Q1 2020 Earnings Call

Company Participants

- Bryan Buckler, Vice President of Investor Relations
- Lynn J. Good, Chair, President and Chief Executive Officer
- Steven K. Young, Executive Vice President and Chief Financial Officer

Other Participants

- Jeremy Tonet, Analyst, JP Morgan
- Jonathan Arnold, Analyst, Vertical Research
- Julien Dumoulin Smith, Analyst, Bank of America Merrill Lynch
- Michael Weinstein, Analyst, Credit Suisse
- Shar Pourreza, Analyst, Guggenheim Partners
- Stephen Byrd, Analyst, Morgan Stanley
- Steve Fleishman, Analyst, Wolfe Research LLC

Presentation

Operator

Please standby. We're about to begin. Good day and welcome to the Duke Energy First Quarter Earnings Call. Today's conference is being recorded.

And at this time, I'd like turn the conference over to Mr. Bryan Buckler, Vice President of Investor Relations. Please go ahead, sir.

Bryan Buckler {BIO 21187047 <GO>}

Thank you, Derek. Good morning everyone, and welcome to Duke Energy's first quarter 2020 earnings review and business Update. Leading our call today is Lynn Good, Chair, President and Chief Executive Officer; along with Steve Young, Executive Vice President and CFO.

Today's discussion will include the use of non-GAAP financial measures and forward-looking information within the meaning of the Securities Laws. Actual results could differ material materially from such forward-looking statements. And those factors are outlined herein and disclosed in Duke Energy's SEC filings. A reconciliation of non-GAAP financial measures can be found in today's materials and on dukeenergy.com. Please note the appendix for today's presentation includes supplemental information and additional disclosures.

As summarized on slide 4 during today's call. Lynn, will provide an update on our response to COVID-19. She will also discuss progress on our strategic initiatives and the company's long-term outlook. Steve will then provide an overview of our first quarter financial results, and share an update on key regulatory activity. He will also provide insights into our economic and load growth outlook, before closing with key investor considerations.

With that let me turn the call over to Lynn.

Lynn J. Good {BIO 5982187 <GO>}

Bryan, thank you, and good morning everyone. Let me open our call today by focusing first on our response to COVID-19. I know it is top of mind for all of you. First and foremost, our thoughts are with those who have been personally affected. I also want to express my heartfelt thanks to the healthcare and government workers, as well as those working countless hours to support the frontline professionals.

This pandemic has no barriers. It has permeated the globe, or country and the states in which we operate, as has also our day-to-day lives and how we interact, the way we operate and serve our customers. But despite these dynamic conditions, Duke Energy and its employees have risen to the challenge, continuing to provide reliable service to our nearly $24 million electric and gas customers. The safety of our communities, customers and employees is our top priority and we took a number of steps to protect them. In March, we shifted nearly 18,000 team mates to remote operation.

For team mates in critical roles that could not work remotely we deployed the best available personal protection equipment, increased disinfecting between shifts, initiated split operations between primary and alternate locations to limit exposure, placed additional restrictions on those accessing our facilities and implemented social distancing policies.

These new safety protocols were particularly important during spring storm restoration and generation outages. So far, our teams have completed 3 nuclear outages and more than 30 fossil hydro generation outages, all while maintaining focus on safety and delivering on time and on budget. And in mid-April, our transmission and distribution team quickly responded to more than 900,000 outages across the Midwest and the Carolinas, after severe under storms and tornadoes.

But Duke Energy's response is on well beyond supporting our internal team. We were one of the first utilities in the country to spend service disconnections for non-payment and waive late payment and other fees for our customers. In addition we donated approximately $6 million to the Duke Energy Foundation to fund relief efforts across our jurisdictions and providing critical PPE to double community organizations within our territory.

We also accelerated the flow back of fuel adjustments and over collections in Florida, resulting in a 20% reduction in residential bills in May, and we are working directly with our commercial and industrial customers to provide assistance with payment options for those most impacted by current economic conditions. Our employees have been steadfast in ensuring our communities have power, that they also respond and adapt to these changing times. The collective work of the healthcare and government professionals as well as utility and other essential workers demonstrates the power of working together to serve our communities.

Now, let me take a moment to walk you through slide 6, which summarizes where our company stands financially during these uncertain economic times. Today we announced first quarter adjusted earnings per share of $1.14, in line with our expectations, but reflecting milder weather compared to normal and storms of sequential [ph] totaling approximately $0.15 per share. We began to take cost mitigation actions in February, as we saw the impact of the mild winter and we are building on those actions to address COVID-19. Our communities are experiencing a slowdown and we are beginning to see the impact of electric load in our jurisdictions.

In a few minutes Steve will share more on these customer load trends focusing on the month of April, and a range of potential load trends over the balance of 2020. We are presently projecting a $0.25 to $0.35 reduction in revenue from COVID-19 which is consistent with stay at home policies for mid-summer and a gradual economic recovery beginning in the third quarter and continuing over the balance of the year.

In response to the pandemic and in recognition of mild weather entering the year, we are executing on a series of cost-saving initiatives totaling approximately $350 million to $450 million or $0.35 to $0.45 per share. We are also keeping our regulators informed about the specific cost we are incurring related to COVID-19, for example, a potential increase in bad debt expense and we'll seek to recover [ph] these costs at the appropriate time.

Taking these measures into the consideration, we are affirming our 2020 adjusted earnings per share guidance range of $5.05 to $5.45. We will continue to update you as we move forward. It's important to recognize that we are only two months into this event. We are and we will continue planning for a range of outcomes, and we will know more as the economies that we serve reopen.

The third quarter, which is our most significant one is also still ahead of us. Over the long term loan, we maintain our confidence in the communities we serve, and in our ability to deliver on the $56 billion infrastructure investment plan. It is critical to our customers and community. I will speak more to our business fundamentals in a moment.

Turning to slide 7, we remain committed to our long-term vision, and value creation for our communities and our shareholders. We're putting our 5 year $56 billion capital plan to work as we generate cleaner energy, modernize and strengthen the energy grid and expand natural gas infrastructure. Since announcing this updated plan in February we made progress advancing these goals.

Last September, we announced our comprehensive plan to address carbon across our footprint, reaching at least a 50% reduction by 2030 and net zero by 2015. Our updated Climate and Sustainability Report issued in April provide more clarity and detail around the measures we're taking to achieve these milestones including doubling our renewables portfolio over the next five years. Our Climate Report outlines our plans over the longer-term to retire more coal and further expand renewables energy storage and natural gas. We also emphasize the importance of research and development, focus on loads following carbon free resources.

We believe these new technologies are essential to reach our net-zero goal by 2050 and plan to share more updates in this area when we host our ESG Day later this year. On the grid in

April, we filed our 10 year $6 billion Florida Storm Protection Plan. These investments will generate meaningful customer benefits by enhancing reliability, while reducing operation costs and outage times associated with extreme weather events. Further details on the progress we're making in these areas are outlined on this slide.

Before I close, let me touch on the Atlantic Coast Pipeline. You can reference the status summary on slide 18 in the appendix. We expect a decision from the Supreme Court regarding the Appalachian Trail Crossing in the coming weeks. We're also awaiting the Biological Opinion and Incidental Take statement from the US Fish and Wildlife Service as their detailed analysis continues to ensure that a durable permit is issued.

We expect the agency to reissue the permit in mid-2020 and to-date have not seen any significant delays in the progress of the work from COVID-19. The structural [ph] resolution of both of these items will be important to reach our construction. Importantly the ACP gas finalized revised commercial terms with the major pipeline off takers and value to customers and the fair returns to project (inaudible).

Finally, we are also monitoring developments on the nationwide permit 12. The recent decision related to the Keystone Pipeline by the District Court in Montana has potential implications to ACP. Just walk through that, the judge amended his April 15 ruling limiting the legislature to new oil and gas pipeline project. He also denied it's (inaudible) pending appeal. We are evaluating this ruling, and the impact it will have on the existing timing cost of the project.

Assuming the issue is resolved in a timely manner, and we can take advantage of the November to March 3 selling season, we believe ACP can maintain the existing schedule and cost estimate. We remain committed to this important infrastructure project and the economic benefit we expect it will drive for our communities in the Carolinas, and we'll continue to update you as progress is made.

As I reflect on our long-term strategy, I am confident in our investment priorities. They continue to deliver value capitalizing the complementary nature of our electric and gas franchises to meet our customers' growing and evolving energy needs.

Looking ahead, and in the context of the uncertain economic environment in our country, we will be thoughtful on the pace at which we deploy capital, balancing affordability for our customers with value creation for our investors.

Turning to Slide 8, even in the midst of the economic impact of the stay at home orders the fundamentals of our business remain strong. Importantly, our employees' commitment to our customers and communities shine through during the harvesting time as we generate and deliver reliable increasingly clean energy across our service territories. There are several distinguishing factors to make our company an ideal long-term investment for shareholders. First, our size and scale and diversity of operations is unmatched, allowing us to deliver consistent short term returns and long-term investment opportunity.

Furthermore, we operate in constructive regulatory jurisdictions that oversee our operations and arguably the most attractive communities on the East Coast. And our five-year $56 billion plan for cleaner energy grid improvements and other infrastructure is critical to the customers and communities we serve and will create meaningful shareholder value for many years to come. These are the strong business fundamentals that give us confidence to deliver on our long-term earnings growth rate of 46%.

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

Steven K. Young {BIO 7307044 <GO>}

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

As shown on slide 9, our first quarter reported earnings per share were $1.24 and our adjusted earnings per share were $1.14. This is compared to reported and adjusted earnings per share of $1.24 last year. The difference between reported and adjusted earnings was due to the partial settlement in the DEC, North Carolina rate base, permitting recovery of 2018 severance costs.

Within the segments, Electric Utilities & Infrastructure was down $0.06 compared to the prior year. We saw the expected benefits from base rate increases in South Carolina and Florida and higher rider revenues in the Midwest along with forecasted regulatory lag in North Carolina. However, these fundamental improvements in our segment results were offset by mild winter weather, along with severe storms that impacted much of the Carolina.

Shifting to Gas Utilities and Infrastructure, results were $0.03 higher, driven primarily by new retail rates in North Carolina and higher margins at the LDC. These items were partially offset by the one-time income tax adjustment related to ACP favorably impacted the prior period results. In our Commercial Renewables segment, results were up $0.06 for the quarter. The increase was primarily due to ongoing benefits from projects brought online in 2019, as well as favorable wind resource and pricing this year.

Finally, other was down $0.12 for the quarter, principally due to planned cost of borrowings and lower investment returns and non-qualified benefit plans., causing an approximate $0.06 year-over-year difference. Returns on these plan asset partially rebounded for the month of April. Overall our first quarter financial results were not materially affected by the COVID-19 pandemic. Aside from the unseasonable weather and related storm cost, the first quarter was consistent with our internal plan. Given the softer weather we began planning mitigation actions in February and further enhanced and accelerated those plans on full onset of COVID-19 which I'll describe in detail in a few moments.

Turning to Slide 10, we continue to execute on our regulatory agenda. As Lynn mentioned, we recently filed our storm protection plan in Florida, that provides much needed storm hardening in the state. We also have modernized regulatory mechanisms for investments in both Florida and Ohio that are providing timely recovery of our investments in clean generation and a more modernized grid. We currently have three rate cases underway.

Our Duke Energy Indiana case continues. Hearings were held in January and the record is now closed and we expect the order around mid-year. At Duke Energy Carolinas and Duke Energy Progress, the written pre-hearing record were substantially closed. In the DEC case, we reached a partial settlement for storm costs, allowing us to pursue securitization as well as other adjustments.

The hearings for both cases have been delayed. We continue to work with all stakeholders to identify options to safely and efficiently conducted the hearings and we expect to revise procedural schedules to be released in the coming weeks. Just last week, we filed with the Commission a proposal to combine the hearings of the two cases in July, which is supported by the public staff. If this procedural schedule is approved, it will help to limit the delay in obtaining the general rate case order.

A slight delay in the decisions for both of the North Carolina cases is not expected to have a significant impact on our 2020 financial outlook [ph], and the commission has a variety of mechanisms that they can implement, that help balance the interests of customers and shareholders.

With regard to COVID-19, and the expected impacts across our jurisdictions, we are tracking the financial effects on our utilities, including elevated bad debt expense and waived fees for the customers. This is an extraordinary time that has and will continue to require our utilities to incur costs on behalf of our customers and the employees who operate our business. Similar to what others are doing across the country, we will work with our regulators to identify the best solutions to recover these costs to support the ongoing financial health of our utilities, while also recognizing the unique needs of our customers during this unprecedented time.

Shifting now to our response to the COVID pandemic, slide 11 highlights the well-timed steps we take to bolster our liquidity and financial strength to position us to manage through a variety of potential outcomes. As of April 30, we have a strong available liquidity position of $8.2 billion, which provides the company valuable flexibility as we plan our remaining capital markets transactions in 2020. In addition, the recently enacted CARES Act provide meaningful cash benefits to the company by accelerating our remaining AMT credits of approximately $285 million into the current year. This additional cash benefit will help to mitigate lower revenues, and give us added confidence in our ability to deliver our consolidated credit metric targets for the year.

Finally, our 2020 capital and financing plan remains on track. We will closely monitor the capital markets and strategically time our issuances to achieve the best outcomes possible for both our customers and shareholders.

Moving to Slide 12, in addition to our large size and scale, our retail customer mix is diverse and anchored by our growing residential customer clients. The Southeast remains a very attractive part of the country, that continues to experience strong growth of new residential customers at a rate of approximately 1.7% year-over-year. With the recent state-owned policies, volumes in our residential customer class have been strong, particularly in Florida and we expect this trend to continue into the summer cooling season. The higher residential volumes provide a partial offset of declines in the commercial and industrial class.

Within commercial, much of the service sector has been closed or limited operational, including schools and universities, bars and restaurants, and other retail establishments. Certain sectors within the commercial -- within commercial remain resilient such as data centers and hospitals that continue to provide frontline services to fight against the pandemic. The temporary closures and curtailments of certain industrial customers are beginning to give away the plans to restart production as states in our service territories are relaxing the stay at home policies and workers are preparing to come back to work gradually.

Turning to Slide 13, as we compare build sales in April to the prior year, we were able to see how the full stay at home policies have impacted retail electric volumes across each of our customer classes. Commercial and industrial usage was down 10% and 13% respectively for the month, but as expected the higher margin residential class was up 6%. Overall retail sales were down 5% and these results were slightly favorable to our revised forecast for the moment. As a reminder, the earnings sensitivities do vary across retail customer classes and we've included those here for you.

Looking ahead, we expect the 3% to 5% decline in total retail volumes for the full year. We are forecasting the deepest declines in volumes compared to 2019 in both the second and third quarter with a gradual economic recovery beginning in the latter half of the third quarter and extending beyond the end of the year. With these forecasted ranges and on a weather-normalized basis, we are forecasting a full-year 2020 negative EPS impact of $0.25 to $0.35. As our communities are beginning measured reopenings, we are hearing from a large number of our industrial customers that they are planning to increase their level of operations in the mid to late May timeframe. At the same time, we expect higher residential volumes until stay at home policies are fully relaxed.

Moving now to slide 14, we've activated several initiatives to mitigate the impacts of COVID-19. Our annual non-rider O&M budget is nearly $5 billion, providing us a formidable lever to address revenue headwinds. As I mentioned, we began our mitigation plans in February and have greatly expanded those efforts with the COVID-19 onset. Over the past five years, we have demonstrated a core competency in managing our O&M, absorbing increases for inflation and as well as nearly $300 million of O&M associated with the Piedmont acquisition.

We have also demonstrated the ability to strategically manage costs between years, taking advantage of strong years and some -- strong earnings in some years to strengthen periods when our expected costs rise. Based on the tremendous focus and commitment of our teammates, we are confident we can reduce our O&M and other expenses by approximately $350 million to $450 million in 2020. Our target is not merely aspirational, but it's underscored with discreet actions, for which we have clear line of sight and are already taking action.

For example as our generating assets are expected to run less during the year, we are optimizing the timing and scope of our 2020 plant outages. In addition, we are aggressively managing all expenses including our contract labor over time, non-essential projects and a broad range of discretionary spending. We are also suspending external hires, while sharing existing resources in a virtual manner in order to optimize labor costs. Let me be clear, we are highly confident in our ability to deliver on this goal of $350 million to $450 million of 2020 cost reductions.

Although we are still early in the year based on our forecast of a gradual economic recovery, beginning this summer and the significant cost mitigation actions that we have put into motion we are affirming our 2020 target to deliver within our original earnings per share guidance range.

Finally, we understand the value of the dividend to our investors. Approximately 40% of our retail investors and many of them count on our dividend as a source of income during these uncertain times. 2020 marks the 94th consecutive year of paying a quarterly cash dividend. Throughout the past nine decades, including during the financial crisis of 2008 and 2009, we have protected our quarterly cash dividend. Our excellent businesses that operate in some of the best jurisdictions in the country give us confidence to continue paying and growing the dividend, consistent with our long-term target payout ratio of 65% to 75%.

Before we open it up for questions, let me turn to slide 15. Our attractive dividend yield coupled with our long-term earnings growth from investments in our regulated utilities provide a compelling risk adjusted return for shareholders. As a company, we are well-positioned and confident our vibrant and growing communities will resume strong economic growth as we emerge from this pandemic.

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

Questions And Answers

Operator

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

Q - Shar Pourreza

Hey, good morning guys.

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

Hi, Shar.

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

Good morning.

Q - Shar Pourreza

So with the mitigation plans that was announced, how much of the $0.35 to $0.45 is sort of cemented and if COVID is more protracted and recurrent, 3% to 5% [ph] low degradation, do you have incremental levers? And I do have a quick follow up.

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

So I'll start and Steve, you can add. We have definitive plans for the $0.35 to $0.45, Shar, as well as upside potential. And I think at some point, depending on how this economic downturns plays out we would continue to go more aggressively, not only at the cost categories we've identified, but really within a broader contracted transformation. And this is where we'd be more aggressive around corporate center, around outsourcing real estate footprint, digital tool, early plant retirements. Just a variety of things and that work is already underway.

So this is something that I'm particularly proud of this. We've demonstrated the ability to understand our cost and cost drivers significantly over the last five years. We've also put infrastructure in place to drive transformation and the plans are underway for a range of economic outcomes.

Q - Shar Pourreza

Got it and then just focusing on the O&M side of the $350 million to $450 million in mitigation plan, can you touch on how much of this could be ongoing perpetual nature as we sort of think about the shaping of your O&M profile post 2020?

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

Sure. I would say, there will be elements of the cost reductions that are sustainable and there will be elements that move with timing. So an example would be when you put a hiring freeze in place. We will enter 2021 with a lower headcount than we would have originally projected, and then we will begin bringing skills in at the appropriate time in case depending on the needs of the business. I think outages, because we're running our assets whilst [ph] we've been able to dispose some of those that we will be thoughtful about maintaining assets are important to customers and settle those back in as needed.

We're also spending a lot of time and what we've learned around remote work and the activities underway from COVID-19 and I believe there will be permanent savings from the way we are using resources, that we're trying to get our hands around quantification of that as we look at remote work policies and as we look at our real estate footprint and you can expect to hear more about that as we think about 2021 and beyond. Steve, would you add to that?

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

Well I think, Lynn hit it very well. I'm very confident that we're learning a lot through this pandemic about how to work remotely, how do you use technology tools, that we didn't really realize what we had. That will serve us well as we go forward. We'll couple that with the digital capabilities that our business transformation center is utilizing in data analytics. I think we will be able to -- we have found a new avenue, a new half [ph] of another body of efficiencies through what we're learning through this COVID-19 pandemic.

Q - Shar Pourreza

Terrific guys, congrats on the plan that was announced. Great execution. Thanks.

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

Shar, thank you.

Operator

Thank you. Our next question comes from Stephen Byrd with Morgan Stanley. Please go ahead.

Q - Stephen Byrd {BIO 15172739 <GO>}

Hi, good morning.

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

Good morning.

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

Good morning.

Q - Stephen Byrd {BIO 15172739 <GO>}

Hope you all and your families you're doing well through this (multiple speakers) times.

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

Thank you, Stephen and hope yours as well.

Q - Stephen Byrd {BIO 15172739 <GO>}

Thank you. I wanted to touch just first on ACP and I think we expect and I think many expect that you will be victorious at the Supreme Court. From there, I guess I'm thinking about the Montana litigation and potential impacts in terms of decision to restart the project or ability to restart the project. I think there is a chance there that litigation could be fairly extensive. How does that factor into sort of the decision-making around restarting work on ACP?

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

Stephen, it's an important consideration. And as I said in the remarks, assuming that we can get this resolved successful through selling season we will be in position to move forward, maintaining cost and schedule. Given the fact that, that ruling happened yesterday you're catching us at a very early time in our evaluation. We would expect the Army Corp and DoJ to appeal and we'll be monitoring this closely as I know, others will be in the industry and other infrastructure companies. And of course there are more from the Army Corps and DoJ as we go forward.

So it's something to keep on the radar screen. And we will continue to monitor and update as we learn more.

Q - Stephen Byrd {BIO 15172739 <GO>}

Understood. So it is clearly relevant as you're thinking about the overall plan for the project.

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

Yeah, (inaudible) on it.

Q - Stephen Byrd {BIO 15172739 <GO>}

Understood. And then maybe just a quick one on the credit statistics, Steve that you laid out laid out kind of a pretty clear path, and maybe sort of over thinking or just looking at the discussion here in terms of the 15%, FFO to debt level that you're targeting versus sort of the 15% or 16% level, would you mind just touching again on dialog with rating agencies, your overall sort of sense for where you want to be over the next several years in terms of your FFO to debt?

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

Yeah, so our targeted range for credit ratings is to have FFO in the 15% to 16% range. We've taken steps to make that happen in our plan, and in the past, we have good dialog with the rating agencies. Moody's reaffirmed our rating, S&P pulled the entire sector onto a negative outlook and everybody is looking at the impacts of this pandemic. So we will continue our dialog.

We are seeing some erosion at the top line revenues and that affects FFO. But you can see the mitigation impacts that we have put in place, that moves in the opposite direction. So we'll continue the dialog. We will continue to work to meet our financial plans, both earnings and on the credit side. A couple of things that are unique to us, we've got these AMT credits, accelerated monetization helps us quite a bit here. We're also taking advantage of differing corporate portion of payroll taxes. That's about $100 million cash flow benefit.

Our pension plans are in good shape in terms of funding and so forth. We're not a cash tax payer until 2027 in a significant way. So we've got some solid strength in our balance sheet that help us.

And then the continued regulatory activity of getting the recovery of cost is essential there. So we'll continue that dialog with the rating agencies and we'll keep them abreast of what's moving forward.

Q - Stephen Byrd {BIO 15172739 <GO>}

Now that makes total sense. And just lastly if I could, just on the O&M cost control, impressive results in terms of being able to cut costs, and it's an interesting point about sort of some of the learnings that you're engaged in. When you think about sort of the EPS growth guidance in the longer term that you've laid out and the trajectory, is there a potential that some of these learnings that are -- that could last and be beneficial, could that have a meaningful benefit in terms of, as you think about your overall trajectory or is it a little too early to say. How are you thinking about what you've been able to learn here?

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

Stephen, I think, O&M agility and the ability to lower cost structure is a tailwind to growth because it puts us in a great position to deploy capital without raising price to customers. And so I do think about it as something that's important to the long-term growth of the company.

Q - Stephen Byrd {BIO 15172739 <GO>}

Understood. And it sounds like a portion of these cost savings are things that could be more permanent in nature and be beneficial, longer term, whereas others things like outage timing are more transitory in nature. So it sounds like it's a mix of the two.

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

I think that's right, Stephen. But I think it's important that you're hearing from us that lowering our cost structure is not only a core competency of ours, but a strong objective and we think, particularly in a time when you we've got economic uncertainty to move early and aggressively is a smart thing to do and that's how we are positioning ourselves in 2020 and also for 2021 and beyond.

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

And we are learning techniques to utilize our workforce much more efficiently in this situation. We can virtually shift engineers within functions. We have shifted financial people from budgeting to accounting to audit services, IT people to different functions. With virtual capabilities as we learn more about, and they're going to help us utilize our workforce more efficiently. And I think that's going to provide longer term savings capabilities.

Q - Stephen Byrd {BIO 15172739 <GO>}

Very good, thank you very much.

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

Thank you.

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

Thank you, Stephen.

Operator

Thank you. Our next question comes from Steve Fleishman with Wolfe Research LLC. Please go ahead.

Q - Steve Fleishman {BIO 1512318 <GO>}

Hi, good morning.

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

Hi, Steve, good morning.

Q - Steve Fleishman {BIO 1512318 <GO>}

So just the -- could you, if you don't mind, just remind us kind of the North Carolina rate cases, when you expect outcomes and just if that does get delayed further how much we have to worry about the timing of that exactly in terms of your range for this year.

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

So Steve, we made a filing maybe a week ago, two days ago. Adjusting or recommending a consolidation of the two cases in the Carolinas supported by public staff, putting the hearing in July of this year. And so we think the commission will develop close consideration and that will put us close to the timing we had originally planned.

So we feel like we've got some flexibility within our financial plan for 2020 on that timing. I also think it's fair to say that there are tools with these cases, whether its deferrals, accounting orders, give back to -- deferred income taxes, interim rates, a variety of tools that could be used to support the health of the utility. And we'll be evaluating all of those considerations as we go in as tools. Many of those tools are available to the commission is you know.

Q - Steve Fleishman {BIO 1512318 <GO>}

Okay. And any updated thoughts on whether you have control, likely potential to settle those cases or expect them to be fully dedicated to the end?

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

Steve, we've introduced (inaudible) on a handful of items in the DEC case. We do have similar discussions on DEP and between now and July, we'll continue to keep lines of communication open with the parties to see if there are other opportunities. I think this is an important time as you recognize customers of course, working through the economic downturn, but the health of the utilities are also extraordinarily important and I'm not sure that there has been another time when the essential nature of our service has been underscored more than this. And so we'll continue to have discussions. It's hard to forecast whether or not we'll get to any further settlement at this point, but we'll keep you posted.

Q - Steve Fleishman {BIO 1512318 <GO>}

Okay, and then lastly, I think you mentioned that there has been the initial meeting in the North Carolina energy plan. I think it's the initial meetings there. Could you just give color on where that stands and when we might start seeing any outcomes from that?

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

Sure. There have been two stakeholder work streams, Steve in 2020, one focused on climate policy. So this is a group of stakeholders focused on retirement of coal, CO2 markets, clean energy standard and they have continued to meet even remotely talking about these various items. We would expect a draft report from those discussions in the second quarter, public draft for third quarter and then a recommendation going to the Governor by the end of the year. You may recall that the objective is to get to at least 70% carbon reduction by 2030.

And it's actually greenhouse gases not carbon and so there are some alignment around base years and other things going on to figure out exactly how to do the accounting. We're comfortable with this objective. You know from our climate strategy, where it's at least 50% by 2030. So that stream of work is very engaged.

There have also been two meetings on a stakeholder process focused on modernized regulation performance-based rate-making and other tools. The discussion there is early, I would say just I think there was one meeting in person, one remote meeting. The objectives there are trying to find ways that carbon reduction can be incented, distributed energy resources and so that is moving at perhaps a slightly slower pace, but good discussion and dialog there as well.

So I think on both of these we will have more feedback as the year progresses and determine whether or not there is any specific push coming out of either of these processes for legislation in 2021.

Q - Steve Fleishman {BIO 1512318 <GO>}

Okay, great. Thank you.

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

Thank you.

Operator

Thank you We will next go to Jonathan Arnold with Vertical Research. Please go ahead.

Q - Jonathan Arnold {BIO 1505843 <GO>}

Hi, good morning everyone.

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

Good morning, Jonathan.

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

Good morning.

Q - Jonathan Arnold {BIO 1505843 <GO>}

Just a quick question, sort of on the guidance reaffirmation, and the cost savings versus the question you see on sales. Is it reasonable to assume where you're sitting today, if those things play out as we've outlined, recognizing there is a lot of variability, but you would be sort of solidly in the range or are we kind of holding in at the moment or if there's any other color you can give us there?

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

And Jonathan, I appreciate that. We have built a plan and are executing a plan that matches the COVID-19 expectation as well as the first quarter weaker weather which really gives us an opportunity to move in solidly within the range. And as we talked about, we have a track record of being able to manage O&M in the fashion and we have a high degree of confidence that we can do that, but we also recognize we're only a couple of months into this. The third quarter is still ahead of us.

There are a wide range of assumptions on how this economy is going to play out or states are just getting to reopen. We have the milestones around the pipeline [ph] that we've talked about with the SCOTUS [ph] decision and also biological opinion. So we'll continue to update on all of these things as the year progresses, but the actions that we've put into place right now are designed to place us solidly within the range.

Q - Jonathan Arnold {BIO 1505843 <GO>}

Perfect, thank you for clarifying, Lynn. Just one other thing you talked about keeping regulated informed on incremental costs, could you just set -- are you actually deferring certain items and just where are you on sort of deferral and potentially orders out of commissions allowing you to do that in normal?

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

For the first quarter, Jonathan, minimal impact because we were just sort of starting into this process and the various policies with customers, but we are reporting and tracking all of these costs to our various commissions and you will begin to see filings around deferrals or accounting orders and other things. I think Ohio and Indiana already underway and as we get more of that feedback going, then we will reflect appropriate accounting entries at the right time.

Steve, how would you add?

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

Yeah, that's correct. We're preparing filings in the Midwest, in Ohio and Indiana. We are tracking costs in all of our jurisdictions. And at the appropriate time we'll will make various filings and work with our regulators on appropriate deferrals. Nothing is being deferred at this point but applications are getting prepared tracking is moving forward and we'll continue to look at this and see what makes the most sense.

Q - Jonathan Arnold {BIO 1505843 <GO>}

Okay. And how have you treated that in guidance I guess?

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

So, Jonathan, we're assuming that we will get appropriate treatment of the incremental costs and I'm focusing on things like bad debt expense. The timing of when that occurs in terms of cash collections will depend on the jurisdictions. But for incremental costs, we are assuming that we will get appropriate regulatory treatment.

Q - Jonathan Arnold {BIO 1505843 <GO>}

Okay, thanks. And (multiple speakers) the recent executive order about not sourcing equipment from adversary nations. Do you have any initial thoughts at the high level on how this might impact your ability to execute the plan on grid for example? Just give any color and I realize that you have to be defined so seems to be a new (multiple speakers).

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

We are closely following it, Jonathan. I think the spirit of it is to address cyber risks, which is something we strongly support. There was a similar executive order issued formerly a few years ago for the telecom industry and so we will factor in as we learn more these plans into our investment plan, but as you know, making investments in T&D intended to address cyber and physical risk as well as renewables and customer programs, all of that, is clearly within our strategic investment plan.

So we will adjust it as we learn more and applaud focus on cyber risk and around the bulk power system.

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

And I would add that we have a supplier base across our footprint. As you said, Jonathan, there is more to learn and so who is specifically being targeted here but we look at our vendor base and try to diversify as much as possible, so we can move in different directions if necessary.

Q - Jonathan Arnold {BIO 1505843 <GO>}

Perfect. Great, thank you very much for your time.

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

Thanks Jonathan.

Operator

Thank you. We'll next go to Julien Dumoulin-Smith with Bank of America. Please go ahead.

Q - Julien Dumoulin Smith {BIO 20008787 <GO>}

Hey, good morning. Hope you all are well?

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

Hi, Julien.

Q - Julien Dumoulin Smith {BIO 20008787 <GO>}

Hey, good morning. So I know you addressed this in part, but I want to come back to a little bit, how do you think of the sustainability of the cost cuts beyond the current period. Obviously it's a dramatic number, so it's not necessarily expected, but how do you think about the cadence of that against the need for perhaps evolving rate case timeline. And even within that number that you talked about this year is a follow-up question, how are you thinking about that complementing your cost-cutting effort to mitigate impacts from coal ash, if that make sense as well?

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

Well, so I'll take a stab and Steve, you can build on it. We have developed a plan Julien to match what we see as COVID risk as well as mild weather. So you've got an economic downturn as well as a weak start to the year and we've identified from a range of things, operations, corporate center, employee expenses, hiring freeze, on track to contingent workers, over time, variable compensation, a variety of tools that we will use to go after that.

As I commented a moment ago, the fact that we are only a couple of months into this and learning about the reopening and learning about what might unfold over the balance of the year, we are also looking at each of those cost categories for potential upsizing of them as well as moving into what I would call more transformative changes where we might look at real estate and early retirement of certain assets and so on. So there is a lot of planning going on because the future is uncertain.

If I look at that range of plus, some of them may be sustainable. I'm not prepared to give you a percentage or a specific number on that, but I do believe that some of them will be sustainable. The example I gave a moment ago, hiring freeze is going to put us into 2021 with a smaller workforce and we will monitor as we go, how to convert to a sustainable lower cost structure, if we find ourselves in a longer downturn.

I think as you talk about things like coal ash, you're talking about regulatory growth and the rate case outcomes and how that will factor in. We have a range of assumptions in our financial plan as we think about rate cases. And that is always part of our thinking and developing the size of mitigating actions. And so I don't point to a specific item on that, but I will say, anytime you put a financial plan together you're evaluating a range of outcomes.

We feel strongly that recovery of coal ash costs and recovery will return is important, we believe it's important for any health of the balance sheet, when you think about a cost of this nature. And we will be prepared to strongly defend that when we are on the stand later this summer.

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

And I might add Julien that as we think about our regulatory cadences, the ability to generate these O&M efficiencies is a very useful tool here. It gives us headroom and needed capital investments on behalf of our customers, as Lynn alluded to earlier, and minimize any rate impacts to customers. So this capital optimization around our O&M optimization in sync with the regulatory cadence, it is a very important part of what we're trying to put together. And we've got flexibility in the capital plan. So we can move that capital around, so it's pitted under O&M efficiencies to help our shareholders and our customers.

So those are the types of dynamics we plan to put together across our footprint.

Q - Julien Dumoulin Smith {BIO 20008787 <GO>}

Excellent. Can I just follow-up very briefly here, how you are thinking about the shaping here by quarter of the cost cuts and how they manifest themselves relative, I suppose to the reduction of loan. I mean it sounds like you were rapidly able to identify the cost cut, such that if you think about 2Q and 3Q, et cetera? And then, Lynn if I can clarify you specifically said that you did not yet plan for instance voluntary retirement programs as part of this $400 million number?

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

Yeah, I'll take that one. There is no assumption of a voluntary retirement program in the numbers, Julien.

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

And then on the shaping, Julien, I'd like to most of it to be in the second half of the year. A lot of our generation outage work will be in the fall generation season as our headcount freeze kicks and that kind of builds during the year. We had budgeted increases in workforce. We will certainly see some in each quarter of the rest of the year. But specifically, due to the generation outage work that will be a bit more in the second half of this year.

Q - Julien Dumoulin Smith {BIO 20008787 <GO>}

Excellent, thank for the patient and time. Best of luck.

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

Thank you, Julien.

Operator

Thank you. We'll next go to Michael Weinstein with Credit Suisse. Please go ahead.

Q - Michael Weinstein {BIO 19894768 <GO>}

Hi guys.

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

Hi, Mike. Good morning.

Q - Michael Weinstein {BIO 19894768 <GO>}

Hey, a couple of questions on CapEx and O&M, so the Florida grid hardening plan, that you just filed, is that already reflected in the five-year CapEx plan, I think it is. But I just want to confirm that?

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

So, Michael. We updated in February, about 1.5 billion in the Florida, a Florida five-year plan and that is consistent with what we filed in the grid hardening plan. You will see incremental capital beyond the five years because this has put forward a 10-year plan and we will provide those updates in the years to come.

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

That's right. In February capital plan was increased 12% and the Florida, Grid mod was a significant part of the increase.

Q - Michael Weinstein {BIO 19894768 <GO>}

All right. And just to be a dead horse on the O&M reductions, is there a ballpark estimate that you can give us for how much is deferral into the maintenance and how much more permanent, 25% is it more permanent, 50% permanent.

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

Michael, at this point, I don't have a range to share with you. I think that's been a topic of interest, and as we go into the second quarter and begin our more earnest planning for 2021, I think we'll be in a better position to talk about that. But our objective will be to make as much sustainable as we can in this environment, but I don't have a specific on deferral versus sustainable at this point.

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

Yeah. And I think we want to look at how the assets operates and think about their performance under the revised operations and so forth where we're headed. And that will impact as well.

Q - Michael Weinstein {BIO 19894768 <GO>}

A related question, Steve you mentioned, the idea that you have headroom from lower O&M, of the more capital improvement, do you see the opportunity to convert some of these OpEx cuts and once the crisis is over into a higher rate base and CapEx growth plan?

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

Well, we certainly always look at putting our financial plan together keeping in mind impacts on customer rates. And so to the extent you can reduce O&M costs that those give you that headroom there, we have a robust dataset of capital opportunities, return capital away each year when we go through our budgeting process. So given our scope and scale, the breadth of our grid. We have plenty of opportunities to do those kind of things, Mike.

Q - Michael Weinstein {BIO 19894768 <GO>}

And also, since the progress rate cases still has a record, that's still open, is it possible to incorporate some of this COVID cost deferrals and recovery mechanisms or anything else you're thinking about there, possible to incorporate that into that space.

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

So, Michael. We're looking at the appropriate way to handle the Carolinas in light of the fact that the cases have yet to get a hearing. I don't have anything specific to share on that plan right now, but we are reporting the cost of those for the North Carolina commission and to the state into South Carolina and we'll make the appropriate filings and incorporate in the rate case, if that makes sense or and/or whatever way makes sense, just too early on that one.

Q - Michael Weinstein {BIO 19894768 <GO>}

Got you. Okay, that's all I have now. Stay safe, guys. Thank you very much.

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

Thank you.

Operator

Thank you. We'll next go to Jeremy Tonet with JP Morgan. Please go ahead.

Q - Jeremy Tonet {BIO 15946844 <GO>}

Hi, good morning.

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

Good morning.

Q - Jeremy Tonet {BIO 15946844 <GO>}

I just want to come to the O&M side with a slightly different I guess. If I recall, it seems like spending on items such as vegetation management accelerated in 4Q '19. So just trying to think through how much cost savings you kind of banked last year, that could be used against this year and was any of that contingency kind of already utilized in the first quarter?

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

You're right, in 2019, our agility programs worked in the other direction. We had a favorable year and we accelerated some useful expenses into 2019. We have veg management is one area where we had about $0.04 that we pulled into 2019. As I recall, that was baked into our plans and our forecast and so forth. And the ability to do those kind of things is very useful to us. That's already baked into the numbers that you're seeing at this point, but that helps us achieve and get into our range, that dexterity between calendar years.

Q - Jeremy Tonet {BIO 15946844 <GO>}

Got it. That's helpful. That's it from me, thanks.

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

Thank you, Jeremy.

Operator

Thank you. And ladies and gentlemen, that does conclude our time for questions and answers. 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>}

Well, thank you, Derek. And thanks to all who joined today for your interest and investment in Duke Energy. And I just want to take this opportunity to thank the employees at Duke Energy. I'm extraordinarily proud of the work that's underway with new safety protocols to do the business as usual, but also to serve our customers well. And the commitment of this leadership team and our employees to excellence for the customers and in maintaining the financial health of our company is truly extraordinary.

So thanks to the Duke Energy employees. And thanks to all of you for joining today.

Operator

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