at that time, be in a position to give you more specifics on the composition of the filing as well as the percentage increase.

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

Got it. All right. Fair enough. Thank you.

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

Thanks.

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

Thank you.

Operator

Our next question is from Michael Weinstein with Credit Suisse.

Q - Michael Weinstein {BIO 6584239 <GO>}

Hi, guys.

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

Good morning.

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

Hello.

Q - Michael Weinstein {BIO 6584239 <GO>}

Good morning. Hey, I was wondering if you could give kind of an update on legislative initiatives within the Carolinas especially as to how they might be interacting with your presenting of this plan on April 12. Is it all integrated into one kind of public push with legislators to get more riders in place going forward?

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

So, Mike, we continue to engage with our stakeholders here in the Carolinas about our priorities and, certainly, regulatory modernization that fits the nature of the investments we're planning to make in the delivery system are a part of those discussions, as are renewables and integration of renewables into our system. So it's really early in the legislative session at this point, but there could still be some opportunities in the current session and we'll share milestones when appropriate. And in the backdrop, as you know, of all of these, the rate case filings that will also occur in 2017 in the Carolinas.

Q - Michael Weinstein {BIO 6584239 <GO>}

Right. I guess with 13,900 jobs projected for 10 years, are you getting support from any specific groups enough for that kind of program or...?

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

Mike, I think there's a lot of interest in infrastructure investment and job creation. I think that's in the Carolinas as well as around the U.S. And this represents really important infrastructure and gives North Carolina an opportunity to lead the way on infrastructure investment. And I think job creation particularly in the eastern part of the state that has been hampered economically is very attractive. So we believe this plan is a win-win for customers, for investors, and for communities.

Q - Michael Weinstein {BIO 6584239 <GO>}

Great. And just one last question. Is there any change to load growth guidance at all for electric load growth or even on the gas side?

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

No. Our growth assumptions, I think, for our five-year planning horizon of 0.005%, I think those are still the viable and right place to be at this point in time.

Q - Michael Weinstein {BIO 6584239 <GO>}

Okay. Great. Thank you very much.

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

Thank you.

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

Thank you.

Operator

And we'll take our next question from Greg Gordon with Evercore ISI.

Q - Greg Gordon {BIO 1506687 <GO>}

Thanks. Good morning.

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

Good morning.

Q - Greg Gordon {BIO 1506687 <GO>}

Switching gears. You've made significant proposals in the state of North Carolina with regard to how PURPA is being used by solar developers to get contracts for large utility-scale solar. I'm not sure whether the commission has actually made a decision on the things that you've requested be changed in the way that you're forced to sign these types of PURPA contracts. Can you review for people because I think this is a little under the radar for some? What has been going on with regard to PURPA as it relates to solar in North Carolina, what you're asking for to be changed, and where will we stand in that process?

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

Sure. So, Greg, there are couple of things going on. In the regulatory arena, we made an avoided cost filing which addresses the price, the term, the size of these facilities, and that went to hearing in mid-April. There is, of course, the position of the other parties and the public staff in North Carolina has testimonies that I think would be helpful for investors to take a look at. And really what's being proposed is an opportunity to move this development of renewables and solar in the state into a more sustainable model. So in addition to size and price that we're pursuing on the regulated front, we're also having discussions in the general assembly about the development of a competitive process on an annual basis with a determined size that would give solar developers and also the utility an opportunity to plan. We also think a competitive process would impact price to customers and believe that better planning and better pricing would create a more sustainable market.

And so there are two things to track here, not only the regulatory proceedings, avoided cost, went to hearing in April - that's moving through as procedural process - but also continued discussions in the legislature about sustainable solar development in the state of North Carolina.

Q - Greg Gordon {BIO 1506687 <GO>}

The bottom line is that - and this is me summarizing it, not you - the solar developers have been using PURPA as an opportunity to get above market contracts and you're looking for a process that's more transparent so you can be more comfortable, that you're not burdening your customers with solar contracts that are not economic relative to market. Is that fair?

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

Greg, I think that's fair. We've done some calculations of the prices implied in these contracts, and we believe it's costing customers about \$1 billion more than a market price would cost them over a 12-year period. And this notion of better planning and better pricing, we believe, can create more certainty not only for the solar industry but better pricing for customers, and I think that's important as this market continues to develop.

Q - Greg Gordon {BIO 1506687 <GO>}

Okay. Thank you.

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

Thank you.

Operator

Our next question comes from Michael Lapedes with Goldman Sachs.

Q - Michael Lapedes {BIO 6317499 <GO>}

Hey, guys. Thanks for taking my question.

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

Hi, Michael.

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

Hey, Mike.

Q - Michael Lapedes {BIO 6317499 <GO>}

Real quickly. On the capital budget for the next few years, you've made a few announcements in just the last few months, even one or two since you reported fourth quarter of 2016. Just curious, any significant changes to the capital budget over the next few years? And if so, which jurisdictions?

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

No significant changes, Michael, over the next five years. Some of the timing may be a bit different. But we've got a capital plan, \$45 billion to \$50 billion over the five years, and that's where it's going to be at at this point.

Q - Michael Lapedes {BIO 6317499 <GO>}

Got it. And then just curious, Lynn. How are you thinking about the opportunities at the renewable business, and how the growth over the next couple of years will look relative to the substantial number of megawatts you added over the last two to three years?

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

Michael, when we put forward our plans in February there's a shift in the renewable investment more toward regulated investment than commercial, and we think that just makes good sense for not only investors but customers in our jurisdictions. So we have about \$2.5 billion in the five-year plan; about \$1.5 billion sits in the jurisdictions and \$1 billion in commercial. And so I think we've shared with you that we're looking at that commercial investment very closely. Returns are tight, the tax position is uncertain for us at least over the next couple of years, and we'll continue to make the right decisions about deploying capital in that commercial business as we see returns that fit our expectations.

Q - Michael Lapidès {BIO 6317499 <GO>}

And are there opportunities with that renewable business regarding either, potentially, to add more via less on the development side and more via on the acquisition of whole portfolios? Or on the flip side, is your portfolio potentially more valuable and have you assessed that in the hands of, maybe, other parties?

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

Well, Michael, we continue to look at what we own, its value and contribution as well as what it might command on the outside. So those are ongoing assessments that we do. We feel like we have a really strong portfolio of 3,000 megawatts wind and solar, backed by a long-term contract. And so those are assessments that are ongoing but nothing specific to share with you today on a strategic analysis or initiative that we're considering.

Q - Michael Lapidès {BIO 6317499 <GO>}

Got it. Thank you. Much appreciated.

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

Thank you.

Operator

We'll take our next question from Praful Mehta with Citi.

Q - Praful Mehta {BIO 19410175 <GO>}

Thanks so much. Hi, guys.

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

Good morning.

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

Good morning.

Q - Praful Mehta {BIO 19410175 <GO>}

Hi. So firstly on the holding company debt. You continue to have a target of about 35% holdco debt to total debt for 2017. I just wanted to understand. Given tax reform expected to come at least, is there any view that you want to, over time, reduce that number or how are you looking at that? And if there is any goal to reduce it, what levers or tools do you have to bring down that holding company debt over time?

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

Well, Praful, when you look at our five-year plan, you do see over the five years the holding company debt level does decrease. Our credit metrics improve over the five-year plan. We're still issuing holding company debt because we're growing over that five-year period but the ratio to total debt does decline. So that's part of our five-year plan that we've baked in under current tax laws.

Now regarding tax reform, it's hard to say where that's going. Proposals are still in very early stages. It hasn't gotten very far. We'll continue to keep our eye on that and we've been assessing other scenarios and other ways to finance if that were to change significantly. But overall, we feel good about our balance sheet and our ability to deal with the holding company debt.

Q - Praful Mehta {BIO 19410175 <GO>}

Got you. Thanks. And then secondly in terms of the cost saving initiatives. It seems like it's almost dry powder that you used to offset any weather impacts. I wanted to understand if that's a fair characterization, and if it is why not do more? As in, why not do more rather than wait for weather and use it as dry powder? I'm just trying to understand how you kind of think about the cost savings.

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

Praful, I would suggest that we've been very aggressive on cost savings. If you look at the track record of Duke, we've had flat O&M for a number of years and are projecting flat through 2020. We think that's aggressive and we continue to focus on ways we can drive costs out of the business, and that is our job every day. But what we're talking about here is flexibility as a result of weather where we may make some decisions in a short-term basis in order to offset weather. It could be holding a vacancy, it could be working with a contractor differently, things of that sort. But you should take away that we understand the assignment of being very aggressive with our cost structure and we are achieving that with initiatives throughout the company.

Q - Praful Mehta {BIO 19410175 <GO>}

Got you. Thank you, guys.

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

Thank you.

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

Thank you.

Operator

And we'll take our next question from Ali Agha with SunTrust.

Q - Ali Agha {BIO 1509168 <GO>}

Thank you. Good morning.

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

Good morning.

Q - Ali Agha {BIO 1509168 <GO>}

Thanks. First question, Lynn or Steve. Can you remind us? When you talk about the 4% to 6% CAGR in earnings, is that fairly linear? Or given the timing of rate cases and rate increase, there is a lumpiness factored into that as well?

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

Ali, we shared in February that every year we'll be within the range, that we've developed a plan that puts every year within the range. And so I think that's the way I would respond to that question. And we will have rate cases in 2017 that are important to 2018 and we'll give you more update on those milestones as we go forward.

Q - Ali Agha {BIO 1509168 <GO>}

Okay. And then overall, just remind us, perhaps, on an LTM basis as well what's the current regulatory lag in the system and where within your jurisdictions are you seeing the biggest lag right now?

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

Ali, we had talked about regulatory lag over the past couple of years, and it'll vary depending upon the timing of base rate cases that we'll see. But we see most of our regulatory lag in the Carolinas jurisdiction where you have recovery mechanisms through riders or decouplings, similar to what we see in our gas business at Piedmont, you have less lag. And we're trying to work to minimize lag through various initiatives in our regulatory jurisdictions. Most of the lag, I would say, is in the Carolinas jurisdictions at this point in time. Again, it's hard to put a specific number on it in terms of how much it'll pull down in any given year. Specifically, it'll just depend upon the timing of rate cases.

Q - Ali Agha {BIO 1509168 <GO>}

Yeah. And, Steve, as you look at that five-year CapEx plan and the funding of it, when at the earliest should we be thinking about equity coming back into the picture from a funding perspective?

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

Our five-year plan contemplates the use of a DRIP starting in 2018 throughout the remainder of the plan, and we estimate that to be in the ballpark of \$350 million a year. So that's in our base plan.

Q - Ali Agha {BIO 1509168 <GO>}

I see, okay. And last question, also remind us. Within the commercial earnings and net income right now, roughly how much of that is recognition of tax credits?

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

Ali, I would say the majority of the tax credits. If you think about it, it's primarily a renewables business. PTCs are the lion's share of it because our portfolio is primarily wind.

Q - Ali Agha {BIO 1509168 <GO>}

So PTCs more than ITCs?

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

Yes.

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

Yes. That's correct.

Q - Ali Agha {BIO 1509168 <GO>}

Got it. Thank you.

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

Thank you.

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

Thank you.

Operator

And we'll take our next question from Andy Levi with Avon Capital Advisors.

Q - Andrew Levi {BIO 17235317 <GO>}

Wow. I got a question.

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

Hello, Andy.

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

Hello, Andy.

Q - Andrew Levi {BIO 17235317 <GO>}

How are you guys doing.

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

We're good. How are you?

Q - Andrew Levi {BIO 17235317 <GO>}

I'm doing all right. It's kind of cold here, though. What can we do.

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

It's warm out here.

Q - Andrew Levi {BIO 17235317 <GO>}

Still kind of spring winter. Hey, just a couple of very, very quick questions. On the cost savings that you did this quarter, is there like a breakdown? I don't expect you to have it specifically, but is the majority in a certain jurisdiction or is it kind of across the board?

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

The delta on the O&M this quarter, Andy, I would think about as being across the board. But the one thing you should note, that first quarter of 2016 had a lot of storm restoration in it. That was primarily Carolinas, so the delta over the quarter is being influenced by that. The \$100 million as we go forward over the balance of the year, you can think about that as being across the company.

Q - Andrew Levi {BIO 17235317 <GO>}

Okay. But the \$100 million is exclusive to the storm restoration change? Is that correct or not?

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

That's not correct. So two things I would point to. If you look at our actual versus actual announcements for the first quarter, O&M is the positive driver. And that positive driver is

primarily the result of the fact that 2016 had storms in it and 2017 doesn't.

Q - Andrew Levi {BIO 17235317 <GO>}

Okay. Because I guess what I was trying to figure out was not all of the – and I think Julien had asked the question, too, but I think you forgot to answer the last part of it. As you think about the rate cases you're going to file in the Carolinas, I guess in this case for the quarter and depending on when the test year is, obviously you've had a lot of cost savings. So to the benefit of the customers, those cost savings will be passed on and that'll lessen the blow of any type of rate increase. But I guess also even this \$100 million or the cost that you achieved in the first quarter, that actually is offset by the storm restoration that you did. Did you collect the storm restoration or you didn't? Do you understand what I'm getting at? I'm just trying to figure out – again, I know we have to wait for your rate case to be filed – but I would assume there's some good cost to offset the increase. Is that correct?

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

Yeah. Let me try to...

Q - Andrew Levi {BIO 17235317 <GO>}

And how should we think about that?

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

Yeah. Let me perhaps give some clarity on a few things. We'll file for these rate cases with a 2016 test year and then there are other things you make to that. And you try to look at sometimes normalized cost levels within that, looking at storms and so forth. So I don't think you can draw a definitive conclusion about a cost level in a particular period of time and what it might mean. I would say the ongoing cost efforts that we have to reduce costs, they offset salary increases, inflation, and so forth. So if you recall, in February we talked about our goal is to keep our non-fuel O&M flat through 2020 and we think we can do that and, in fact, reduce it a bit here in 2017. So I'd look at costs more holistically in that way, that we're keeping them flat and maybe slightly reducing them as well, offsetting a lot of the inflationary and salary increase impacts.

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

And Andy, on the storms, you may remember we filed a deferral request. It's not Hurricane Matthew and Jonas and Hermine. I mean, there were a number of storms impacting. And that deferral request will be a part of this rate case in the Carolinas.

Q - Andrew Levi {BIO 17235317 <GO>}

Got it. That's very helpful. And then my last question is just kind of basic for both of you and just how you're thinking, and I understand what you're saying about equity going forward. But with your stock price doing very well at \$0.82, \$0.87 at the moment, down \$0.05 just to give you a report.

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

Thank you.

Q - Andrew Levi {BIO 17235317 <GO>}

And then you look at, like, PPO kind of decided to fix their balance sheet a little bit because their stock price has been doing well. I guess it's one of the reasons. There are other reasons, too. And the stock actually is up 13.5% this year even though they decided to issue incremental equity. And so I guess what I'm trying to get at is because if I kind of ran the numbers and doing a mid-sized equity offering now would actually help you on your credit metrics - and I'm talking about more of the balance sheet, not your FFO and the debt, obviously - and it would be kind of a one-day type event. Why not kind of go now and try to kind of take down some of that parent debt and issue some equity since, obviously, you have a lot of CapEx? I mean, you understand what I'm getting at. I'm not going to just keep going, but just kind of what's the big thinking of that, with the stock prices so high?

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

Yeah. Steve may have something to share on this as well, but we are very comfortable with our balance sheet. We believe the portfolio transition and the businesses that we own are very low risk. We have an improving profile in our balance sheet as a result of the strength of this plan. We believe the DRIP is an effective way to issue equity that matches the deployment of capital over time. So we always evaluate financing techniques but believe this is the most appropriate one given where we are.

Q - Andrew Levi {BIO 17235317 <GO>}

Okay. And Steve, do you have anything to say or we're good?

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

No. We're good.

Q - Andrew Levi {BIO 17235317 <GO>}

Okay. Thank you, guys.

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

Andy, thank you. All right.

Q - Andrew Levi {BIO 17235317 <GO>}

Have a great Mother's Day, Lynn.

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

Thank you, Andy.

Operator

And that will conclude today's question-and-answer session. I would now like to turn the call back over to Lynn Good for any additional or closing remarks.

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

Well thank you, everyone, for joining today and for your interest in investing in Duke Energy. We look forward to seeing many of you over the next several months, and we'll continue to keep you updated on our key milestones. Thanks again for joining.

Operator

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

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