Q1 2018 Earnings Call

Company Participants

- Lynn J. Good, Chairman, President and Chief Executive Officer
- Mike Callahan, Vice President, Investor Relations
- Steven K. Young, Executive Vice President and Chief Financial Officer

Other Participants

- Ali Agha, Analyst, Suntrust Robinson Humphrey
- Christopher Turnure, Analyst, J.P. Morgan
- Jonathan Arnold, Analyst, Deutsche Bank
- Julien Dumoulin-Smith, Analyst, Bank of America Merrill Lynch
- Michael Lapides, Analyst, Goldman Sachs
- Michael Weinstein, Analyst, Credit Suisse
- Paul Ridzon, Analyst, KeyBanc Capital Markets
- Praful Mehta, Analyst, Citi Research
- Shar Pourreza, Analyst, Guggenheim Partners
- Steve Fleishman, Analyst, Wolfe Research

Presentation

Operator

Good day, everyone. 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 Mr. Mike Callahan, VP of Investor Relations. Please go ahead, sir.

Mike Callahan {BIO 19728882 <GO>}

Thank you, Alan. Good morning, everyone, and thank you for joining Duke Energy's First Quarter 2018 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 duke-energy.com and in today's materials. Please note, the appendix for today's presentation includes supplemental information and additional disclosures.

As summarized on slide three, during today's call, Lynn will briefly discuss our financial and operational highlights for the quarter. She will also provide an update on key regulatory activity and progress we've made advancing our strategic investment plan. Steve will provide an overview of our first quarter financial results and insight about economic and load growth trends. He will then provide an update on tax reform and our financing plan before closing with key investor considerations.

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 share of a $1.28, marking a strong start to 2018. It's clear our long-term strategy is delivering results. We made progress on our strategic investments and regulatory initiatives, and continue to expand our electric and gas infrastructure businesses, with solid customer and volume growth across our service areas.

With these results, we remain on track to deliver our 2018 EPS guidance range of $4.55 to $4.85 per share and our long-term earnings growth CAGR of 4% to 6% through 2022. In response to tax reform and consistent with the plans we shared with you in February, we successfully executed a $1.6 billion equity offering in March.

We also remain on track for the additional steps that we outlined, reducing capital by 1 billion over the five-year plan and maintaining a sharp focus on operational cost efficiency. Overall, I'm confident we have the right approach to financing our investment. And S&P reaffirmed our credit ratings and stable outlook in March.

On this slide, we've also highlighted other notable accomplishments during the quarter that demonstrates the dedication of our employees and their focus on delivering affordable, safe, reliable and increasingly clean energy. This was recognized by EEI, which ranks Duke Energy number one in safety in the industry for the third year in a row. And on May 1st, Forbes honored our commitment to engaging, developing and retaining our workforce, naming Duke Energy as a Top Employer.

Turning to slide five. Let me provide an update on our regulatory activity during the quarter. Last year, we filed two rate cases, one for Duke Energy Progress and one for Duke Energy Carolinas. In late February, the North Carolina Utilities Commission issued an order in our DEP case, approving new rates associated with our $8.1 billion rate base, including our investments in four new solar projects and gas-fired generation at Sutton and Asheville. The decision approved a 9.9% ROE on a 52% equity component of the capital structure.

The order also clarified coal ash cost recovery. We received approval to amortize 234 million out of the requested 240 million in deferred costs over a five-year period and with a full debt and equity return. Ongoing coal ash costs will be deferred with a return and be considered in the next DEP rate case.

Hearings in DEC ended in March and in late April, we filed a post-hearing brief, reiterating our positions in the case. We used the opportunity to introduce a modified proposal of a grid rider for the Commission's considerations. We also addressed our views regarding tax reform. We proposed reducing customer rates, accounting for the lower federal income tax rate and returning unprotected excess deferred income taxes to customers over 5 to 20 years. The timeline is dependent upon the nature of the items that created the deferral.

Finally, we requested to offset a portion of the revenue decrease, with the amortization of regulatory assets, accelerated depreciation or recovery of environmental expenditures. We believe our proposals included in the post-hearing brief strike an appropriate balance of delivering value to customers, while providing returns to investors and maintaining the strength of the utility's balance sheet. A decision is expected in late May or early June.

In Ohio, we filed a settlement agreement in April, which addresses both the electric distribution rate case and our pending EFP proceeding. It includes the extension of our distribution capital investment rider through 2025, giving us clear line of sight for recovery of our investments. The rider is subject to increasing revenue caps through 2025.

In addition, the settlement establishes a new PowerForward Rider to recover costs to enhance the customer experience and further transform the grid, including investments as a result of the Ohio Commissions' own PowerForward initiatives.

Also in April, we received a positive order from the Kentucky Public Service Commission in our electric base rate case. It established a new rider to recovering environmental expenditures, including those related to coal ash. We have made clear progress, achieving constructive regulatory outcomes, including modernizing our regulatory constructs. We continue to demonstrate our ability to work with stakeholders to achieve balanced solutions that benefit customers and support our growth plans.

Moving to slide six, I want to provide an update on our efforts to transform the way we generate energy. With three new natural gas plants either online or under construction, we're committed to reducing our carbon footprint and leveraging the overlap between our electric and gas businesses. Our W.S. Lee plant located in South Carolina began serving customers on April 5th, with our Piedmont subsidiary delivering gas using new infrastructure put in place for the project. In Florida, we expect Citrus County to begin operations soon with unit one online in the fall and unit two by the end of the year. This plan totaling 1,600 megawatts will allow us to retire two coal-fired units at Crystal River.

In April, we filed a request with the Florida Public Service Commission to recover our investment in Citrus County via the GBRA mechanism, once the units are placed in service. Our filing included an increase to the revenue requirement of approximately 200 million per year. New Rates are expected to be fully updated in the fourth quarter.

Our Western Carolinas Modernization Project is progressing and remains on track for an expected 2019 in-service date. We're also investing in our commercial renewableS business. We anticipate our 25 megawatt Shoreham solar facility to come online in the second quarter, one of the largest solar projects in New York.

This is our first project in New York, and expands our commercial renewables footprint to 14 states. We put tax equity financing in place for this project and will continue to use this funding sources moving forward. In addition to these clean energy projects, we recently issued two key reports, our Annual Sustainability Report and our Climate Report. The Climate Report outlines steps we're taking to mitigate risks from climate change and includes analysis of a two-degree scenario.

Importantly, our current plan to achieve a 40% carbon reduction by 2030 is consistent with the pathway to achieving this two-degree scenario. This new report is another example of our long-standing commitment to the environment and our stakeholders.

Moving to slide seven. Let me update you on our natural gas business. We made significant progress on the Atlantic Coast Pipeline in the first quarter, completing approximately 200 miles of tree felling along with 600-mile route or approximately 75% of the miles planned for 2018. The remaining miles will be addressed later this fall when the tree felling window opens again.

In April, we received FERC approval to begin full construction on the Northampton Compressor Station in North Carolina. This marks the second of three compressor stations for which we have full construction approval, representing another meaningful step for the project.

We also requested approval from FERC to start full construction on the West Virginia portion of the pipeline, where tree felling has been completed or was not required. While we await the final state permits in Virginia, these milestones keep the project on track for a fourth quarter 2019 in-service date.

Turning to Sabal Trail, the lateral line to our Citrus County natural gas plant is in service, allowing us to begin operational testing prior to bringing the plant online to serve customers. FERC reissued the certificate for Sabal Trail, reaffirming that the project will not result in a significant impact on the environment.

Recently, the project partners successfully completed the permanent financing, raising approximately 1.5 billion to return capital to the project owners now that construction is complete. Duke share of the proceeds is approximately $100 million.

Finally, one quick note on the recent FERC NOPR regarding tax reform. Duke Energy's midstream investments in ACP and Sabal Trail are over 90% contracted with negotiated rate and 20 to 25-year contracts. We believe the proposed rulemaking does not impact our projects.

As I turn it over to Steve, our results for this quarter showed that the fundamentals of our business remain strong and we are well-positioned as we move ahead in 2018. Our industry continues to transform, requiring us to execute, anticipate and adapt. That remains our focus as we invest in infrastructure our customers value and deliver sustainable growth for our investors. We're delivering on our strategy, and I remain confident in our vision to be the leading energy infrastructure company.

So, Steve, let me turn it to you.

Steven K. Young {BIO 7307044 <GO>}

Thanks, Lynn. Let's start with quarterly results. I will cover the highlights on slide eight, and discuss our adjusted earnings per share variances compared to the prior year quarter. For more detailed information on segment variances versus last year and a reconciliation of reported results to adjusted results, please refer to the supporting materials of the company in today's press release and presentation.

On a reported or GAAP basis, 2018 first quarter earnings per share were $0.88 compared to a $1.02 last year. First quarter 2018 adjusted earnings per share was a $1.28 compared to a $1.04 in the prior year. The most significant drivers of difference between reported and adjusted earnings in the quarter were charges related to the sale of the retired Beckjord plant in Ohio, the recognition of a valuation allowance related to the Tax Act, charges related to the DEP rate order and an impairment of Duke Energy's investment in the Constitution pipeline. Higher adjusted results in the quarter were principally due to weather, as well as growth in our electric and gas businesses.

Within the segments, Electric Utilities and Infrastructure results were up $0.26 compared to the prior year. Weather was the primary driver, with a $0.16 increase, as we return to more normal weather in the first quarter compared to the warmer winter weather a year ago.

We also had higher retail revenues from pricing and riders, primarily driven by three factors: generation base rate or GBRA increases in Florida that took effect last year related to our Hines and Osprey facilities, grid riders in the Midwest and the recovery of qualifying facility power purchases to the fuel rider in North Carolina, as a result of the HB 589.

We also saw higher electric -- retail electric volumes in the quarter, which I'll discuss in more detail in a moment, O&M was favorable at $0.04 in the quarter. But this favorability is expected to reverse in future quarters. Finally, the electric segment benefited from a lower income tax expense of $0.06, including impacts of the Tax Act.

The portion of this benefit is related to tax levelization and is expected to reverse later this year, as excess deferred income taxes are reflected in customer rates. Higher depreciation and amortization expense partially offset the positive drivers, primarily due to growth in the asset base.

Shifting to our Gas Utilities and Infrastructure segment, results were up $0.03 for the quarter. The increase was largely driven by customer growth and increased investments at Piedmont, including higher rate base from Integrity Management investments and required infrastructure for our W.S. Lee plant. This is another example of the complementary nature of our electric and gas businesses.

In commercial renewables, we were down $0.01 for the quarter. This was driven by lower wind resources compared to last year. Finally, Other was down $0.04 due to higher interest expense of holding company and higher income tax expense, including a lower tax shield on Holdco interest as a result of the Tax Act.

The lower tax shield and other impacts on the new law across our business segments, including the timing of these impacts are consistent with our full-year 2018 planning assumptions. Overall, we had a very solid start to the year and look forward to delivering on our plan in the coming quarters.

Turning to slide nine. Let me walk you through our retail volume trends. On a rolling 12-month basis, weather-normalized retail electrical load growth was 0.6%, consistent with our long-term planning assumption of 0.5%. The residential class exhibited particular strength, growing 1.9% on a rolling 12-month basis.

Importantly, load grew faster than the number of customers this quarter, indicating usage growth per customer. We see this is a positive economic indicator, and we will continue to closely track customer usage trends. Population growth remains strong in our service territories, especially in Florida and North Carolina which were ranked among the top five states for population gains in 2017.

We were also encouraged to see strength in the Cincinnati Metro area, and Nashville remains one of the fastest-growing cities in the country. As we look ahead, positive trends in employment and wages, and continued strength in the housing market are expected to drive ongoing residential growth. Residential building permit activity remains high, especially in the single-family category.

In the commercial class, sales across our jurisdictions were slightly down over the rolling 12 months. We continue to see some weakness in large retailers, as they compete with online offerings, yet strength in leisure and hospitality businesses has helped offset this to some degree. Small business confidence remains high, providing optimism for future growth in this sector.

Turning to industrials. On a rolling 12-month basis, the sector declined 0.5%. This decrease is primarily due to production declines at a couple of large customers in the middle of last year and recent outage activities, industries that support sales to consumers, such as construction and housing continue to perform well, which partially offsets the decline.

On a macro level, positive economic growth is a tailwind, with leading economic indicators remaining high. Overall, we remain confident in our long-term assumption of 0.5% retail load growth in our electric utilities, and continue to be optimistic for the economic prospects within our service territories.

Shifting to slide 10, we are making progress in addressing tax reform across our jurisdictions. As we said in February, our approach is to target solutions that provide benefits to customers, as well as moving customer rate volatility and supporting the credit quality of the utilities.

In several of our jurisdictions, we have proposed using a portion of the lower tax expense to accelerate depreciation, recover environmental costs or amortize regulatory assets. Our solution at Duke Energy Florida is a great example of this. Earlier this year, we received commission approval to use tax reform benefits to offset Hurricane Irma costs and accelerate the depreciation of older coal-fired generation units.

Elsewhere, revenues recovered via riders will be updated for the lower federal income tax rate, as the rider filings are made in the ordinary course. Remaining portions of the tax law, including the treatment of excess deferred income taxes are being addressed in separate tax reform dockets or in base rate case proceedings.

In DEC North Carolina, we expect the Commission to address tax reform in our pending rate case, and look forward to the Commission's decision in the coming weeks. For DEP North Carolina, we recommended addressing tax reform in the next rate case proceeding.

Our proposals and rate outcomes today on tax reform are consistent with the objectives we outlined on our fourth quarter call. We will continue to respond to our state regulators and other stakeholders in the coming months as these proceedings progress.

Next, let me take a moment on slide 11 to discuss the strength of our balance sheet. As Lynn mentioned, in early March, we successfully executed a $1.6 billion equity offering, which included a full exercise of the over-allotment option by the underwriters.

We also issued 50 million of equity via the DRIP in the first quarter. We will issue the remaining 350 million for 2018, using both the DRIP and our ATM program. Recall that beyond 2018, we intend to continue issuing 350 million of equity per year for the remainder of the five-year plan. We remain on track to achieve our FFO to debt target by 2020.

In addition to the equity issuances, our cash flow profile and credit quality are further supported by our regulatory modernization efforts and an active regulatory calendar. This cash flow support includes recovery of deferred coal ash costs, which we are now recovering from our DEP North Carolina and South Carolina retail customers, as well as our wholesale customers.

I would also like to remind folks of the material cash flow benefit related to a 1.1 billion of AMT credits that are now refundable under the Tax Act. Beginning in 2019, the value of these credits will be refunded to the company, regardless of whether or not we have taxable income.

The legislation front-loads the refund schedule, with 50% of the unused credits refundable each year. This has a significant positive effect on our funds from operation over the refund period. We have also included in our appendix, more information on the FFO to debt metric, including the implications of coal ash spend, Crystal River 3 securitization and the effects of purchase accounting.

We share these adjustments and the logic behind them with the rating agencies on a regular basis. S&P took a constructive view of the credit quality of the company in March, affirming Duke Energy's current ratings and keeping the company on a stable outlook. In its report, the agency noted two items as credit positive: the Commission's approval of coal ash recovery in the DEP rate case order and our commitment to issue equity, including 2 billion of equity in 2018.

Going forward, the agencies will look for continued constructive regulatory outcomes and execution of our long-term plan. We believe a strong balance sheet is necessary to invest on behalf of our customers and investors. And we have taken important steps to support our credit quality. We remain confident in our equity financing plan. It is sufficient to support the strength of the balance sheet and our growth investments. And we do not expect to issue additional equity over the remaining 350 million per year in the five-year plan.

Before I close, I want to take a moment to remind you of our long-term earnings growth guidance, as shown on slide 12. Our long-term earnings growth CAGR of 4% to 6% through 2022 is based off of $4.60 per share in 2017, the midpoint of our original 2017 guidance.

While the midpoint of this year's guidance range is below this growth rate, we expect to move back to the low end of the 4% to 6% CAGR by next year. As our higher rate base growth and regulatory recovery accumulates, we expect to be at the mid to high-end of the range in 2020 and beyond.

I'll close with our investor value proposition on slide 13. We continue to offer an attractive 8% to 10% shareholder return that balances the 4% to 6% earnings growth with a strong and growing dividend. Our growth is driven by low-risk regulated investments that are supported by our strong balance sheet. 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 line for your questions.

Questions And Answers

Operator

(Operator Instructions) We'll first go to Jonathan Arnold with Deutsche Bank.

Q - Jonathan Arnold {BIO 1505843 <GO>}

Good morning, guys.

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

Good morning.

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

Good morning, Jonathan.

Q - Jonathan Arnold {BIO 1505843 <GO>}

Steve, you may have given more on this than I picked up in the remarks. I apologize if that's the case. But I was just wondering if you could give us a little more color into the benefits of tax reform that are sort of retained in the Utilities and Infrastructure segment this quarter, perhaps quantify how much that was, how's it arising? And then, whether -- to what extent, you expect it to be kind of incremental benefit during the rest of the year?

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

Yes, what we saw in the quarter of looking AVA, we saw $0.06 favorability related to income taxes. Couple of things were going on there. I mentioned the accounting levelization rules requires smoothing of tax benefits over the year and that accounts for $0.02 or $0.03 of that favorability. We also utilized some tax optimization efforts that helped provide some benefits in income tax as well. But there is the levelization that will turn around to the extent I described.

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

And Jonathan, maybe just to add to that, the overall guidance that we provided in February for the impact of tax reform, we are on track for that. What you're seeing is just some quarter-to-quarter levelization, resulting from the application of GAAP. But we are on track with the guidance we gave you in February.

Q - Jonathan Arnold {BIO 1505843 <GO>}

Yeah. And so that incorporates sort of some earnings pick up from the fact that the riders won't be implemented till they get implemented and the DEP happening in the next case, am I understanding that right?

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

So the cash flow implications of retaining those benefits would be reflected in the results. We are deferring in every jurisdiction, I believe, the tax benefit. So, you can think about it as cash flow financing benefit, Jonathan.

Q - Jonathan Arnold {BIO 1505843 <GO>}

Okay. So, what you're calling out as an earnings driver is purely the timing. It's not the -- it's not the cash benefit.

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

Well, that's right. What is an earnings driver here is the levelization primarily that Lynn described. There have been some tax optimization efforts that are there in the results that's separate from the Tax Act issue.

Q - Jonathan Arnold {BIO 1505843 <GO>}

Thank you for that. And just one other topic. Can you give us an update of how you feel about your goals that you've laid out in commercial renewables and just a sort of market -- state of the market, competitive wise there?

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

Jonathan, we're on track in '18 in the commercial renewable segment. The variance that you see in the quarter is more weather related, but the backlog of projects and what we expect to close in 18 remains on track. As you know, it's a competitive market and we expect it to continue to be.

Q - Jonathan Arnold {BIO 1505843 <GO>}

Okay. Thank you very much.

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

Thank you.

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

Thank you.

Operator

All right. Next, we'll go to Michael Weinstein with Credit Suisse.

Q - Michael Weinstein {BIO 19894768 <GO>}

Quick question. The 15% to 16% for the debt target for 2020 to 2022 and 14% for 2018, how much would that be impacted if -- how much of that is dependent on the outcome of the DEP case, like what's the -- how could it change positive or negative as a result of the outcome?

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

Well, I think the DEP case was very constructive. I think it's, overall, in line with our expectations as a whole.

Q - Michael Weinstein {BIO 19894768 <GO>}

I'm sorry, but the DEC case. DEC case.

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

Okay. Okay. Well, we modeled a number of scenario outcomes the DEC case will learn about in a few weeks. But I think we have a number of levers to pull to still meet our credit metrics overall plan.

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

Michael, if you like look at the DEP case, very constructive outcome, addressing all of the capital, substantially all of the deferred coal ash. We believe we put on a very strong case for DEC, and we'll know more on the specifics by May or June. But I think the person established in the DEP case is how you should think about DEC. And then tax reform would be the addition to DEC that I would point to. And we were specific in our recommendations around tax reform in our post-hearing brief that we filed at the end of April.

Our intent has always been that customers receive the benefit of the reduction in rates from 35 to 21. And we have proposed an amortization period for the unprotected, which we think strikes a good balance. So, as Steve said, we always model a variety of scenarios on these things. But feel like we're on track to deliver those metrics. And we're certainly committed to do that and if at any point there's a timing or shortfall, we do have levers, as Steve indicated, to make sure we remain on track.

Q - Michael Weinstein {BIO 19894768 <GO>}

I mean, I just to -- just to follow-up on that. I mean the real question is, is the -- the current equity issuance of 2 billion target for this year, does that incorporate even your worst case scenarios for the outcome of the case, or is there a possibility there might be more?

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

Yes, it does.

Q - Michael Weinstein {BIO 19894768 <GO>}

Okay. Thank you.

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

Michael, I think, the thing I would think about on tax reform, which is really the -- probably the most significant open item because we don't yet have commission approval. It comes down to the treatment of the unprotected deferred taxes. And so, we're not talking about a wide degree of variability for our company of our size, and we're talking about amortization periods ranging from 5 to 20 years that we proposed. So, I think it's important to bound that uncertainty exposure as you think about our confidence.

Q - Michael Weinstein {BIO 19894768 <GO>}

Got it. But you've bounded now the possible outcomes on the unprotected tax refunds might -- are built into that equity issuance plan, right?

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

Absolutely.

Q - Michael Weinstein {BIO 19894768 <GO>}

Okay. Good. Thank you.

Operator

And next, we will go to Steve Fleishman with Wolfe Research.

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

Morning, Steve.

Q - Steve Fleishman {BIO 1512318 <GO>}

Hey. Good morning. Good morning, Lynn. So, just first, do you have any sense from Moody's on when they might revisit the negative outlook given the equity issuance you did and the like?

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

Steve, we can't predict with certainty what Moody's timing is. The one thing I would point to, though, is that their report earlier this year and their outlook action was really centered around tax form. So, I would expect, as we move through the resolution of the DEC case, you'll get a clear picture of North Carolina. We already have Florida dialed in, Kentucky is visible and we have dockets open in both Ohio and Indiana. So, I feel like more information is going to become available over the next several months around tax reform in our larger jurisdictions, and we'll certainly be anxious to share all of that with Moody's.

Q - Michael Weinstein {BIO 19894768 <GO>}

Okay. Great. And then the 1.1 billion of refundable AMT credits. So in 2019 and '20, are you essentially getting tax money, essentially refunds from the government on taxes?

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

Correct.

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

Yes. That's correct.

Q - Steve Fleishman {BIO 1512318 <GO>}

Overall? Because you have also your NOL and other.

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

We're getting that as cash.

Q - Steve Fleishman {BIO 1512318 <GO>}

Okay. And then just technically, the 1.1 billion, that's a direct number that's not like a -- is it -- do we tax effect that or is that a direct?

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

That's a direct number. That's (Technical Difficulty)

Q - Steve Fleishman {BIO 1512318 <GO>}

Okay. Okay. Thank you.

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

Thank you, Steve.

Operator

And next, we'll go to Julien Dumoulin-Smith with Bank of America Merrill Lynch.

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

Hey. Good morning.

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

Good morning.

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

Good morning.

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

So, I wanted to follow up on a couple things. First, if we can go to the modernization side of the equation, starting with Ohio. PowerForward, obviously that success on that front, did that change your CapEx at all? I mean, obviously, it wouldn't be too meaningful. And then, secondly, related to that, can you talk on the outcome of the latest rate cases in the Carolinas and to what extent that might shift things?

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

So, we're pleased with the results of the settlements in Ohio, Julien, but we need to get through a commission process. So, there are hearings in July, but feel good about the settlement we were able to bring to the table. I think the PowerForward part of that rider will include projects that will impact customer experience. So, our replacement of customer systems will be included in there, but we'd also expect the Ohio Commission, as they continue their work on their initiatives to perhaps identify some things that we could invest in. Those would be incremental to our plan.

So, overall, I would look at the result. The settlement in Ohio is being consistent with our plan with modest upside. And in the Carolinas, I think we've talked a number of times about grid investment being a priority in the Carolinas. We are -- we'll be watching closely the results of the DEC case and then, determining our strategy for the legislation in 2019 and beyond, to see if there is additional legislative certainty that we need to provide in order to set a pathway for further investment in the Carolinas. So, that's what I would share with you about modernization in the Carolinas.

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

Excellent. And then turning back to the overall guidance. Not to wordsmith things too much, but just wanted to see what you are seeing about the '19 guidance. Last time I think you guys talked about being close ''within the guidance range by '19.'' And I think this go around, you talk about being back to the lower end of the 4 to 6. Is that something to do with the timing of the equity and within the plan or is -- am I just being too nitpicky here?

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

Julien, the message has been the same. If you go back and reference where we were in February, it has always been low end of the range in '19 and then, mid-to-high in 20 and beyond, as we see the rate base growth and the investment and so on. So, no change in message, but we'll be at the low end of the range in '19.

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

Excellent. Sorry, just quick nitpicky thing on the tax side real quickly. Obviously, Ohio, that issue, I think got pushed out from the settlement conversations. What's the latest expectation on resolving that?

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

There is a docket in Ohio. I'd expect it to move through a process in '18, Julien. But I don't have anything more specific than that.

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

Excellent. Thank you all very much. Best of luck.

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

Thank you.

Operator

All right. Next, we'll go to Ali Agha with SunTrust.

Q - Ali Agha {BIO 1509168 <GO>}

Thank you. Good morning.

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

Good morning.

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

Good morning.

Q - Ali Agha {BIO 1509168 <GO>}

Morning. First, Steve, I wanted to just make sure I had heard something earlier. When you talked about first quarter and some timing-related issues, one was tax levelization, as you clarified. If I heard you right as well, I think you mentioned there was about a $0.04 pickup in O&M, also timing related that should reverse over the course of the year. Did I hear that right?

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

Yes, that's correct.

Q - Ali Agha {BIO 1509168 <GO>}

Okay.

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

We've seen some favorable O&M in the first quarter. But some of that is related to timing of purchases and so forth, so that may turnaround.

Q - Ali Agha {BIO 1509168 <GO>}

Okay. Got it. And then secondly, when I look at the rate base, data that you've given us through 2022. At least just looking at that data, it appears that the growth in rate base actually slows down 2020 and beyond. So, I was just wondering how to reconcile that with the point that earnings growth should actually accelerate 2020 and beyond. So, how do we reconcile those two things?

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

Ali, I would first think about 2020 as being the completion of a number of important project that will begin to see impact and then full impacts. So, ACP, Western Carolina, the step-in in Florida, the riders in Ohio and Indiana, environmental spend in Indiana. And then, as you get further out in the period, we will continue to drive investments in our strategic priority areas of grid, clean energy gas and renewables. And those plants will be more fine-tuned as time progresses. What we've given you is ranges and expectations. But we will fine-tune the numbers in '21 and '22 as we get closer.

Q - Ali Agha {BIO 1509168 <GO>}

Got it. And last question, Lynn, remind us also, when is the next big rate case cycle that we should think about once we're done with the North Carolina cases now over this planning period?

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

So, as I think about jurisdictions were set in Florida, if the settlement is approved, Ohio is in good shape. We just finished the case in Kentucky. We have a number of trackers in Indiana. We continue to think about, is the time to come in for a full case? So, that's something that will be under evaluation. And then the Carolinas. We will be anxious to see the results of the DEC case and that will inform our timing.

But as we talked about a number of times, we believe the investment profile in the Carolinas matched with great value and benefits to customers is a good one. We're looking for ways we can modernize the construct. And in the interim, we'll be filing cases to deliver returns to investors and match these benefits to customers. So, we'll have more specifics, though, on the timing after we digest the DEC case.

Q - Ali Agha {BIO 1509168 <GO>}

Got it. Thank you.

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

Thank you.

Operator

Now, we'll go to Michael Lapides with Goldman Sachs.

Q - Michael Lapides {BIO 6317499 <GO>}

Hey, guys. Thank you for -- hey, Lynn. Thank you, guys, for taking my call -- my question. I actually have a couple. The first one is, can you quantify under tax reform and the tax law changes at a company-wide level for your regulated operating companies? And I'm just looking for the total company level, not by subsidiary. What is the excess or unprotected add fit that balance? Like, what do you estimate that to be, that's likely over multiple, multiple years will likely get recovered -- refunded back to customers?

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

We've got about 6.3 billion of excess deferreds on our books, Michael, total company. And of that, about 4.5 billion is protected and unprotected is about 1.8 billion.

Q - Michael Lapides {BIO 6317499 <GO>}

So the 4.5 billion should qualify under normalization and like we saw after the 86 Tax Act and go back to customers over a long life period and the other stuff, it's kind of more negotiable.

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

That's correct.

Q - Michael Lapides {BIO 6317499 <GO>}

Okay. Thank you. The other thing -- and this is more of a regulatory or rate making question. When you look at your capital spend forecast over the next couple years, how much of that -- is there a rule of thumb of like how much of that capital spend is covered via trackers or riders versus covered via traditional, kind of historical looking rate case processes?

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

It will vary per jurisdiction, Michael. Certainly, we have a number of trackers in the Midwest that cover a lot of the capital there. We've got the multi-year rate planning in Florida that provides us very efficient recovery. The Carolinas is the larger jurisdiction, which has a lot of the CapEx, has a fewer trackers at this point in time. So, it's hard to give a rule of thumb there for the enterprise as a whole.

Q - Michael Lapides {BIO 6317499 <GO>}

Got it.

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

Michael, Carolinas, modernizing has been a priority. So, you think about HB 589, we now do have tracking mechanisms in the Carolinas around renewables and we put in front of the commission grid tracking. So, our objective over the five-year period is to make progress in the Carolinas. But I think if you look at the Midwest and Florida, substantial, it's over 50%, 60%, 70% perhaps are covered by trackers in those jurisdiction.

Q - Michael Lapides {BIO 6317499 <GO>}

Got it. Thank you and thank you, Steve. Much appreciated.

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

Yeah.

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

Thank you.

Operator

And next, we'll go to Praful Mehta with Citi.

Q - Praful Mehta {BIO 19410175 <GO>}

Thanks so much. Hi, guys.

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

Hey.

Q - Praful Mehta {BIO 19410175 <GO>}

So, Steve, just to clarify and by the way, slide 23 is very helpful in terms of the deferred taxes. But just to clarify on that 1.8 billion of unprotected, what amount do we have clarity right now of the five years and what amount is uncertain in terms of the timing of the refund? And the reason for the question just to give you the context is just trying to figure out where in that FFO to debt range can your metrics vary depending on the outcome of the deferred income taxes.

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

Of the 1.8 billion of unprotected excess deferreds, about 1.1 billion is at DEC and about 300 million is at Duke Energy Progress. So the bulk of it is in the Carolinas. The main remaining portions are in Indiana and Florida. So the big piece of that is in the Carolinas.

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

And I think, Praful, as you think about this DEC case, we will get some visibility into the unprotecteds for DEC within the next couple of months. And we've put forward a proposal of amortization between 5 and 20 years, time that amortization period to the asset class, the nature of the items that resulted in the deferred taxes. And as I've said a moment ago, we'll learn more commission as we see the results of the DEC rate case.

Q - Praful Mehta {BIO 19410175 <GO>}

Got you. Fair enough. That makes sense. But just so, if there is push back or request for faster refunds than what you've currently assumed, I guess, in your metrics or FFO to debt metrics, does that put pressure on credit at all? Or do you think most scenarios that you can get back in terms of the rate case or the settlement are kind of incorporated within your current plan?

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

Praful, we are confident on this. If you think about a 1.1 billion over a five or 10-year period and the scale of the company, the amount of capital we spend, the regulatory activity that we have to generate cash flow, we feel like we have scenarios and levers that we can exercise and manage variability. So, I'd leave it at that. Steve?

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

Right. I would echo that as well. We have efforts under capital optimization, looking at our O&M spend that can help offset this -- just a number of levers to pull.

Q - Praful Mehta {BIO 19410175 <GO>}

Got you. Fair enough. That's helpful. And then, secondly, on tax equity. I saw that, with one of your solar projects, you are looking at tax equity financing. And you mentioned this will be a bigger part going forward. Sounds like it makes sense given your cash tax profile. Is that -- how attractive is the tax equity market right now? How big a player do you look to be in that tax activity? I'm assuming that is a part of your FFO to debt strategy as well to kind of improve metrics. So, just a little bit of color around that would be helpful.

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

Sure. We -- the tax equity market is still very viable. It is, in fact, being used at our Shoreham facility, our solar farm in New York and we'll continue to utilize that. As you mentioned, our tax position puts us as a candidate for that and I think the markets there. It is an important part of our commercial renewables profile. So, we'll utilize that as we go forward.

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

Praful, the capital that we've laid out with you in February is still a good planning assumption for commercial renewables. We just look at tax equity as a tool we'll use to put that capital to work.

Q - Praful Mehta {BIO 19410175 <GO>}

Got you. Fair enough. Thanks so much, guys. Appreciate it.

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

Thank you.

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

Sure.

Operator

Next, we'll go to Shar Pourreza with Guggenheim Partners.

Q - Shar Pourreza

Hey. Good morning, guys. My questions were -- hi, Lynn. My questions were just answered. Thanks so much.

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

Hi. Thank you.

Q - Shar Pourreza

Bye, guys.

Operator

Okay. We'll go to Paul Ridzon with KeyBanc.

Q - Paul Ridzon {BIO 1984100 <GO>}

Good morning.

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

Good morning.

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

Good morning, Paul.

Q - Paul Ridzon {BIO 1984100 <GO>}

Renewables, you were down a 0.05, which you attributed to wind resource. Was that a net number? In other words, did you have growth from incremental projects more than offset by more than a 0.05 of poor wind resource?

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

Yeah. That's in that number.

Q - Paul Ridzon {BIO 1984100 <GO>}

What -- assuming wind resources had been flat, what would the segment have done?

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

I'd have to look at that a little bit further, Paul. But the results were down a 0.05, and that's primarily due to wind resource and there is some additional resources. But it's not significant.

Q - Paul Ridzon {BIO 1984100 <GO>}

Okay. Thank you. And then back to Steve's question. The 1.1 billion of AMTs, so what net number will you be receiving from the IRS next year do you expect? The full 550 million?

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

Yes, in the range of that amount. 50% of the 1.1 billion we'll get that next year.

Q - Paul Ridzon {BIO 1984100 <GO>}

And that's net of what you'll be paying IRS. In other words, you will be not a cash ta payer?

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

So, that's the amount from the AMT and we're not a cash taxpayer on any other front. And AMT is not tied to taxable income in anyway. It's just an amount you get regardless of where you are at on your tax return.

Q - Paul Ridzon {BIO 1984100 <GO>}

Thank you.

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

Thank you.

Operator

And we'll take our last question from Christopher Turnure with J.P. Morgan.

Q - Christopher Turnure {BIO 17426636 <GO>}

Good morning, Lynn and Steve.

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

Hi, Chris.

Q - Christopher Turnure {BIO 17426636 <GO>}

I appreciate the extra detail on Atlantic Coast. That was very helpful. Thank you for that. Just a couple clarifications. Could you maybe give us a little bit more on how you're feeling in North Carolina about the grid mod rider staff? Didn't like it, but did admit that they would prefer that it has a cost cap and some other conditions if they did approve it. So, how are you feeling there? And how much does the tax benefits to the customers, in general, kind of weigh in on commission and intervener thinking there?

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

So, on the grid investment, Chris, I think what we saw in the hearing is just a continuation of a good discussion about the nature of the investments, the benefits they can deliver, the impact on customer bills. And so, as we put together our post-hearing brief, we really addressed the number of the issues that were expressed during the hearing process and put in front of the commission. But I would call kind of a step-in for the rider, a three-year proposal with the cap that was responsive to the feedback that we received.

So, I would think about this as being continuation of our strategy to keep the conversation going about the grid. I actually think there is very little disagreement about the need for the investment. I think the benefits to customers are clear, and we are trying to find the right way to put that investment in place for the benefit of customers in a way that makes sense to the commission and public staff, et cetara.

I think tax reform represents a great opportunity because you have an opportunity to reduce impact to customers. At the same time, you're driving investment. So, I think they're complementary in that regard. And so, we look forward to continuing the dialog. And as we've shared previously, we have thought about the grid investments and modernization as being dual track, focusing on the regulatory process, certainly, but also having legislation is something that we would also consider as we continue our work to modernize regulations.

Q - Christopher Turnure {BIO 17426636 <GO>}

Okay. That's helpful. I think we'll have to wait and see there. And then just two tax clarification questions. When do you expect to become a cash taxpayer again? And I guess, that question would exclude any noise from the AMT credit you're getting in the next two years. And then the second question is just on the South Carolina approval from the commission on tax reform there. Do you pay a return to customers on the deferred balance?

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

On the first question, we do not expect to be a cash taxpayer in our five-year plan. So, it's after 2022 when that happens. And help me on your second question again on South Carolina?

Q - Christopher Turnure {BIO 17426636 <GO>}

So, you guys just got the okay a couple of weeks back to defer taxes and not have it addressed by the commission until your next rate case filings there.

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

Yes.

Q - Christopher Turnure {BIO 17426636 <GO>}

In the interim, do you pay a return on that deferred tax liability owed to customers?

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

No, no, we are just deferring those costs at this point.

Q - Christopher Turnure {BIO 17426636 <GO>}

Okay.

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

And the commission will determine how to deal with that at that time of the proceeding. We're just deferring those benefits right now.

Q - Christopher Turnure {BIO 17426636 <GO>}

Okay. That's good to hear. Thank you, guys.

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

All right. Thanks, Chris.

Operator

It looks like we have no further questions at this time. So, I'd like to turn it back over to Ms. Lynn Good for any closing remarks.

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

I want to thank, everyone, for participating. Good questions today. We look forward to connecting with you over the next several weeks and appreciate your investment and interest in Duke Energy.

Operator

That does conclude today's conference. We thank everyone again for their participation.