Q3 2017 Earnings Call

Company Participants

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

Other Participants

- Ali Agha, Analyst, SunTrust
- Christopher Turnure, Analyst, JP Morgan
- Greg Gordon, Analyst, Evercore ISI
- Julien Dumoulin-Smith, Analyst, Bank America-Merrill Lynch
- Michael Lapides, Analyst, Goldman Sachs
- Michael Weinstein, Analyst, Credit Suisse
- Praful Mehta, Analyst, Citigroup
- Shar Pourreza, Analyst, Guggenheim Partners
- Stephen Byrd, Analyst, Morgan Stanley
- Steve Fleishman, Analyst, Wolfe Research

Presentation

Operator

Good day and welcome to the Duke Energy Third Quarter Earnings Call. Today's conference is being recorded. At this time, I'd like to turn the conference over to Mr. Mike Callahan. Please go ahead.

Michael Callahan {BIO 19728882 <GO>}

Thank you, Ryan. Good morning everyone and thank you for joining Duke Energy's third 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 2 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 3, during today's call, Lynn will briefly discuss our financial and operational highlights for the quarter. She will also provide an update on the key regulatory activity we have underway and the progress we have made as we continue to advance our strategic investment plan. Steve will then provide an overview of our third quarter financial results, and insight about the economic and load growth trends. He will also share key investor considerations.

Before turning the call over to Lynn, I would like to thank Chris Bauer for his contribution to our Investor Relations team over the last two and half years. This is Chris' last earnings call as he will assume a new role in our treasury department. Many of you have worked closely with Chris and I hope you will join me in congratulating him on his new responsibilities. 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 $1.59 for the third quarter, continuing to demonstrate growth in the fundamentals of our business. We advanced our long-term strategic investment plan, while maintaining our focus on operational excellence. And our employees rise to the challenge of Hurricane Irma, one of the most powerful storms ever to hit the Atlantic.

Given our results through the third quarter, we are narrowing our 2017 guidance range to $4.50 to $4.60 per share, even with $0.15 of below normal weather year-to-date, including the loss revenue through Hurricane Irma, we'll deliver on our earnings commitment to our shareholders. This is a testament to the dedication of our employees and our focus on flexible, cost management. We are also confident in our ability to maintain our long-term growth rate of 4% to 6% off of the $4.60 midpoint of our original 2017 guidance range. We remain focused on achieving growth at the high end of our range over time as our investments build and recovery accumulate.

Turning to our operational performance in the quarter, I am proud to begin with our response to Hurricane Irma. The storm caused widespread devastating damage across the Southeast region, leaving nearly 1.5 million of our Florida and Carolina's customers without power. And even though many of our employees' own homes and families were impacted by the storm, they put the needs of our customers first. Most of the damage was in our Florida territory, with 1.3 million customers experiencing outages. More than 12,000 line and field workers rebuilt our system and restored power to over 75% of customers in just three days and 99% within eight days.

Our initial storm restoration cost estimate for our Florida service territory is almost $500 million. The majority of this will be recovered through the existing commission's storm rule or transmission tariffs. After netting our current storm reserve balance of 60 million and storm-related capital replacements. we plan to defer approximately 400 million for future recovery from customers. We can also request an additional 132 million to replenish the storm reserve.

Under our current rate agreement, Duke Energy Florida is authorized to begin recovering both the storm impact and reserve replenishment 60 days after filing a petition with the Commission. Based on our initial estimates, we believe the customers would see an approximate $5 increase on a typical monthly residential bill, assuming a three-year recovery period. We continue to refine our cost estimates as we prepare to file with the commission by year-end.

We also received two important recognitions in this quarter. Duke Energy was named in the Dow Jones Sustainability Index for the 12th consecutive year, acknowledging our commitment to a cleaner, sustainable energy future. And Site Selection Magazine named us as one of the top utilities in economic development for the 13th consecutive year, highlighting our work to attract businesses to our service areas.

We also reached an important milestone with the one-year anniversary of our acquisition of Piedmont Natural Gas. This merger has truly been a seamless textbook integration and we're happy to have our Piedmont teammates as part of Duke Energy. We look forward to investing in this business and expanding our natural gas infrastructure for years to come.

As you know, we have a busy regulatory calendar this year. Starting with Florida, we reached a constructive agreement with numerous parties in the state and the settlement was unanimously approved by the commission last week. We worked closely with stakeholders to reach an agreement that paves the way to a smarter energy future for our Florida customers. The settlement provides rate clarity through 2020-2021 and allows us to recover up to 700 megawatts of solar energy and our grid investments, which will improve reliability and enhance customer choice. The agreement also includes recovery and investments in electric vehicle charging stations in a battery storage pilot program. As part of the settlement, we will not move forward with building the leading nuclear plant and customers will not pay any further costs associated with this project.

Our success in reaching a settlement is another example of our ability to achieve favorable outcomes for our customers and our shareholders. We will continue to engage constructively with stakeholders as we advance our regulatory modernization agenda across all of our service areas.

Slide 6 summarizes our pending North Carolina rate cases. Our Duke Energy Progress case is advancing and in mid-October, a number of intervenors filed written testimony advocating their positions on our request. This is a normal part of the process. As we've seen in past rate cases, the public staff and others typically recommend revenue adjustments. We remain confident in our positions and look forward to filing our rebuttal testimony this coming Monday, November 6, where we will respond to the arguments raised by intervenors. The hearings for the DEP case are scheduled to commence on November 20.

At Duke Energy Carolinas, our rate case is in the early stages. We recently received a scheduling order and intervenor testimony is due January 19 and hearings are scheduled for mid-February.

Slide 7 outlines our strategic priorities to transform the customer experience by modernizing the energy grid, generating cleaner energy and expanding natural gas infrastructure. Let me share a few updates on our progress starting with our grid investments.

Today, we announced the expansion of our Power/Forward Carolinas initiatives into South Carolina. We plan to invest $3 billion in the state, consistent with our 10-year strategy to invest 25 billion in the grid across our jurisdictions. We commissioned a University of South Carolina research economist to study the potential impacts of this initiative. According to the findings, our investments over the next 10 years will deliver significant benefits to the state, including an average of nearly 3,300 jobs supported per year, representing almost 200 million in new salaries and wages annually. More than a 100 million in new tax revenue for the state and a total economic output of more than $5 billion. We're looking forward to making these investments on behalf of our customers and to support economic developments in South Carolina.

In North Carolina, we announced plans for 13 megawatts of battery spread across two sites as part of our Western Carolinas modernization project.

And in Indiana, we'll be installing a 5-megawatt battery as part of our microgrid at Camp Atterbury. We continue to look for opportunities to deploy utility-scale battery storage as costs come down and performance improves.

Shifting to generation, our W.S. Lee Citrus County and Western Carolinas combined cycle natural gas plants are progressing well, and these projects remain on time and on budget. We are also moving forward with the dual fuel project at our Belews Creek coal-fired plant in North Carolina, representing a combined investment of over 150 million between Duke Energy Carolinas and Piedmont. This upgrade will enable 50% natural gas co-firing on two units at the site, increasing fuel flexibility and lowering carbon emissions.

Piedmont has filed with the NCUC for permission to build gas infrastructure to supply the plant with natural gas. The project is expected to be completed in two phases in 2019 and 2020.

During the quarter, we also saw important developments in each of our pipeline investments; Atlantic Coast Pipeline, Sabal Trail and Constitution. Atlantic Coast Pipeline reached a significant milestone on October 13, when FERC issued the final certificate. This project will stimulate significant economic development in the Eastern North Carolina and support growth in the region. We are working with the relevant state agencies to secure remaining permits and expect to begin construction by the end of this year for an in-service date in late 2019. ACP also closed a revolving credit facility in October to fund approximately half of the pipeline construction costs. The project has borrowed 570 million against the facility to cover costs incurred to-date with Duke share at 47%.

Regarding the Sabal Trail pipeline, FERC issued a supplemental environmental impact statement on September 27. This addressed issues noted by the DC Circuit Court, which vacated the project certificate. FERC and other interested parties have filed with the court for a re-hearing and we expect a favorable outcome. The project remains operational as we await the court's decision.

And turning to Constitution, the project filed a petition for a declaratory order in early October, asking FERC to determine if New York failed to act within a reasonable time period on its water permit. We are hopeful FERC agrees with our position within the next several months, which would preserve an in-service date as early as the first half of 2019.

Before I close, let me say a few words about tax reform. Duke supports comprehensive tax reform. Like everyone, we are reviewing the legislation that came out yesterday. We were encouraged to see that the bill includes provisions to retain interest deductibility in lieu of the immediate expensing of capital. We are taking a close look at these provisions and the bill as a whole. But let me say, this is a positive first step and recognizes our industry and the importance of the impact to our customers. And we will remain engaged as the process continues to unfold.

As we near the close of 2017, our focus is unwavering as we execute our strategy and follow through on our commitment to customers, communities and investors. We are on track to deliver earnings within our original guidance range for 2017 as we achieve planned growth in our regulated businesses and maintain our focus on effective cost management.

Our long-term earnings growth profile of 4% to 6% of our original midpoint of 4.60 is unchanged, underpinned by the strength of our regulated investments in our attractive service areas. This demonstrates the resilience of our company and the employees to deliver exceptional safety results, operational excellence and financial performance every day. 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 third quarter, discuss current retail volume trends and update you on economic indicators. I'll close with a summary of our key investor considerations. Let's start with quarterly results. I will cover the highlights on Slide 8, 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 that occupy today's press release and presentation.

On a reported GAAP basis, 2017 third quarter earnings per share were $1.36 compared to $1.70 last year. The most significant drivers of the difference between the reported and adjusted earnings in the quarter were charges related to the revised Florida settlement agreement and certain commercial renewables assets.

Third quarter adjusted diluted earnings per share were $1.59 compared to $1.68 in the prior year. Lower results in the quarter were principally due to significantly favorable weather last year and the absence of International Energy earnings.

Moving through our segments, Electric Utilities and Infrastructure results were down $0.12 compared to the prior year. Weather was the primary driver, with a $0.14 decline quarter-over-quarter. This amount includes $0.02 per share of loss revenues associated with Hurricane Irma.

Depreciation and amortization was higher in the quarter, due to increased investments across each of our jurisdictions. Partially offsetting these drivers were higher revenues from increases in regulatory pricing and riders. Price increases were primarily due to investment recovery through the generation base rate adjustment mechanism in Florida and new rates in Duke Energy Progress South Carolina.

With respect to riders, the strength of our energy efficiency programs continues to generate incremental earnings, helping to offset lower energy usage from our customers. Our Indiana and Ohio grid investments are also contributing to incremental rider growth.

Let me also highlight that O&M was a penny favorable, which includes $0.03 of costs associated with Hurricane Irma. This strong result demonstrates our ongoing commitment to managing costs across our business, and we will work diligently to find additional efficiencies and demonstrate flexibility as we close out the year.

In our Gas Utilities and Infrastructure segment, results were up for the quarter, primarily driven by our ongoing investment in the Atlantic Coast Pipeline. As expected, the gas distribution results were flat during the warm summer months and we anticipate these businesses will provide the remaining earnings contribution in the fourth quarter.

Moving to Commercial Renewables, we were down $0.02 for the quarter. This was driven by lower solar ITCs in the current year and higher interest expense as a result of new solar project financings this quarter.

Finally, other was up $0.14 for the quarter, based on a number of factors, including unfavorable tax adjustments in the prior year and ongoing tax planning activities. These accounted for $0.07 and $0.03 respectively. For the full year, we now expect our effective tax rate to be in the range of 31% to 32%.

We also had a favorable litigation settlement and lower claims at our captive insurer during the quarter. These favorable drivers were partially offset by higher interest expense at the holding company, primarily due to the Piedmont acquisition financing. As Lynn mentioned, we are narrowing our full year adjusted earnings per share guidance range to $4.50 to $4.60 per share. This reflects our year-to-date results, including the approximate $0.15 impact of significantly unfavorable weather and an additional $0.03 impact from Hurricane Irma, which were offset to a large extent by the cost management reductions we initiated earlier this year.

Turning to Slide 9, I'll review our retail volume trends on a rolling 12-month basis. Weather normalized retail electric load growth was 0.2%. If you remove the impact of leap day in the prior year, our rolling 12-month volume growth is in line with our long-term expectations of 0.5%. The residential sector is growing 0.5% on a rolling 12-month basis, as population growth in the southeast remain strong. This is particularly true in the Carolinas and Florida, where we are seeing residential customer additions of 1.4% and 1.5% respectively.

In Florida, every major metro area is experiencing population growth with Orlando and Tampa being two of the fastest growing metro areas in the country. Our combined gas utilities are also adding new customers at a healthy annual rate of 1.4%, led by our Piedmont service territories, which are growing at 1.6%.

As we look ahead, positive trends in employment and wages and the continued recovery in the housing market are expected to drive ongoing residential growth. Single-family building permits remain strong and are outpacing multi-family home starts in our service areas. As of

August, Florida, the Carolinas and Tennessee are in the top seven states for the number of new, single-family housings programs.

In our commercial customer class, sales across our jurisdictions were slightly down over the rolling 12 months. As we've experienced over the past few years, utility sponsored energy efficiency programs partially offset growth in this customer class. We are seeing growth in hotels and restaurants. However, the active hurricane season has caused some near-term interruptions for these businesses.

Turning to industrials; on a rolling 12-month basis, the sector has grown 0.1%. Industries that support sales to consumers, such as construction and housing continue to perform well. This strength is partially offset by the automotive sector and a recent slowdown in textiles. On a macro level, manufacturers have reported significant improvement over the past 12 months. According to a recent National Association of Manufacturers survey, this customer class is more positive in its outlook compared to last year, signaling future strength.

Overall, based on our actual results over the past few years and our expectations looking ahead, we are confident in our long-term assumption of 0.5% retail load growth and feel good about the economic health of our service area.

I'll close with our investment -- investor value proposition on Slide 10. We offer an attractive 8% to 10% shareholder return, the balances of strong growing dividend and earnings growth of 4% to 6%. Our growth is driven by very low risk, regulated investments that are supported by our strong balance sheet. In short, our attractive yield and demonstrated ability to 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

Thank you. (Operator Instructions). We'll go first to Shar Pourreza with Guggenheim Partners.

Q - Shar Pourreza

Good morning.

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

Good morning, Shar.

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

Good morning Shar.

Q - Shar Pourreza

So just touching on the grid mode, the $3 billion proposal in South Carolina, is this kind of incremental to plan? Is there any status on the $13 billion opportunity in North Carolina, maybe just from a legislative standpoint and when you roll in this $16 billion in potential opportunities, how does that sort of fit in with your 4% to 6%?

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

You know, Shar, we have included in the plan we shared with you in February, grid investment that is generally consistent with these programs that we're talking about. We'll of course fine-tune those in February when we give you an update on the five-year plan. And the approach that we've taken, both in North and South Carolina is to complete the economic impact studies for the benefits of these investments, also customer benefits that will be delivered directly. And we're in the process of discussions with stakeholders throughout both states on what this investment potential could mean. We have a couple of Pow/Fs on recovery, which we've talked about. Of course our ultimate goal is modernization of the regulatory framework in North Carolina to allow more timely recovery of these types of investments. But in parallel, we're also pursuing recovery of grid investment in our rate case for Duke Energy Carolinas. We'll pursue a similar path in South Carolina, probably approaching first through the regulatory process and determining whether anything further is required. So I think this represents you know just further underpinning of the growth that we've laid out for you and why we have confidence in our ability to deliver at 4% to 6% reaching to the higher end of the range as these investments continue to grow and accumulate.

Q - Shar Pourreza

Okay, higher in the range. Okay, that's helpful. And then Lynn, you've addressed this publicly in the past, but I'm going to put you on the spot anyway because I know it's been on investors' minds. Is there any interest in the South Carolina nuclear plant or even expanding your footprint in the state, especially since you already very active there from an economic development standpoint, if you could just address this dead on, if you could?

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

Sure. You know, Shar, we have no interest in the new nuclear plant in South Carolina and we've been clear about that. Given the risks and the uncertainties around completion of that plant, we don't think there is a fit either for customers or investors and we've been very candid with the state about that. As you indicate, South Carolina is incredibly important to Duke Energy. We operate important businesses and important assets in the state. We are announcing today our willingness to invest another $3 billion. So we are continuing to operate well within the state, we're engaged in supporting our businesses in a way you would expect, but no interest in pursuing new nuclear.

Q - Shar Pourreza

Okay, great, thanks so much. I will hop back in the queue.

Operator

And we'll go next to Stephen Byrd with Morgan Stanley.

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

Good morning.

Q - Stephen Byrd {BIO 15172739 <GO>}

Hi, good morning.

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

Good morning.

Q - Stephen Byrd {BIO 15172739 <GO>}

I wanted to just touch base on coal ash spend and wondered if you could remind us in terms of the precedent with Dominion in the state and just your position on the treatment just as a refresher in terms of where we stand on your point of view on recovery of coal ash spend?

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

Sure. Stephen, let me take the Dominion question first. There is a precedent in the state of North Carolina for recovery of coal ash in the Dominion case with return of a known [ph]. And similarly in South Carolina in our own case, we received recovery of coal ash in return of a known [ph]. As you know, this is an important topic in the North Carolina cases and we are in the process of reviewing the arguments that were presented by public staff and the intervenors and we'll be responding to those very comprehensively with our rebuttal testimony on Monday. We believe that these costs are squarely within the law, they represent environmental compliance costs, and we have pursued our approach around closure of basins and around the science and engineering necessary to support compliance with the federal and state law in a very appropriate, aggressive way with science and engineering underpinning our decisions every step of the way. We believe we have a very strong case that will put forward on cost recovery for ash.

Q - Stephen Byrd {BIO 15172739 <GO>}

That's helpful. And when you think about the period of time over which you do recover the costs, you know, as you show in one of your charts, coal ash is a very significant portion of the revenue request. Is there a potential to think about a longer time period over which to have these significant costs spread just as we're sensitive to thinking about overall customer bill impacts or are there natural limits around thinking about duration?

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

Stephen, I think there's an opportunity to look at methods of recovery. If you look at our filing position, we put forward a couple of ideas for consideration by the commission. There is a traditional deferral and amortization for costs incurred today and we proposed recovery of those over a five-year period. And then we also proposed a run rate, which would be to say, including a certain amount in customer rates on a current basis kind of matching the spend, which results in a lower overall cost because it's without a return, right? It's as you'd spend it. We think that provides a fertile opportunity for discussion about what makes sense to customers and that will be a part of this case as you know. But flexibility around timing always is an opportunity.

Q - Stephen Byrd {BIO 15172739 <GO>}

Understood. And then just shifting gears over to tax reform, I know we're all trying to very quickly absorb a lot of information in a short amount of time. I wondered if you might have any commentary on just the impact on holding company leverage in terms of your read of the proposal as it's laid out. I guess, on my mind, it's just thinking about whether or not that interest is also exempted under the utility exemption that was included or if it's not exempted, if you could include the EBITDA from the utility businesses themselves because they themselves are exempted. I just, I'm a little confused honestly in terms of thinking through the Holdco level impacts, I was curious if you had any sort of preliminary thoughts on that.

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

Yes. Stephen, you're raising a question that we're looking very closely at and we are evaluating, reading it closely not only at Duke, but as an industry. I think it's important to recognize that this was a positive step. And I think there is clear recognition in the language of the capital we spend, the impact to customers, the importance of interest, forgoing capital expensing normalization, excess deferred taxes or transitions in an appropriate way. And so, when we look at the holding company, the area that we're focused on is this allocation to a trade or business and a regulated utility and we'll be looking very closely at that. We believe -- and we will also be engaged in discussions around intent and clarification and will be closely pursuing that over the next several days and coming weeks. But I think the important thing is there is a clear recognition of our industry in this framework, the importance to infrastructure economic development and we believe there could be a path forward on this.

Q - Stephen Byrd {BIO 15172739 <GO>}

That I fully agree, it was a helpful overall result for the industry. So 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 go next to Michael Weinstein with Credit Suisse.

Q - Michael Weinstein {BIO 19894768 <GO>}

Hi guys.

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

Good morning.

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

Hello.

Q - Michael Weinstein {BIO 19894768 <GO>}

Good morning. Just to be clear, the $3 billion grid modernization plan for South Carolina, is that -- that's incremental to the previously disclosed $13 billion power/forward plan or is that part of it?

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

That's really part of the overall grid plan that we've got in our five-year planning.

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

But it's incremental to the 13 million, Michael, because 13 million was North Carolina.

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

Just North Carolina.

Q - Michael Weinstein {BIO 19894768 <GO>}

That's just North Carolina. Okay.

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

3 billion is South Carolina.

Q - Michael Weinstein {BIO 19894768 <GO>}

Got you. So but it's not added into the $37 billion CapEx plan that's what you're saying. right?

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

That's correct, that's part of all of our total cap growth capital in our five-year plan.

Q - Michael Weinstein {BIO 19894768 <GO>}

Got you. And given that there's -- the no settlement in the DEP case at this point in the process, do you think it's more likely than not that the North Carolina cases are fully litigated rather than settled, and how would you characterize that?

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

You know Michael, we can't comment at this point on whether we're engaged in settlement discussions or whether we will be engaged in settlement discussions. We are in a tight and important time period over the next couple of weeks. What we can talk about is rebuttal testimony on Monday, on November 6. I think that will give you a very clear view of our response to the arguments that have been put forward. And then the hearing is scheduled for November 20.

Q - Michael Weinstein {BIO 19894768 <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

We will go next to Steve Fleishman with Wolfe Research.

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

Hi Steve.

Q - Steve Fleishman {BIO 1512318 <GO>}

Hi Lynn, thank you. Just to clarify, so I think you just answered the 3 billion South Carolina plan is in your capital plan and 4% to 6% growth rate?

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

That's correct.

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

Yes, that's correct.

Q - Steve Fleishman {BIO 1512318 <GO>}

Yeah, and then how do you...

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

The only modification that I would make to that Steve is to say we always fine tune these capital estimates as to timing, near term, longer term, but you'll recall back in February, we laid out grid investment as a key priority of ours. And what we've done is continue to put flesh on the bones and brand them and do the important work with stakeholders. So it is part of that strategy we laid out, we'll be fine tuning where and how much as we go forward, but you should think about it as part of our strategic plan.

Q - Steve Fleishman {BIO 1512318 <GO>}

Okay, great. And then, I think you also had a plan that you've at least talked about for North Carolina in terms of grid modernization and where does that stand and is that in your capital plan too or is it kind of same thing, it's part of the mix of different options?

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

It's in the plan, Steve, in the same way I just described for South Carolina and we are pursuing it on a couple of courses, right, the legislative initiatives that we've talked about, it's also the DECPs is also in our Duke Energy Carolinas case, which we'll proceed in early 2018. So we'll continue to update as we go. We're obviously looking for ways that we can continue to accelerate that investment for the benefit of our customers and achieve the appropriate regulatory outcome.

Q - Steve Fleishman {BIO 1512318 <GO>}

Okay. One clarification and also what is the renewables impairments, the adjustment that you made, what assets did you impair there?

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

Yes. The impairment was of some wind farms in West Texas, the Ocotillo Wind Farm that had been acquired quite a while ago, roughly 10 years ago and as we look forward, we see a lot of exploration of the PTCs because these are older facilities and those are uncontracted asset selling into the merchant market and some of those prices are projected to be pretty low. So those factors led to the impairment of those assets. Most of our facilities are renewable facilities are contracted with third-party offtakers. This is one of our earlier ones that was not.

Q - Steve Fleishman {BIO 1512318 <GO>}

Okay, great. Thank you.

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

Thank you to you.

Operator

And we'll go next to Michael Lapides with Goldman Sachs.

Q - Michael Lapides {BIO 6317499 <GO>}

Hey guys. Just curious...

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

Hi Michael.

Q - Michael Lapides {BIO 6317499 <GO>}

Hey Lynn. Just curious how you're thinking about once ACP comes online, so think in two years from now in South Carolina, whether there is a need to have new gas midstream infrastructure in the state, especially since it seems that with new nuclear plants now not moving forward in that state, you're likely to see an uptick in gas-fired generation burn?

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

You know, Michael, I believe there's a keen interest on the part of South Carolina for expanded and continued investment in gas infrastructure for the reasons that you talked about. You know, our focus obviously is on the project as its defined and constituted today. So it's been on, we're pleased with the FERC approval, we're moving forward with state approvals. But as the construction progresses, we'll of course be looking for ways that we can continue to deliver value to customers in the states in which we operate.

Q - Michael Lapides {BIO 6317499 <GO>}

Got it. So you're not seeing, and I want to make sure I kind of understand what you're kind of saying there. You're not necessarily seeing an immediate need, meaning 2020 to 2025 timeframe to have new midstream, sizable new midstream into South Carolina yet?

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

I'm just not prepared to give you specific timing, Michael. So the timing that you talk about is certainly within our planning horizon. We want to get ACP in first, which is late 2019. So we'll talk more specifically about expansion opportunities as time progresses here. So I wouldn't read anything into when or where it falls in that timeframe, but we do believe that additional infrastructure could be important to our customers into the states in which we operate.

Q - Michael Lapides {BIO 6317499 <GO>}

Got it. In coming to the Carolinas on the electric grid modernization program, both in North Carolina and South Carolina, do you need legislation to get trackers or kind of more real-time recovery or is that in your view something that each of the two commissions could do without actually having to get new legislation?

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

Michael, I believe the commissions could provide tracking recovery in both States for this type of investment. And you see us making a request for that in the Duke Energy Carolinas case. I would also say that the commission will give us feedback on that and if they believe additional clarification is required to the legislature, we could certainly pursue it there as well. So I think this is something that remains an ongoing topic of discussion for Duke as we think about modernizing our system and delivering value to customers. We're engaged with stakeholders, we're talking about the benefits that this brings and we'll just continue to progress it. We see it as a terrific not only opportunity for customers, but obviously investors as well.

Q - Michael Lapides {BIO 6317499 <GO>}

Got it. Last item, O&M management. In terms of thinking about any synergies that might have existed as part of the Piedmont acquisition or just in general about being able to manage, to keep O&M either flat or even make it decline, where do you see the greatest opportunities within the organization over the next two to three years to manage O&M?

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

You know, Michael, we certainly have recognized some synergies with the Piedmont merger in fact in excess of what we'd originally projected. Most of those are in corporate type functions. I think as we look forward over the next few years, there is a lot of opportunities for synergies, particularly in the distribution area as we roll out some of these grid investments that we've been talking about, smart meters will displace the need for meter readers, technology along the grid will allow us to know how equipment is performing and help us optimize around maintenance activities. Those are examples of things to come. We have already seen great success in the generation areas around fossil and nuclear efficiencies. But we've got a lot of good functions that will continue to drive efforts in the efficiency areas.

Q - Michael Lapides {BIO 6317499 <GO>}

Got it. Thank you Steve, thank you Lynn.

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

Thanks.

Operator

Thanks you. And we'll go next to Greg Gordon with Evercore ISI.

Q - Greg Gordon {BIO 1506687 <GO>}

Thanks. Good morning guys.

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

Hi Greg.

Q - Greg Gordon {BIO 1506687 <GO>}

Every single one of my questions was asked, but I just wanted to ask a clarifying question on the tax issue.

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

Sure.

Q - Greg Gordon {BIO 1506687 <GO>}

Clearly I'm not a congressman nor am i a legal expert on these issues. But in reading the House Ways and Means Committee summary of the initial plan, it indicated that the interest deduction will be little bit limited to the equivalent of 30% of any company's pretax income at the filer level? And so, from my perspective, it would seem that, I mean, there aren't any utilities that I do research on that have, they even come close to that hurdle including you, so it would seem to me that this based on that interpretation, you would in fact have interest deductibility on your parent debt. Are you just allowed to make an opinion on that or you don't think that I'm reading it clearly?

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

You know Greg, I think the clarifying question there or clarifying point there is, who is the filer, is it the individual taxpayers or is it an affiliated group and consolidated group. And I think depending on that interpretation in the corporate structure of any utility that will have a bearing. What we believe is that the combination of that allocation of interest to trades or businesses that are regulated coupled with the 30% in the structure that we have in front of us, we believe we've got a framework here that we can work with. But as you know, it's 24 hours, everyone's reading every word, everyone's looking at all the interpretations, we're meeting with the industry. And I think the early read is, we see a lot of positive recognition of our industry. But we want to continue to make sure that we've got the appropriate interpretation and see if any clarification is necessary as this bill progresses.

Q - Greg Gordon {BIO 1506687 <GO>}

Okay. That's fair, thank you. Have a great day.

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

Thank you.

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

Thanks.

Operator

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

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

Hey, good morning.

Hi Julien.

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

Good morning.

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

So perhaps just to follow a little bit up on the South Carolina program, can you elaborate a little bit on the regulatory recovery thought process here just in terms of the cadence perhaps of future rate cases? Should you pursue the full 3 billion, how does that change versus what you previously articulated, if at all, just be very clear about this?

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

Yeah, so Julien, you may recall, we filed South Carolina Duke Energy Progress case recently. So we'll be evaluating capital investment to prepare that utility to go back in and then we're evaluating timing on Duke Energy Carolinas, South Carolina and also looking at our investment plan to catch that case at the right time. That we are -- we always are fine-tuning the regulatory calendar. It may move up, it may move back. But what we're trying to communicate today as we seek grid investment is an important part of growth in those utilities and we'll be pursuing timely recovery.

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

Got it. So would you say that barring any novel trackers whether approved by the commission or more likely approved by the commission or legislative, would you expect to be filing cases on a semi-regular basis in order to ensure kind of earned or near earned ROEs?

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

I think that's fair.

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

Okay, excellent. And then maybe to just follow a little bit up on the gas side, obviously, I think at times you kind of characterize the company as keen or more keen to look towards gas into the future than perhaps electric. I don't to put words in your mouth. How are you thinking about that today In terms of your future, and gas including midstream utility, et cetera?

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

You know, Julien, we couldn't be more pleased with the integration of the Piedmont system, not only in terms of the business that they bring, but the expertise and the focus on natural gas. And with the position that Duke holds as a company, second largest consumer of natural gas, we see that as a growing opportunity for us. We're also pleased with the Progress and Atlantic Coast Pipeline. I mean that's a $2 billion investment for us and we're anxious to get construction underway later this year. We will continue to look for ways we can leverage our market position and expertise to bring investment into the gas business.

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

Got it. All right, excellent, I'll leave it there. Thank you all very much. See you soon.

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

Thank you.

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

Okay.

Operator

And we'll go next 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>}

Good morning. You know Steve, when you look at your full plan, you know, the $37 billion plan for CapEx and as you mentioned you know you've laid out the South Carolina proposal as part of that. As we sit here today, how much of that plan is now visible or out there versus stuff that will eventually come but hasn't yet been put out there, just to get some rough idea of that?

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

I think the 37 billion has been well vetted here. We have very good ideas on the grid spend in terms of targeted undergrounding, smart meters, storm hardened equipment. When you look at the piece of the 37 billion that's related to generating cleaner energy, we have generation facilities such as Citrus or Lee CCs, we've got our gas growth portion of the planned $6 billion is very well defined between ACP and the Piedmont distribution investments. So I think we have a very high percentage of the plans that we can lay our hands on.

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

The Florida settlement also Ali lays the path in Florida for both grid and renewables, and household is 5.89 in the Carolinas, also provides a pathway on additional investment around renewables in North Carolina. So all of the steps you see us taking in 2017 are underpinning confidence in those capital investment plans. They are transparent, they are clear and understandable, and they are projects that we have expertise to deliver.

Q - Ali Agha {BIO 1509168 <GO>}

Okay. And then thinking about the 4% to 6% growth rate, you obviously have two big rate cases right now, and we should get clarity on that fairly soon. So, just given the timing of the rate cases, does that cause the earnings road to be lumpy, perhaps more front end loaded or are you thinking of it more straight line, how are you thinking about this 2017 to 2021 period?

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

Ali, when we talked about guidance this year, we were clear that the plan we've put in front of you, gives us the ability to be within the range every year and that was really in response to that question about, will you fall outside of the range because of general rate cases et cetera. The plan we put in front of you puts us squarely within the range every year. And so, that's what we're executing to and as you know, we'll give you a forward update on the specifics around 2018 and refinement of the capital in February.

Q - Ali Agha {BIO 1509168 <GO>}

Right. And last question, Steve, you mentioned the effective tax rate to think about is 31% to 32% for the year. Is that a good number to think about as we model future years or what should we think about future tax rate?

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

For that, again we'll be rolling out our tax assumptions in February for upcoming five-year plan. But we've got to think about tax reform that's going on right now and assimilate where that's at. Certainly this year, we've done some good work around tax optimization to bring in some tax savings that have lowered the effective tax rate a bit for us. But too hard to predict in the future given what's going on right now. We'll be working on that and rolling that out in February.

Q - Ali Agha {BIO 1509168 <GO>}

Understood. Thank you.

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

Thank you.

Operator

Thank you. I will go next to Christopher Turnure with JPMorgan.

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

Good morning.

Q - Christopher Turnure {BIO 17426636 <GO>}

Good morning, guys. I just wanted to ask two quick questions, the first on coal ash. Hypothetically speaking, let's say that you are unable to get recovery that you guys feel you deserve there ultimately. What kind of leeway on spending do you have going forward, given the fact that you have kind of the lion share to go and you have the law that you have to comply with?

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

Well, Chris, we'll comply with the law. We have stayed in federal requirements, CAMA North Carolina, CCR in the Carolinas and then throughout our service territories. So, that's what we are, we'll comply with all of those requirements and we will aggressively pursue recovery and we'll have more to say about that of course, as we work through these rate cases. There are court appeals and other avenues we could pursue, if we think that's appropriate. We believe we have a very strong case.

Q - Christopher Turnure {BIO 17426636 <GO>}

I know there is multiple categorizations of the ash ponds and timing associated with each one of those, but is there a leeway on timing in addition to what you just described?

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

You were probably thinking about the risk rating in North Carolina, Chris. So we have certain sites that are due by the 2019, 2024, 2029. There are also timeframes within CCR. So, you may have flexibility within a year or so depending on how you ramp up the activity. But when you look at the project overall, the team is doing an outstanding job of balancing the compliance requirements with the spending in a way that minimizes costs to the extent we can, but of course complying with the laws, we always will.

Q - Christopher Turnure {BIO 17426636 <GO>}

Okay. And then my second question is on the renewable segment. I think the impairment this quarter was excluded from your adjusted EPS. So if we just look at the adjusted number year-to-date, it looks like maybe you are falling a little bit short of plan. I think that segment last year also was not quite where you had originally wanted it to be. Anything we should be aware of there versus your expectations?

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

No, you know Chris, the other thing I'd point to is, we've had weak wind resources in 2017, which has had an impact on results year-to-date. So we're continuing to operate the assets well, there will be weather variability and there will be some variability around timing of projects, particularly those that are impacted by ITC. But nothing additional that I'd share with you from a strategic point of view on that segment.

Q - Christopher Turnure {BIO 17426636 <GO>}

Okay, thanks Lynn.

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

Thank you.

Operator

And we'll take our last question today from Praful Mehta with Citigroup.

Q - Praful Mehta {BIO 19410175 <GO>}

Hi guys, thanks so much. So if possible, can we go back to tax reform for one minute. Just wanted to understand on the holding company debt and the interest deductibility on that debt, is it possible from the read that holding company would be treated as a separate tax filer relative to the utilities, in which case, obviously the utility holding company has no income and purely just an interest expense if that was the scenario. Can that scenario play out or do you think that's not realistic?

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

No. You know Praful, we do have certain of our utilities flowing up into the taxpayer called Duke Energy Corporation, just the way we are structured. And so, I think there are couple of avenues we're looking at. This allocation to trader business, regulated utility and then of course the 30% tax. So we believe we see a path here, but it's 24 hours. We want to take the time to understand, get the clarification, but I think the progress that we've made on and the recognition of our industry is something that should not be overlooked.

Q - Praful Mehta {BIO 19410175 <GO>}

Fair enough. And then secondly on the Duke Energy Progress, the response from the staff obviously was quite conservative in terms of the rate increase versus what you've asked. You seem pretty confident that you should be able to get to a good position there. Just any more color on that would be helpful and what if you don't hit let's say you get 50% of the ask, what does that mean for growth and 4% to 6% growth as well?

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

So Praful, would point again to this rebuttal testimony that we're filing on November 6. We disagree with the positions that were put forward on ash in particular as well as a number of other items that were highlighted in the testimony. We believe they're not supported by precedent or the law and we'll make those positions very clear. We are open to settlement discussions. We cannot comment on whether we are engaged or will be engaged in those discussions, but the process needs to play out over the next couple of weeks. Hearing is of course on the 20th, and I think the potential implication to the financial results, we'll share with you when we have more information to share and I think this is just a process that's going to need to unfold, not only in the next couple of weeks, but of course, the commission order is not expected until early 2018.

Q - Praful Mehta {BIO 19410175 <GO>}

Got it. Thanks so much guys and look forward to catching up with you guys.

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

Thank you.

Operator

And that concludes the question-and-answer session. I'd like to turn the conference back over to Ms. Lynn Good for any additional or closing remarks.

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

Great, thank you and thank you for your interest and investment in Duke Energy. We look forward to seeing many of you next week at the EI and continuing discussion. So, thanks again for your time this morning.

Operator

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