Q3 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

- Anthony Crowdell, Analyst, Mizuho
- Jeremy Tonet, Analyst, JP Morgan
- Jonathan Arnold, Analyst, Vertical Research Partners
- Julien Patrick Dumoulin-Smith, Analyst, Bank of America
- Michael Weinstein, Analyst, Credit Suisse
- 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. And at this time, I would like to turn the conference over to Bryan Buckler, Vice President of Investor Relations. Please go ahead.

Bryan Buckler {BIO 21187047 <GO>}

Thank you, Savannah. Good morning, everyone, and welcome to Duke Energy's Third 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 mean of the securities laws. Actual results could differ materially from such forward-looking statements and those factors are outlined herein and disclosed in Duke Energy's SEC filings. A reconciliation of non-GAAP financial measures can be found in today's materials and on duke-energy.com. Please note the appendix for today's presentation includes supplemental information and additional disclosures.

As summarized on Slide 4, during today's call, Lynn will provide an update on our 2020 and 2021 outlooks. She will also share insights on the Company's long-term strategy and clean energy investment plans. Steve will then share an overview of our third quarter financial results. He will also provide updates on our economic and load growth outlook, progress against our 2020 situation targets, an update on our 2021 earnings drivers, and Duke Energy's long-term capital investment plan.

With that let me turn the call over to Lynn.

Lynn J. Good {BIO 5982187 <GO>}

Bryan, thank you. And good morning, everyone. Today we announced adjusted earnings per share of $1.87 for the quarter, favorable to the third quarter of 2019 by $0.08. These results were driven by higher earnings that our electric utilities from rate case activity, strong O&M, and other mitigation actions and growth, and our commercial renewables business. I am very proud of our workforce for their consistent focus on reducing cost and driving efficiencies to offset a number of headwinds this year, while continuing to provide outstanding service for our customers, and a recent example is hurricane data.

I want to give a special thanks to the men and women who just this past week responded with outstanding restoration services after the remnants of the hurricane caused significant damage in the Carolinas. Despite the challenges presented by 2020, our team remains focused on serving our customers with excellence. We've also made great progress with our mitigation actions to offset the impacts of COVID, delivering $0.35 of benefit through September.

As Steve will feature in a moment, we now expect to deliver full year earnings benefits of $0.40 to $0.45. We will use our size and scale to cure many of these efforts in the next year, a continuation of our successful track record in these areas since 2015. With the third quarter behind us, we are narrowing our full year guidance range to $5.05 to $5.20. We have successfully offset the impacts of COVID load and costs, weather and storms, including new science and data with exceptional cost management, giving us confidence that we can deliver the results within this range for 2020.

With ACP behind us, we are well positioned to deliver in 2021 as well and are pointing to a solid $5.15 with upside potential. We continue to finalize our business plans for the year ahead. And consistent with our typical practice, we will provide complete guidance including detailed capital and financing plans in February. Our confidence in our ability to deliver results is well beyond next year. We expect to deliver at the top end of the 4% to 6% range through 2024 grounded in our robust investment plan to deliver cleaner energy and sustainable value for our communities and our industry leading cost efficiency programs.

We shared our vision in the significant runway of growth potential during our October 9th inaugural ESG Investor Day. During the event, we outlined the investment opportunities we are pursuing to support our goal to achieve net zero carbon emissions by 2050. And while we are already an industry leader in carbon-free generation, we have near-term ambitious plans to double our renewables portfolio by 2025, deploy energy storage across the Carolinas and Florida, and extend the licenses of our nuclear fleet, all for the benefit of our customers and communities.

To support this work, we increased our five-year capital plan to $58 billion and outlined a robust $65 billion to $75 billion capital plan for the 2025 through 2029 period. With incremental, capital drives our earnings base CAGR from the 6% level we shared with you in February to progressively higher levels. We now expect to 6.5% rate base CAGR through 2024 and growing to a 7% rate CAGR by the end of the five-year planning period. As we move forward, our path is underpinned by strong governance, collaboration with stakeholders, and most importantly, developing our people and fostering a culture rooted in diversity and inclusion.

I'm incredibly proud of our work, and this foundation in 2020 gives us confidence as we close out the year and move through the next few years. Turning to Slide 6, we're advancing our clean energy strategy and building momentum in the states we serve. We operate an attractive jurisdictions that are considering various policy changes to support cleaner energy futures for our communities. We are partnering with stakeholders in each state to find solutions and accelerate carbon reductions, while also balancing customer affordability and the financial health of our utilities. In North Carolina, the Governor's clean energy plan process is well underway. And we, along with many stakeholders, are in the midst of constructive policy conversations.

The pathways we outlined in our IRP service fundamental pillars, demonstrating what it will take to achieve the objectives outlined in the clean energy plan. In addition, the detailed analysis in our filings is informing carbon policy discussions. We recognize our leadership role in the carbon, I think, the state and the robust thoughtful portfolios we shared, help shape the path forward. The carbon policy discussions will be summarized in the report to the Governor by year-end.

We are also advancing the process around the IRP itself. We've shared the IRP with dozens of stakeholders, ensuring we received feedback from a wide variety of interest groups. The approach and modeling we used in the filing add a new level of transparency and set the standard for how to collaborate and seek input. We anticipate hearings in the first half of 2021 in North Carolina and look forward to working with stakeholders to define the best pathway to reduce carbon emissions.

We are also advancing the IRP in South Carolina, with the hearings expected in April and a decision from the Commission expected in June. This will allow us to have more clarity about how our proposed portfolios integrate into the state's policy objectives. Also in South Carolina, we've reached multiple milestones with stakeholders. We received commission approval of our EV infrastructure pilot in September and reached a settlement agreement on net metering with solar developers. These developments highlight South Carolina's commitment to a cleaner energy future.

Turning to Indiana, we are actively engaged in the States 21st Century energy policy taskforce which is focused on transitioning the stage generation mix and integrating renewables while ensuring high levels of reliability and resiliency. Their filings will be compiled into report, due to the General Assembly by December. This work build on the advances we made as part of our 2019 IRP and 2020 rate case when we received approval to reduce the average remaining depreciable lives of our Indiana coal assets by approximately 40%.

And then Florida, the clean energy connection and solar-based rate adjustment programs underpin our commitment to renewable energy. A hearing on the clean energy connection proposal is scheduled for November 17th. If approved, we would launch a $1 billion shared solar program which includes 750 megawatts of renewable resources. We've received strong support for our proposal from a broad range of stakeholders and look forward to the outcome of the hearing.

We're also making headway on the SoBRA investments with nearly half of the 700 megawatts of utility scale solar installed. This also represents a $1 billion investment in the state. We understand our interval role to lead the clean energy transition will strengthen and modernize the energy grid, increase our investments in renewables and new technologies, and advocate for energy policy and regulatory mechanisms that align with industry best practices and shareholder expectations.

This is an exciting time for our company and our communities and we look forward to making meaningful progress on the clean energy transition in 2021. Before I move to the next slide, let me make a brief comment on the elections. I know some results are still being counted with final results a few days or weeks away, but what I do know is that there strong bipartisan support for investing in critical infrastructure, driving economic growth and job creation for clean energy and resiliency investments.

Our capital plan offers meaningful solutions to these and other needs of the communities we serve. I want to congratulate Governor Cooper on his re-election and thank him for his leadership of North Carolina. We are proud to be headquartered in North Carolina and look forward to working with his administration and the incoming members of the General Assembly. I also want to congratulate Indiana Governor Holcomb on his victory. Indiana has a bright future as we transition our generation fleet to make critical investments in the grid.

We welcome the opportunity to continue engaging with the governor and the General Assembly in Indiana as well as all of our jurisdictions in which we operate. Before turning it over to Steve, let me reiterate our value proposition. We operate in premium utilities across the Southeast and Midwest, and our service areas continue to benefit from strong growth as new residences and businesses move into our service territories. We are positioned to deliver 95% of our earnings from lower risk-regulated electric and gas utilities, and our growth profile is driven by our robust five year $58 billion capital plan.

The past year has made our great company even stronger and more agile and we look forward to a strong finish to 2020 and to carrying our momentum forward in the future years, our clean energy vision of transforming Duke, providing clear benefits to our customers and to our investors. For this reason, we are confident in our ambitious investment plans and our ability to deliver the top end of our growth range.

And with that, let me turn the call over to Steve.

Steven K. Young {BIO 7307044 <GO>}

Thanks, Lynn. And good morning, everyone. I'll begin with a summary of our quarterly results, highlighting a few of the key variances to the prior year. For more detailed information on earnings drivers and a reconciliation of reported to adjusted results, please refer to the supporting materials that accompany today's press release and presentation. As shown on Slide 8, we announced third quarter adjusted earnings of $1.87 per share compared to adjusted earnings of $1.79 per share last year.

Within the segments on an adjusted basis, Electric Utilities & Infrastructure was up $0.06 quarter-over-quarter driven in large part by rate case activity in North Carolina, Indiana, Florida, and Kentucky that contributed $0.07 in the quarter. Earnings also benefited by $0.08 from our industry-leading mitigation efforts, which I will speak to more in a moment. Lower tax expense and contributions from our wholesale contracts also contributed to our favorable results. Weather came in slightly above normal this quarter but represents an $0.08 headwind this year when compared to the third quarter of the prior year.

We also had higher depreciation and amortization expense as we continue to grow our asset base. And as expected, electric volumes were down due to the pandemic. Our Gas Utilities and Infrastructure results were $0.05 lower, primarily due to the cancellation of ACP. Our LDC gas businesses continue to produce outstanding results, contributing $0.01 a growth in the quarter and $0.09 year-to-date in 2020. The Commercial Renewables segment was up $0.03, largely driven by new projects brought online this quarter including the 200-megawatt Rambler Solar Project in Texas. Finally, Other was favorable $0.05 for the quarter, principally due to lower income tax expense and financing costs and higher investment returns in non-qualified benefit plans.

Overall, we are very pleased with our year-to-date results, which have swift action to mitigate the impacts of COVID-19, weather, storms, and the loss of ACP earnings, and this dexterity has positioned us well to deliver in our narrowed 2020 earnings guidance range of $5.05 to $5.20. Moving to Slide 9, our third quarter electric-- retail electric volumes were down 2% compared to the third quarter 2019, which was slightly favorable compared to our original post COVID expectations of a 3.5% decline for the quarter. and our [26:08] volumes were better than anticipated. The improved customer class mix was more heavily weighted to C&I customers and less to residential, and thus the EPS impact was mostly in line with our expectations for the quarter.

Despite the continuing effects of COVID-19, the economies in our jurisdictions have shown a level of resiliency with approximately 85% of our largest commercial and industrial customers resuming operations by September. While the pandemic's effect on the economy still bears close monitoring, we are updating our full year COVID load forecast to a decline of approximately 2% to 3% in total retail volumes compared to our previous estimates of a 3% to 5% decline. This revised load forecast equates to approximately $0.20 to $0.25 of earnings per share impact, and when coupled with waived fees and non-deferred COVID cost, results incurred related earnings headwinds of $0.25 to $0.35 in 2020.

In the midst of the pandemic, we are encouraged by the strong customer growth across all of our jurisdictions. Year-to-date, we've seen a 1.8% increase in new electric customers and 1.9% growth for our LDCs. As we continue to see more population migrations to our desirable service territories, we believe Duke Energy's long term load growth fundamentals will be some of the strongest in the industry. Let's move to Slide 10. I'd like to highlight our strong progress in achieving our 2020 financial commitments despite challenging headwinds. We have faced impacts from COVID and the cancellation of ACP as well as unfavorable weather and significant storms, including Hurricane Zeta which came through the Carolinas in October.

Time and again, Duke Energy has demonstrated the ability to pivot, mitigate impacts, and advance our strategic investments for short and long-term value creation for customers and shareholders, and 2020 is a prime example. As I have highlighted many times, cost mitigation and the ability to respond quickly to unforeseen circumstances has become a core competency of Duke Energy. On a year-to-date basis, we have achieved approximately $350 million in mitigation, representing approximately 75% of our full year target. And we are highly confident in our ability to deliver $400 million to $450 million of earnings benefits for the full year.

These efforts positioned us to mitigate a large portion of the headwinds we've experienced in 2020 and delivered the earnings within our original narrowed guidance ranges. With that, let's move to Slide 11. We have a strong outlook for 2021 and our significant investment opportunities service growth drivers for the year end. In Florida, we will continue to recover our grid investments to the third base rate increase in our multi-year rate plan. We also expect growth from additional solar projects we covered under the Solar Based Rate adjustment mechanism.

And starting in 2021, we expect to begin delivering grid and thus improvement in investments to our Florida customers under our storm protection plan approved earlier in the year. And the Carolinas, Indiana, and Kentucky, we will have a full year benefit of the new base rate adjustments that went into effect earlier this year. Also in Indiana and Ohio, we'll continue to invest in transmission and distribution upgrades that are recovered under our rider programs that drive consistent earnings growth each year.

Additional drivers in Electric Utilities & Infrastructure will come from load work and O&M management. As I mentioned earlier, we continue to see impressive increases in our number of customers and that along with the continued recovery of the economy is expected to lead to an overall uplift in margins in 2021. Our current estimate of load growth of 2020 is approximately 1% to 2%. We continue to monitor the pace of economic recovery, and we'll provide an update in February. With respect to O&M and other mitigation actions, some of the tactical efforts that we are achieving in 2020 are not sustained beyond the current year, and thus, we expect a modest uptick in O&M costs in 2021 as compared to 2020. Revised timing and scope of outages is an example of mitigation efforts not sustainable year-over-year.

Nonetheless, our operational teams in the industry leading business transformation group are in the process of utilizing our digital and automation playbook to turn some of these initiatives into even lower cost operational model to benefit future years. We will share more on this front in the upcoming months as the team makes progress on their work. Shifting to the gas segment, we expect to see a full-year benefit from our Tennessee rate case filed this year as well as our software on a rate stabilization adjustment that was recently approved by the commission at a 9.8% ROE. Additional growth in the LDC business will come from customer additions and our integrity management investments, which are recovered through riders and provide steady predictable earnings per share growth year after year.

The Commercial Renewables segment will be largely flat to slightly negative 2020 given our strong performance in delivery of completed projects this year. Our plan continues to target an annual net income of $200 million to $250 million through the five-year plan. On the financing front, we expect to settle with $2.5 billion equity forward by the end of this year, which will result in approximately $0.13 of dilution net of holding company debt interest savings. As stated during our second quarter call, with these drivers and ongoing COVID uncertainty, we expect to rebase our long-term earnings per share growth rate off of 2021 with a midpoint initially pointing to $5.15.

We believe this is a solid number with upside. We are close to finalizing our 2021 through 2025 financial plans and we will provide complete detailed guidance in February as we normally do. As Lynn mentioned, we have great confidence in delivering at the top end of our 4% to 6% earnings per share growth rate through 2024, underpinned by our $58 billion capital plan and industry leading cost reduction program. As we discussed on our ESG Investor Day, clean energy transition will drive significant growth for at least the next decade. As you look at Slide 12, the left hand side of the evolution of our five-year capital plan over the past several years and on the right hand side, we show the expected growth in our earnings base.

As you will recall, our five-year capital plan, just a year and a half ago was a $50 billion. This past February, we increased the plan to $56 billion to address pressing infrastructure needs of our communities, including more renewables on our system and [ph]entries[ph]. [33:07] Herein, the latter half of 2020 has become evident that the cleaner energy transition of our jurisdictions necessitate additional capital deployment, resulting in our current five-year capital plan of $58 billion.

Looking into the second half of the decade, we estimate a five-year capital plan of $65 billion to $75 billion. We made some assumptions here about the amount of renewables investment Duke Energy would be able to rate base as those details have not yet been determined. As I mentioned in the ESG Day under any IRP portfolio chosen in the Carolinas, we will have a significant role to play in the clean energy transformation in the two states. We believe the assumptions included here are very reasonable based on what we've seen around the country and within our service territories.

This $65 billion to $75 billion capital plan for 2025 through 2029 includes clean energy generation and transmission investments across the Carolinas, Indiana, and Florida, as well as an estimate the distribution investments that will be required to enable renewables, battery storage, and other distributed energy generation on our system. Our confidence in the growing rate base over the long term is rooted in these strong capital plans, our rate base growth from $77 billion in 2019 to roughly $105 billion by the end of 2024.

That's a 6.5% earnings base CAGR. For the latter half of the decade, we see that growth accelerating to 7% with significant investments to enable this transformation. Above strategy also balances the need for investments with affordability for customers. As we transition out of coal, we expect to have lower fuel cost and non-fuel O&M costs, and we will continue our business transformation modeling in pursuit of efficiencies across our footprint. Annually, we operate in the states of their experience and strong customer growth, particularly in the Carolinas and Florida, which also helps keep customer rates compatible.

Finally, let me wrap up on Slide 13. Our attractive dividend yield coupled with a long-term earnings growth from investments in our regulated utilities provide a compelling risk adjusted return for our shareholders. We are well positioned to manage through COVID-19 and are confident in our ability to deliver in the narrowed earnings guidance range in 2020 and then our ability to achieve the top end of our 4% to 6% earnings per share growth rate off of the 2021 base.

We expect to enter 2021 with one of the most valuable and lower risk shareholder investment propositions in the industry and we are positioned to deliver sustainable value end of the future. We look forward to speaking with many of you next week during the EEI conference.

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

Questions And Answers

Operator

Thank you. (Operator Instructions) And our first question will come from Stephen Byrd with Morgan Stanley. Go ahead.

Q - Stephen Byrd {BIO 15172739 <GO>}

Hi, good morning.

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

Hi, Stephen.

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

Good morning.

Q - Stephen Byrd {BIO 15172739 <GO>}

I wanted to follow up. When you gave a great update of the sort of the clean energy transition on that Slide 6 and calculated it pretty well, and I just wanted to explore the Carolinas a bit. You laid out on this page the North Carolina, the report to the Governor by the end of the year, and then in both case, you have IRP hearings. You've laid out pretty clearly sort of the trade-offs of different approaches to your future energy mix. How do you anticipate sort of the decision making process evolving? Do you see, for example, sort of heavy direction from the Governor in these cases or is it more sort of a collaborative hearing process where many constituents are going to weigh in and then ultimately, it's sort of a more of a commission driven decision? How do you kind of think about where you're headed there?

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

Sure. And Stephen, thanks for that question. I think the Governor has been very clear about his expectations in the form of his executive order that set a target of 70% carbon reduction by 2030. He has been directing the stakeholder process throughout 2020 through his Cabinet Secretary Regan to oversee it. And I would say that that stakeholder process has been a robust one, broad range of people involved, and has made significant progress over the course of the year, identifying and aligning around common goals. So transitioning to generation fleet over time, developing regulatory mechanisms that would incent that transition. And so I also believe that kind of points to broad support for critical infrastructure investments that will drive jobs and economic development, of course, chief carbon reduction, and achieve resiliency for the state.

So I believe the next steps on this will be shaping and updating of energy policy in North Carolina. If you look historically, about the way that has happened, Steven, it's always been led by stakeholders coming together to achieve common goals in a bipartisan way, Governor of course wing in with his expectation, stakeholder shaping the way to get there. And we see that process maturing in 2021 and expect that we, of course, will play a pivotal role in implementing that energy policy in a way that meets all of these objectives. I think the IRP is very complementary to that stakeholder process because it puts in front of the commission a variety of options on how those policy objectives could be achieved. And we would expect a review by the Commission and, of course, any input or feedback that they would have. And I think the combination of both of these processes will give us more clarity in 2021 on how we will move forward.

But I would emphasize again the alignment of stakeholders to achieve common objectives has always been the foundation of movement on energy policy in North Carolina and we would expect the same to be the case here.

Q - Stephen Byrd {BIO 15172739 <GO>}

That's very clear. And I guess at a high level, looking at this stage, you kind of have a lot of at-bats in terms of the possibility of additional capital spending. And I just want to make sure I was clear -- let's say that the Duke is fortunate enough to have the opportunity for even more renewables spending, EV spending, whatever it might be, just to refresh in terms of your thinking of incremental CapEx and how you would finance that incremental CapEx.

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

So, Stephen, as you know, we put some incremental CapEx in the 5-year plan really underpinned by what we're seeing here in this generation transition. We have not changed the financing plans that we shared with you in February. We continue to plan to issue DRIP and ATM equity in 2021 and 2022. As we get to the back end of that five-year plan and really build the momentum to accelerate rate base growth, I would expect for us to have a modest level of DRIP/ATM equity in the plan. We think that coupled with cost mitigation, regulatory support, and other elements that drive cash flow would balance the needs of shareholders and creditors.

So we will provide that complete update on financing in February. But your mind should go to the modest DRIP/ATM level as we think about the way we underpinned this growth investment going forward.

Q - Stephen Byrd {BIO 15172739 <GO>}

Understood. So if I'm sort of thinking about this correctly, didn't you already-- sort of thinking about some incremental CapEx, which you've described before, I mean these hearings and these processes are going to take a while anyway, so it's not as if it's an immediate impact to your financing needs, and some of that was already sort of factored in. So it feels like even if you get good responses in these states, at first it's going to take a while for that CapEx to actually transpire. Secondly, some of that was sort of already contemplated. And so it's not as if we're likely to see a fairly significant change your plans, i.e., not massive new additional equity needs over and above what you've already laid out.

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

That's very fair. Stephen, if you-- on the slide that Steve walked you through, we updated capital from $50 billion to $56 billion in February, and that financing plan underpins that $56 billion which is really the foundational element of the spending. This additional too and then ramping to $65 billion to $75 billion towards the back end is where would really be focused on your question initially. And we will be updating that. You should be thinking about the modest DRIP and ATM is first place we would go to support that accelerated growth toward the back half of the planning period.

Q - Stephen Byrd {BIO 15172739 <GO>}

That's very clear. That's all I had. Thank you.

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

Thank you.

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

Thank you.

Operator

Our next question will come from Shar Pourreza with Guggenheim Partners. Please go ahead.

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

Hi, Shar.

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

Hi, Shar.

Q - Shar Pourreza

Hey, good morning guys.

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

Good morning.

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

Good morning.

Q - Shar Pourreza

Just a couple of quick questions here. First, around the $5.15 number through '21, obviously, this is sort of a worst case outcome as we think about coal ash, et cetera. And I know you'll talk a little bit more about it in February and you have some drivers in the slides. But maybe you can provide a little bit of a sense on some of the incremental items that could put you higher than that Slide 15, it's a lot of moving pieces here.

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

Sure, I'll point to three things that we're watching and then Steve can add to it. You know COVID load, we're continuing to look at what is load growth look like into 2021, is there a second wave, are there more economic shutdowns and so on or does the economy bounce back more strongly. As we said in the second quarter, and it continues to be our profile, we intend to offset COVID impact with O&M so that we lessen the impact of that. But understanding where that economic forecasters and how that matches up with cost would be something that we're watching. Maturing our cost management productivity to see how much of these savings that we've been able to drive out in '20 can continue into 2021, that work continues. We will start the year with a lower headcount. We have used technology in different ways, we dispatched crews in different ways, there have been so many opportunities, and we're looking for ways we can create even more sustainability. That represents a potential item. And then, of course, rate cases, we have set the $5.15 to absorb the dominion outcome on coal ash and we will learn more towards the end of this year, early next on the DEC order in particular. We will also hear from the Supreme Court, we believe, in 2020 on the prior rate case. So those are a couple of other things that we are monitoring. But we have-- as I look at 2021, there is so much clarity. We will have all of this behind us, the uncertainties that have been a challenge for us, and we're excited about the ability for the utilities to demonstrate the growth we know they're capable of without ACP, without rate case overhang, without coal ash, et cetera. And so we believe there is incredible opportunity in 2021 and then growth beyond. So, Steve, would you add anything to that?

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

Yes, the only thing I might add is that we will look to see the impact of the customer growth. We're seeing the highest customer growth numbers we've seen in several years in the Carolinas and Florida. So perhaps that can give us a pick-up as well.

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

Some of these New Yorkers, Shar, coming down to New Jersey.

Q - Shar Pourreza

I am on my way. I'm on my way. And then obviously, you highlighted the Supreme Court pushed out the ruling until December of 11. Can you just maybe, Lynn, with that delay, talk a little bit about sort of the settlement strategy? How do you think discussions are going? Are they more or less constructive? And you've been obviously very vocal of the impact of not earning a return on the expenditures. Maybe it'd just helpful to the refresh your thoughts as we think about credit metrics and how we should think about potential equity or not and do of the Dominion order.

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

And so, Shar, let me go to the last part of the question first. And that is, if we do receive the Dominion order from the NTUC, we do not intend to issue equity to cure the impact of a difficult rate order. So that is the headline answer to that question, I think we will wait to hear from both of these parties to Supreme Court in the E&C you see on coal ash in December, early January. I do not expect that we will be reaching settlement on coal ash. I think all parties are interested in hearing with the court and Commission has to say but as I've said many times, we believe that coal ash as recoverable cost B&C do you see those as well.

We also believe that we are entitled to earn a return on cost that are collected over a long period of time. Consistent with the presence of rate-making in the state and also consistent with the requirements of strong credit for the utility. So we will await ruling later this year.

Q - Shar Pourreza

Got it. And then just lastly on just to follow up on Stephen's question around the alternative regulation Group. It sounds like it's going to mature in '21, do you sort of anticipate a bill forming in '21. And then just remind us like a bill that sort of the max potential ROE bands or PVRs, does that sort of really act to minimize some regulatory lag or could that be sort of incremental or accretive to your current growth trajectory of the profile of how you're guiding our growth.

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

Those are good questions. Shar, and I do believe that legislation could spring from this clean energy process in the recommendations coming out of the report to not only such some parameters around transition of the fleet, but also those regulatory reform changes that you're talking about the objective of the regulatory reform would really be to incent and enable the energy policy in the state and to the extent it reduces regulatory lag.

It is good. It is good for customers, It is good for investors and that will be an objective as we talk about the way regulatory reform would play out I think about grid investment in particular it's so important to this transition and grid investment needs a different regulatory model than what we have here in North Carolina and there's a lot of good discussion going on about that as part of these processes.

Q - Shar Pourreza

Got it, congratulations guys. Have a good morning.

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

Thank you. Shar.

Operator

Our next question will come from Michael Weinstein with Credit Suisse. Go head.

Q - Michael Weinstein {BIO 19894768 <GO>}

Hi guys, good morning. On the, is the upside for 515 in 2021 is that only apply 2021. In other words, would you intend to keep the base at 515 even if you were able to find some savings for next year.

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

I think we'll cross that bridge to [ph]come to us invite[ph]. I appreciate that question. I do feel like we've got a lot of uncertainties behind us, we've got a clean picture for 2021. But just like any business year you have things to tackle we're tackling Covid and O&M and we're also working to progress the Clean Energy plan. So Steve, would you add to that in anyway.

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

You're right, we don't have that specificity now, but whatever we anchor to we're going to have a growth trajectory from that point forward, that I think is going to be very clear in throughout the period that we're projecting forward on. certainly have a rate base growth there.

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

Yes. Industrial as is clear.

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

That's correct.

Q - Michael Weinstein {BIO 19894768 <GO>}

Yes and Steve, when you were negotiating after the tax rate reductions, a few years ago, when you're negotiating with the regulators to keep cash flows intact, what would be the outcome of a higher tax rate going forward, but you do you think there'll be room for additional FFO to debt improvements there if such a thing were to happen going forward.

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

Yes. So I think that would ultimately happen what you'd see here if you saw an increase in the federal tax rate, people have talked about moving from 21% to 28%. It would just move in the opposite direction of what we did in 2018. You would see the holding company tax shield be more beneficial to the tune of $0.05 or $0.06 per share at the operating company levels once enacted the higher tax rate, we would start deferring the additional income tax expense, and then we'd work with regulators on increasing the rates to reflect the increase in the tax expense, which is the opposite of what we did back in 2018 through 2020 and that would result in an increase in cash flow and would help FFO there.

We estimate that type of impact would be in the neighborhood of 2% customer rates, but they've seen larger decreases as we've implemented the the 2018 Reform Act. So I do think it provides cash flow benefits in that fashion.

Q - Michael Weinstein {BIO 19894768 <GO>}

Great, thank you very much. That's all I have for now. Thank you.

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

Thank you, Mike.

Operator

Our next question will come from Julien Dumoulin-Smith with Bank of America. Please go ahead.

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

Hey, good morning team.

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

Hi, Julien.

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

At the time of --Hey. All right. First, perfunctory question, just wanted to see, I haven't heard meeting strategic here, but the following media reports in recent weeks and months anything can offer runs strategic remarks up, I'll just leave that open-ended. And then I've got some more substantive questions if I can.

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

And so, Julien. Are you talking about market rumors on M&A?

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

Yes, I just wanted to see if there's anything that you would offer on that.

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

Okay, all right. I'm sorry.

So I, building on your comment about strategic things for the Company, our focus is on the strategy of clean energy transition. It's on the strategy of building the stakeholder support in the Carolinas to move forward on regulatory reform and infrastructure investment. And so our focus is on driving that organic growth, which were we believe is extraordinary, not only in terms of rate base investment customer growth and driving jurisdictions. So that's what I would say our focus is on Julien, and we feel like the future is bright as we've laid out here and we'll continue to build on, as we give you more insight in February.

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

No, I appreciate that. Just wanted to make sure. All right. So back to perhaps more substantive measures. As you think about the transitioning here from the Clean Energy plan and the reports to the Governor, what pieces are resonating best I can tell thus far with that stakeholder group. And I know we're still few weeks away, but as you would in an attempt to try to capture the preponderance of different views here, what are those regulatory buckets for reforms that are still on the table versus perhaps those that means less relevant today, if you can try to capture that in your mind.

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

Yes, you know, it's a good question. Julien, because a lot of things have been discussed and I think it's been a good exchange of information feedback education point of view being shared. I think at the top level, the regulatory reform is really focused on how can we incent the development of this critical infrastructure and the associated reduction in carbon. So things like multi-year rate plans are being discussed decoupling is being discussed and we believe there is a lot of interest in those types of tools in order to move this forward performance based rate making, it would be another thing that I would point to. Because you can tie achievement of certain outcomes to performance-based rate making. So those are the things I would point to at this point.

And as the processes continues, we may recall there in two pieces carbon policy in one, regulatory reform in the other, carbon policy will find its way to the Governor's desk by the end of the year. Regulatory reform will also be kind of wrapping up in that time frame. And as, as we reach critical milestones will update of course so along the way.

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

Got it. Sorry, it's one quick clarification, if I can. With respect. Keep your confidence on cost we consider. Do you think you'll be able to earn at your authorized there are least in the Carolinas.

Going forward, even with electricity in order.

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

So if you look at our track record on earning our allowed rate of return. Julien, it's been very good and we expect to be able to earn at our allowed rate of return going forward. Steve, would you add to that.

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

Yes, I think absolutely we've got a long history of utilizing various levers, whether it's O&M cost control expanding wholesale sales just working optimizing our regulatory schedule to earn our allowed return on our growing rate base and so we'll continue to employ those tools as we go forward, regardless of any particular rate outcome.

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

All right, exactly. All right, perfect. Thank you, guys, and best of luck here--

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

Thank you. Julien.

Operator

Our next question will come from Steve Fleishman with Wolfe Research. Please go ahead.

Q - Steve Fleishman {BIO 1512318 <GO>}

Thanks, good morning--

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

Hi, Steve.

Q - Steve Fleishman {BIO 1512318 <GO>}

Hi, Lynn. So just a little bit more follow-up on North Carolina. The -- I think you did mentioned that you kind of work with both sides of Ohio. I think the Governor, one Democrat but the legislature state Republican just thinking about trying to turn these working groups and do a law. How much is that going to be a challenge in 2021?

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

Steve, I would say that historically energy policy North Carolina has moved in a bipartisan way and the benefit of having diverse stakeholders together as you have voices from business community from the manufacturing community from low-income from the environmental constituents, you've got the administration of the table as well. And I believe critical infrastructure focus not only an environment, but on job creation has a durability or in appeal to both sides of the aisle.

And I believe we'll play a role and working with both sides to bring that bring that intersection together so we approach this with great optimism and enthusiasm from the alignment we've been able to be a part of in 2020 and we'll keep the conversations going.

Q - Steve Fleishman {BIO 1512318 <GO>}

Great. And I guess outside of getting legislation can some of these potential changes be implemented without that just by the Commission directly--

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

It's interesting if you look at the-- Yes. If you look at the IRP we've got everything from a base plan to the more aggressive early retirements of coal and so on that base plan can be executed immediately because it's within the regulations in North Carolina. It has renewable investment that has storage investment in a variety of things. So there is a lot that can be done without any changes. I think as we look at some of the more new technologies like offshore wind and other things like that having some legislative support around achieving those targets and embracing new technologies.

So I think would be helpful to any investor in the state as well as to the Commission. So you can think about that IRP is providing a menu of options that we can get going even absent changes on the transition up to, I think that the base plan is a 50% to 55% carbon reduction under existing statutes.

Q - Steve Fleishman {BIO 1512318 <GO>}

Great. Okay, thank you very much. That's helpful.

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

Thank you.

Operator

Our next question will come from Anthony Crowdell with Mizuho. Please go ahead.

Q - Anthony Crowdell {BIO 6659246 <GO>}

Hey, good morning. Good morning, Lynn, Good morning, Steve.

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

Good morning.

Q - Anthony Crowdell {BIO 6659246 <GO>}

Thanks so much for all the information on this slide, I just have two quick ones more related to Slide 12 and the growing CapEx profile. I guess first how much of that CapEx is maybe rider eligible and in the company is kind of winding down hopefully resolution of kind of one thing on a rate case cycle, how much could that get including rates without a rate filing you entering another rate case cycle and then the follow up would be, it appears that the service territory has a significant amount of investment opportunities, especially the banking. The other companies, what's the limitation there, is it balance sheet? Is it rate impact? And I'll leave it at that.

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

So in the Carolinas, Anthony, the regulatory structure is still a rate base rate case type structure. I think as we think about this regulatory reform, multi-year rate planning decoupling performance-based rate making are in the conversation and our hope and expectation is there will be some adjustment to that regulatory process we have not laid out any specific timing for rate cases, we've just finished a rate case here in 2020. So we would not expect us to come in the short term on --

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

Right. I would agree with that. The Carolinas we're working to put into place some mechanisms that help as Lynn said this growing investment profile that we have going forward. Our gas businesses and in the Midwest and Florida, we have mechanisms in place and they worked very well for us, whether it's rider mechanisms or multi-year rate planning or decoupling on the gas side. So we're very familiar with those. We're advancing the ball in the Carolinas with this dialog and I think we'll, we'll make some progress as we move forward.

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

And on the second part of the question around constraints, Anthony we always planned capital within, what I would call a reasonable expectation of impact the customer price. So as we talked about in the integrated resource plan discussion on, the base plan is about a 1% increase in customer rates per year as you get more aggressive, It could go up to 2.5% that includes offsets for fuel and O&M and so on, that would be a part of the transition.

So we always keep an eye on price. And in addition to those tools of fuel and O&M that will come naturally from transitioning the generation. We also continue to very aggressively drive cost out of the business through digitization through changes in process, all forms of automation and that will continue to be an objective to keep prices low for customers.

Q - Anthony Crowdell {BIO 6659246 <GO>}

Great, thanks for taking my questions. And looking forward to connecting the EEI with the team.

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

Thank you. I appreciate that.

Operator

Your next question will come from Jeremy Tonet with JP Morgan. Go ahead.

Q - Jeremy Tonet {BIO 15946844 <GO>}

Hi, good morning.

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

Good morning.

Q - Jeremy Tonet {BIO 15946844 <GO>}

I think you've touched on 2021 O&M a bit here, but just thinking about that a bit more is the timing of 2020 outages kind of main driver of higher 2021 O&M, are there other factors to think about here? And how should we think about 2021 O&M versus '19 as a base year in kind of what is the trajectory look like longer term as the pandemic subsides.

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

Sure. Lynn had mentioned and I had mentioned outages as as being one thing that potentially could put some ups upward pressure on O&M, going forward, we'll also look at variable compensation that's another area of that, we have flex on that could see an increase in 2021. So we'll continue to look at that. I'd say those are a couple of areas there. When you think about our O&M trajectory as a whole, we started back in 2015 at $5 billion of non-recoverable O&M if you will. And in 2019, we, that was at $4.9 billion and that included absorbing $280 million to $300 million at Piedmont because they were acquired during that period of time.

That gives you an idea of the savings that we've been able to generate through this very concerted effort of business transformation. We're going to come in lower in 2020 because of all of the tactical efforts that we've put in place to replace the topline revenue loss, that will move up in 2021 but I suspect the downward trajectory is going to continue in 2021 over 2019 will be firming that up as we go forward, but our sustainable reductions will continue. I do believe that.

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

And what we're trying to do, Jeremy. As we've said, a couple of times is load continues to represent a headwind in 2021. We do not see it quite back to 2019. Based on our projections, although we would be delighted to be surprise to the upside will keep under control. Consistent with that weakness in the top-line as we think about 2021.

Q - Jeremy Tonet {BIO 15946844 <GO>}

Great, that's very helpful. I'll stop there. Thanks.

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

Thank you, Jeremy.

Operator

Our next question will come from Jonathan Arnold with Vertical Research Partners. Go ahead.

Q - Jonathan Arnold {BIO 1505843 <GO>}

Hi, good morning.

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

Good morning.

Q - Jonathan Arnold {BIO 1505843 <GO>}

(inaudible) covered, but could I just could you talk a little bit about what you're seeing in the renewables development space for the commercial business and just remind us where, where that sort of fits into how you are talking about the growth outlook.

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

Jonathan We continue to see a lot of project opportunity and pipeline of contracts and projects under development. We have targeted $200 million to $250 million of net income over the five-year period and we have a clear line of sight to achieving that during the during the five years. So we feel very good about the business, when you couple that expertise with the renewables that we're building in the regulated business. I feel like the team is doing a good job of understanding the integration of the resources, how to develop and build them cost effectively and so that's what you can expect kind of a $200 million to $250 million contribution from commercial renewables going forward.

Q - Jonathan Arnold {BIO 1505843 <GO>}

Great, thank you. And then just if I may. Then on your comment about seeing upside potential to the FY 15. I'm just curious, be, could I know this has been covered, but is that incremental comfort that you've developed since you've left put that number out there or really just articulating kind of a path that you already on more clearly.

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

Probably a little bit more comfort Jonathan in that we've got three more months behind us on COVID our forecast for that have been pretty accurate in terms of net income, but we'll be watching it over, November and December, with a second wave and the rate cases, we've always been out there is something that represents a, an opportunity, and then we talked about cost management.

We're going through everything we've done in 2020 to challenge whether it's achievable in 2021 and that work as part of our normal process. Steve leads in connection with the five-year plan. So, probably a little more confidence because we've got three more months of experience. Steve, how would you add.

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

Yes, I would agree with that. We are starting to firm up what we can, what we've learned from COVID on cost reductions and we'll continue to drive that out and that's always helpful to our plan. So, well, we'll be continuing to push on this and drive more detail as we go forward.

Q - Jonathan Arnold {BIO 1505843 <GO>}

Great, thanks for the update.

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

Jonathan, Thank you.

Operator

And that will conclude our Q&A session for today's call. At this time, I'd like to turn the call back to Lynn Good for closing remarks.

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

Thank you Savanah. And thanks to everyone who joined we're looking forward to talking with many of you, if not all of you next week in our virtual EEI meeting. So thanks again for joining and thanks for your investment in Duke Energy.

Operator

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