Q4 2021 Earnings Call

Company Participants

- Jack Sullivan, 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

- Durgesh Chopra, Evercore ISI
- James M. Thalacker, BMO Capital Markets
- Jamieson Ward, Guggenheim Securities, LLC
- Jeremy Tonet, JPMorgan
- Jonathan Arnold, Vertical Research Partners
- Julien Dumoulin-Smith, Bank of America
- Stephen Byrd, Morgan Stanley
- Steve Fleishman, Wolfe Research

Presentation

Operator

Good day, and welcome to the Duke Energy Fourth Quarter Earnings Call.

Today's conference is being recorded.

At this time, I would like to turn the conference over to Jack Sullivan, Vice President of Investor Relations.

Please go ahead.

Jack Sullivan {BIO 21652795 <GO>}

Thank you, Samira. Good morning, everyone, and welcome to Duke Energy's fourth quarter 2021 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 securities laws. Actual results may be different than 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.

So with that, let's turn the call over to Lynn.

Lynn J. Good {BIO 5982187 <GO>}

Jack, thank you, and good morning, everyone.

During our call this morning, we're pleased to share our 2021 results and our outlook for 2022 and beyond, including progress on our clean energy transition. The fourth quarter capped off a strong finish to a very productive 2021, where we made great progress against our strategic and financial goals. As a result, today we announced 2021 adjusted earnings per share of $5.24, putting us above the midpoint of our updated guidance range. We also announced our 2022 guidance range of $5.30 to $5.60 with a midpoint of $5.45 extending our 5% to 7% earnings growth rate through 2026, up the midpoint of our original 2021 guidance range.

Our clean energy strategy requires significant investment and we're now budgeting $63 billion in CapEx over the next five years, 80% of which represents investments toward our clean energy transition. This growing investment base and constructive and thriving jurisdictions, give us confidence in our ability to earn within our 5% to 7% earnings guidance range throughout the next five years and in the top half of the range as our plan progresses. Steve will go into more details on our 2021 results and our updated five-year financial plan.

But before I turn the call over to him, I'd like to highlight some of the important strategic work underway. 2021 was a transformative year for our company, and in each of our three regions, we made meaningful progress, and we enter 2022 on strong footing. In North Carolina, leaders came together to pass House Bill 951. This landmark bipartisan legislation defines the state clean energy transition and work is underway to implement it.

The North Carolina Utilities Commission is developing rules on the performance-based rate making provisions in the legislation. We're confident the commission will adopt a balanced set of rules that provide flexibility to implement performance-based rates in a way that achieves policy goals and aligns with customer interest. We expect an order later this week. The North Carolina Commission is also developing rules related to the securitization of 50% of subcritical coal plants upon their early retirement. We proposed a set of rules consistent with the North Carolina storm securitization bonds we issued last fall.

Those bonds will save costumers approximately 35% or $300 million over the next 20 years. We expect an order on securitization by mid-April. We plan to file our carbon plan in May, after gathering stakeholder input of the next several months. HB 951 provides a framework to reach 70% carbon reduction by 2030, and the carbon plan will be a roadmap to achieve this objective.

The plan we submit will have multiple portfolios to weigh the costs and benefits including reliability and affordability of various resource types. We will also evaluate with stakeholders and our regulators the full range of potential risks and opportunities related to new clean energy technologies. We expect an order on the carbon plan by the end of this year.

In Indiana, we submitted an IRP in December after extensive stakeholder engagement, as the largest generator in the state of Indiana we are retiring more coal and adding more renewables than any other Indiana utility. A preferred scenario reduces carbon emissions from our Indiana fleet by 63% by 2030, and 88% by 2040 compared to 2005 levels. It adds over 7 gigawatts of renewables over the 20 year horizon and accelerates the retirement of coal generation with a targeted exit from coal by 2035.

This plan also includes natural gas and a prudent amount of market purchases for capacity and energy requirements. As is the case in all jurisdictions, we expect a robust review of all planned resource additions to achieve the environmental, reliability, and affordability goals of the state. We will issue a request for proposal for new generation later this month; and following the RFP process, we will file CPCN's with the Indiana Commission later this year.

In Florida, we received approval of the $1 billion clean energy connection solar program, which calls for 750 megawatts over the next three years. We'll begin the first year of that program in 2022 along with completing the final solar projects under the sulfur rider. To-date we put approximately 600 megawatts of solar generation in service in Florida with another 150 megawatt currently under construction.

Let me close by putting our progress and our plans for the future in the context of our climate strategy. Given the scale of our company, we're leading the industry's most ambitious clean energy transformation. This demands active engagement with regulators, policymakers, customers, and stakeholders to make the vision a reality. It requires candid discussions about the appropriate energy policy for each state recognizing the unique differences of existing resources, customer bases, and policy objectives. It also requires a focus on keeping customer bills affordable, a critical variable as we pursue this transformation.

We continue to make progress and are strongly positioned to achieve our clean energy vision. Slide 6 captures our progress and the work underway. Let me share a few important highlights. We're executing the largest planned coal fleet retirement in our industry targeting energy from coal to represent less than 5% by 2030 and a full exit by 2035. Embedded within Duke Energy is a top 10 U.S. renewable energy company. We now own, operate, or purchase more than 10,000 megawatts of solar and wind energy. We plan to reach 16,000 megawatts by 2025, and 24,000 megawatts by 2030.

We've reduced our carbon emissions by 44% from 2005 levels, and we're on track to exceed 50% by 2030 and net zero by 2050. We're actively engaged with policymakers and advocating for and piloting new clean energy technologies necessary to meet our net zero goal.

We're also stepping back and evaluating our climate goals more broadly as we engage with our shareholders and discuss the growing importance of Scope 2 and 3 emissions. And just yesterday, we announced, we're expanding our net-zero goals to now include Scope 2 and certain Scope 3 emissions, such as upstream emissions related to procurement of fossil resources and downstream emissions from our natural gas customers consumption.

These initiatives will be a key focus area for our management team and across the entire company in 2022 and beyond. We look forward to sharing more details about what it will take in the ways we're building upon our success to advance our long-term business strategy at our next ESG day planned for October 4. I encourage you to join us for this interactive live-streamed event.

We accomplished a great deal in 2021. We delivered on our commitments while also strategically positioning the company for the future, de-risking investments, simplifying our business and modernizing our regulatory frameworks. We have a clear vision to meet the needs of our customers and communities while remaining a strong steward of the environment. We believe this strategy will deliver strong, consistent, and enduring benefits to our customers, communities, and investors.

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

Steven K. Young {BIO 7307044 <GO>}

Thanks Lynn, and good morning, everyone.

2021 marked a year of strong growth in our core businesses. As shown on Slide 7, our full year adjusted earnings per share was $5.24 above the midpoint of our revised guidance range. In the electric segment, we benefited from 2% volume growth. The full-year impact of constructive rate case outcomes in North Carolina and Indiana, increases in Florida from their previous multi-year rate plan and solar installations, and continued rider investment in the Midwest. Additionally, we met our goal of delivering $200 million in sustainable cost savings in 2021.

In our gas LDC business, we saw higher results from Piedmont rate cases in North Carolina and Tennessee, and contributions from customer growth and rider mechanisms. Results from commercial were lower due to fewer growth investments compared to 2020 and the impact of Winter Storm Uri in February 2021.

Turning to Slide 8, we are introducing our $5.30 to $5.60 guidance range in 2022. For electric utilities and infrastructure, we expect growth due to expansion in our robust service areas and earnings on infrastructure investments. Specifically, in Florida, we begin the first year of our new multi-year rate plan, coupled with the benefits of strong customer growth. In the Carolina, as we will see earnings growth from new customers, grid investments and wholesale revenues.

In the Midwest, we continue to benefit from the steady investment in T&D infrastructure. Our gas utilities and infrastructure segment is expected to benefit in 2022 from customer additions and integrity management investments as well as base rate increases following settlements approved in North Carolina and Kentucky.

In commercial renewables, we expect fewer projects in 2022 as we ramp up deployment of renewable assets in Florida, and the Carolinas, and provide breathing room to work through supply chain challenges. As such, the timing of some commercial renewables projects will shift within the five-year plan. Finally, we expect the other segments to be unfavorable primarily due to higher interest expense as we grow our energy investment base.

Turning to Slide 9, let me touch on electric volumes and economic trends, consistent with our updated guidance on our Q3 earnings call, we achieved 2% growth for total retail volumes. This includes residential load growth of 0.7% helped by the continuation of remote work and strong customer growth of 1.6%. In fact, three other states we serve were among the top five states for net population migration in 2021, strong evidence of our attractive growth profile. Since the pandemic began, approximately 200,000 new customers have moved into our service areas, boosting the need for energy infrastructure.

Commercial and industrial sales rebounded nicely due to increased demand for goods across many sectors. We expect continued expansion in 2022, and project load growth to increase approximately 1.5% in 2022. After '22, we expect longer term growth to moderate to flat to 0.5% per year.

As I mentioned before, we delivered on our O&M target for 2021. On Slide 10, you will see the work we've undertaken to lower our cost structure and bolster our potential growth. Duke Energy is a leader in the industry when it comes to cost mitigation driven by digital capabilities, data analytics and re-skilling our workforce. Since 2016, we have not just absorbed inflation, but we have removed approximately $400 million of O&M, creating value for our customers and our shareholders. For every dollar of O&M we eliminate, we can invest about $7 of capital without increasing costs to customers.

Our $400 million in savings over the past five years has created headroom for approximately $3 billion worth of capital projects with no incremental bill impacts. Looking forward, we expect to hold O&M flat throughout our plans. We believe there are significant opportunities across the enterprise to further improve efficiencies, which could lower the O&M trajectory as we advance our fleet transition strategy, replacing coal assets with less than O&M intensive forms of generation is a perfect example of this. And the investments we are making are designed to lower our cost structure while maintaining high standards of safety and reliability. Our size and scale remain key differentiators as we work to mitigate supply chain constraints and inflationary pressures across our cost structure.

Turning to Slide 11, we expect to deploy over $130 billion over the next decade with $63 billion to occur over the next five years. This represents a $4 billion increase over our previous five-year capital plan, and strengthens our rate based growth to 6.5% to 7%. Approximately $52 billion or over 80% of our capital plan throughout 2026 will fund investments in our fleet transition and grid modernization. This will improve reliability and resiliency as we add more renewables to the system, and extend the life of our carbon-free nuclear fleet to better serve our growing customer base.

As coal is phased out from our generation profile, it will be replaced with zero carbon resources and prudent investments in clean or natural gas. We form strategic partnerships to size the long-term potential of hydrogen coal firing storage including a pilot program we launched this year, where we believe our natural gas units are well positioned to take advantage of hydrogen technology as it evolves.

Turning to Slide 12, our sizable capital plan high-growth service territories proven capability to control costs and constructive regulatory frameworks give us confidence in our ability to consistently grow earnings at 5% to 7% and potential to earn at the top half of the range in the back half of the plan.

Moving to Slide 13, our ability to execute our robust capital program is underpinned by a healthy balance sheet and we remain committed to our current credit ratings. In September 2021, we received the $1 billion in cash proceeds upon closing the first tranche of our minority interest sale of our Indiana utility.

The second closing will occur by January 2023, and will result in another cash infusion of $1 billion. This combined $2 billion of proceeds provide good support to our credit metrics. We close out to 2021 and line with our 14% FFO to debt target, and we expect to maintain 14% in 2022 and beyond. Our financing needs are driven by our investments, and we have constructed a plan that achieves 5% to 7% earnings growth through 2026, while maintaining our current credit profile.

Our current plans does not contemplate any additional common equity through 2026, but we will monitor a variety of things that may influence future needs including the pace and size of our capital deployment, future regulatory outcomes, and the potential for support of tax policy. To the extent that becomes a need for additional equity, we will evaluate all options and pursue the ones that finance our growth in the most efficient manner and support our earnings growth trajectory.

Before we open it up for questions, let me close with Slide 14, our focus on the future sound investment strategy and demonstrated dexterity offer a strong long-term growth proposition. And our commitment to the dividend remains unchanged. We understand how important it is to our shareholders, and that's why 2022 will mark the 96th consecutive year of paying a quarterly cash dividend. We intend to keep growing the dividend, balancing our desire to offer investors a strong 65% to 75% payout ratio with our need to fund our capital plan.

2021 was exceptionally productive. We have a strong momentum as we began 2022. We look forward to updating you on our progress throughout the year.

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

Questions And Answers

Operator

(Question And Answer)

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

Q - Jamieson Ward {BIO 22436950 <GO>}

Hi guys. It's Jamieson Ward on for Shar. How are you?

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

We're good Jamieson, and welcome.

Q - Jamieson Ward {BIO 22436950 <GO>}

Thank you. Well good morning and thank you for taking my question. Lynn at a high level. We were wondering, how should we think about the carbon plan that you'll be filing in May versus what will become the final version in the order required by December 31st, who's going to be weighing in on it or contributing to it? And as a follow-up how will it differ from say a traditional IRP.

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

Well Jamieson, thank you for that question. And the work is already underway to develop the plan. We had our first stakeholder meeting just a week or so ago. And there are additional meetings planned and I would share with you that it will be a review of the full range of existing and potential resources to achieve the objective. We envision putting forward multiple scenarios as we did in the 2020 IRP, so that we have a good discussion weight costs and benefits of the various resource types. And it's also going to have good discussion about reliability and affordability coupled with environmental achievement.

So I would expect it to be somewhat similar in concept to what we produced in 2020 Jamieson, because there will be a variety of portfolios, but as always well informed by our stakeholders and directed towards achieving what the legislature has set out for us which is 70% carbon by reduction by 2030.

Q - Jamieson Ward {BIO 22436950 <GO>}

Got it. Got it. Thank you for that. And second question we had here was under the items to monitor on Slide 12. You mentioned supply chain constraint at EEI back in November, the take away that people seemed to have for meetings with both Duke and echoed by other large utilities, was that you weren't really seeing much impact at that time from supply chain constraints. What's changed since EEI and just another follow-up on that, how much of these supply chain constraints are specifically related to renewables. And then for the non-renewable portion, what does that consist of.

Yes, it's a good question because it's a dynamic area and I would say generally that the scope and scale of our company has positioned us really well on supply chain considerations. We've done a very good job of expanding our horizons to look at demand leveraging long-term contracts, leveraging what we maintain an inventory. So, we have not seen an impact on the majority, if significantly, of the capital plans that we have in place. But we have experienced some impact from solar panels and you'll see us, we talked a little bit about this, in the third quarter call evaluating what it might mean, so we are pushing some projects and commercial renewables in particular to 2023. We've been able to achieve all of our dates of regulated renewables however. So I would leave you with the fact that it's a dynamic area. There are areas where lead times are increasing, but we feel well positioned given the scale of the company and the approach that we're taking to manage what our customers require.

Got it, thank you very much for that and appreciate you taking the time. I will hop back in the queue.

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

Thank you.

Q - Jamieson Ward {BIO 22436950 <GO>}

Thank you.

Operator

And we'll take our next question from Julien Dumoulin-Smith with Bank of America, please go ahead.

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

Hey, good morning. Thank you so much.

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

Hi Julien.

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

Hey, thank you. So maybe if I can -- I mean maybe the first question is perhaps two parts. First '22 guidance, you have a lot of interesting tailwinds here. O&M, load growth, both accelerating obviously disappointing on the renewables, but that seems to be pervasive. Can you talk about maybe latitude within this guidance range? Certainly, considering that accelerating load growth, really is a meaningful driver. And then secondly just related to that and I suspect this is perhaps part of the reason for the guidance range. Can you talk about your confidence on the ability to cut a $100 million in costs with the backdrop of inflation admittedly elsewhere in the sector.

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

Yes. So I'll take a shot and I'm sure Steve will have something to add. Julien, I believe what we've put forward for 2022 is a very strong growth story. It's built on Florida, the Carolinas, Midwest, gas rate cases, load growth, O&M cost management all the things that you referenced.

I also believe that the increase in capital that we put forward should give you confidence that we're going to keep going and have the investment portfolio to drive 5% to 7%.

In 2022, though I also think it's important to recognize we have some foundational work underway, in the Carolinas legislation was a hallmark in 2021, but we're in the regulatory process in 2022, we're waiting for guidance on the performance-based ratemaking, we're waiting for guidance on securitization we have a carbon plan to file and so that will be additional important work in 2022 that will set us up for the future.

In terms of inflation, we are seeing labor inflation as the one thing I would point to and if you look at our trajectory, we're recommending flat, we will go at it as hard as we can but we will also make sure we have the talent and capability from line workers to our software engineers to do what this business requires and our customers' demand.

So I feel like we've taken all of these variables together and not only put together a strong plan for 2022 but also a strong plan for '23 and beyond. Steve how would you add?

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

I might add a couple of things on the cost side. We took 200 million out sustainable as we had promised. And we've delivered on that, we've got 2,000 less employees at Duke Energy than we did a year ago. We retired five coal units, and that takes out some O&M there but we're going to keep moving forward our scope and scale allows us to do this. We've completely redone our real estate footprint, taking advantage of COVID immediately. On the real estate savings, we're going to continue to drive out efficiencies. And utilize technology to displace the need for other costs, and we've had success for the past five years of doing that, of driving O&M down. We put plant O&M into our trajectory in response to what is inflation there. But we're going to continue to hammer away at it and we've got the tools to do that. We'll see where that goes but out of respect for the trends we see on cost we flattened it out, but we're going to be driving hard at it Julien.

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

Excellent.

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

And I think when you step back and look at guidance, maybe just one comment on guidance Julien. We feel like it's a very strong growth story. You may remember that, we've reset the 5% to 7% for the first time off of 5.15. We believe this is a very strong start and we'll be working hard not only to hit these numbers but if circumstances are such we can exceed them, we'll do that. But we believe this is a compelling growth story.

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

I hear you loud and clear on that, last comment. And in fact, if I can ask you this little bit reverse. I mean, clearly you're hitting these '22 numbers considering commercial renewables being a little lower and some of that being delayed. Does that actually conversely mean that '23 and '24 could actually be sort of a bumper crop year with respect to some of the renewable contributions and especially relative to your historic 200 to 250 guidance.

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

Julien, we are evaluating capital allocation on renewables. In Steve's comments you might have noticed we said as we ramp-up further investment in the Carolinas and in Florida around renewables, so we will make the right decision on where we invest, the renewable capital. I think the planning assumption of $200 million to $250 million is still reasonable for commercial but know that we're also going to be adding a lot of renewables on those regulated businesses.

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

Understood. Excellent. I'll leave it there. All the best, speak to you soon.

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

Thank you Julien, thank you.

Operator

And we'll take our next question 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>}

Hi. Stephen

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

Good morning.

Q - Stephen Byrd {BIO 15172739 <GO>}

Good morning, I was interested in your latest thinking in terms of some form of federal clean energy legislation. I know there has been a lot of dialogue. You all have been very involved. I know in dialogue there, so just curious your latest take on the prospects for passage at the federal level.

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

Stephen it is hard to handicap because we don't have a vehicle yet. There are a variety of other topics being discussed within that construct of what the administration would like to move. But it is our conviction that the clean energy tax provisions would be very helpful not only to support the transformation that's underway at Duke but throughout the industry and also allow us to lower the price of that transformation. For a regulated company those tax incentives, have a direct impact on our price to customers. So we are strong advocates for it. We actually believe that nuclear is a great recognition of that resource. Some of the modernization around solar to introduce PTCs the opportunity to have direct pay. All of these things we believe could be helpful in this transformation that we're pursuing so aggressively.

Q - Stephen Byrd {BIO 15172739 <GO>}

That's helpful. Thank you. And then I just wanted to follow up on a couple of questions on renewable supply chain, I wanted to drill in on solar a little bit -- a little bit more, wondered if you could provide any anything specific in terms of just the rough magnitude of cost increases you are seeing and also, if you could speak to just physical availability of panels and in '22 and the outlook there, just curious for a little more -- little more color there.

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

Yes, and Stephen I would point to availability as the first and most gating item because of some of the restrictions around trade and other things. There has been an issue around availability and certain suppliers have said, we can't meet the timeframe. And as a result of that you then begin looking for alternatives and those alternatives can be more expensive.

So we have made a decision to push some of our projects into '23. We're very confident in our projects that we have identified for '23 that we have appropriate supply and are ready to go. But that's what I would share with you, the gating issue has been availability. And then, as you pursue alternatives, price can become an issue.

Q - Stephen Byrd {BIO 15172739 <GO>}

That's helpful and maybe just following up on that and then I'll pass it to someone else. Just on the magnitude of push back of projects in terms of sort of gigawatts, what sort of rough magnitude are you thinking that you want to push into '23?

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

Stephen as I look at what we have put forward as guidance, we're at $150 million for the commercial business. We had been targeting $200 million to $250 million. So I would think about a couple of projects that are being pushed from '22 to '23.

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

So it, might be in the neighborhood of 400 megawatts, 500 megawatts something of that nature. And then we'll look at again '23 as we approach it to see what makes sense based on the projects that are there and the returns, as we move forward. But I still think around the $200 million to $250 million as the reasonable planning assumption for what we'll do.

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

And Stephen a moment ago I also noted we were able to complete all of the regulated renewable projects and have secured supply for them for 2022. So, we're doing some balancing here and believe that the net result of all of this puts us in a strong position to achieve our objectives.

Q - Stephen Byrd {BIO 15172739 <GO>}

Very clear and very helpful. Thank you.

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

Thank you.

Operator

We'll take our next question from Steve Fleishman with Wolfe Research, please go ahead.

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

Good morning, Steve.

Q - Steve Fleishman {BIO 1512318 <GO>}

Hi, good morning. Hi Lynn. Just -- can you just confirm whether you're still expecting to get the multi-year rate plan proposal out today? The performance-based ratemaking and just what are the key items that we should be watching in that?

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

Yes, and we expected this week, I guess we're sitting here on Thursday, Steve. It could come out today. I think the 10th was the plan. We are expecting it and we'll get something out from Investor Relations when that rulemaking appears.

Q - Steve Fleishman {BIO 1512318 <GO>}

Okay. So just to see what it has to say.

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

Yes, we're back in constructive rulemaking.

Q - Steve Fleishman {BIO 1512318 <GO>}

Great. And then in terms of when you -- you kind of referenced both in the upside drivers for the long-term plan and I think Steve's comments on things that could lead you to look at equity needs, the tax policy. Could you just kind of give a little more sense on what you're referring to there? Is it -- that if we get favorable renewable tax policy, you might invest a lot more capital and thus with that also have some equity needs or is it something at beyond that?

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

Steve, it's actually a reverse of that. Because if we get constructive tax policy, think about direct pay, think about nuclear PTC that is very favorable from a cash flow standpoint. And that gives us an opportunity to consider potentially additional capital but you should think about that as an infusion of cash, into the plan in a way that could be quite helpful.

Q - Steve Fleishman {BIO 1512318 <GO>}

Makes sense. So then when you talk about tax policy as something that may have equity, does that more the corporate tax changes.

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

Yeah, there's the linkage of tax policy and equity needs is not what as you're thinking about it Steve. We included that to say, that could be a reason to reduce the need for equity even beyond '26.

Q - Steve Fleishman {BIO 1512318 <GO>}

Got it

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

Depending on what is happening. So there are positive and negatives on that.

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

Yes. We were looking at cash flow changes as well as capital changes and the tax policy is very beneficial from a tax standpoint.

Q - Steve Fleishman {BIO 1512318 <GO>}

Okay. I thought those were things that would only create equity needs not the ones that would alarm. That's why it didn't make sense to me.

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

Yes

Q - Steve Fleishman {BIO 1512318 <GO>}

Okay, great. Thank you.

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

I'm glad we had a chance to clear that up. Thank you.

Q - Steve Fleishman {BIO 1512318 <GO>}

Yes.

Operator

And we'll take our next question from Jonathan Arnold with Vertical Research. Please go ahead.

Q - Jonathan Arnold {BIO 1505843 <GO>}

Good morning, guys.

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

Hi, Jonathan.

Q - Jonathan Arnold {BIO 1505843 <GO>}

Hi.

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

Good morning.

Q - Jonathan Arnold {BIO 1505843 <GO>}

The last quarter you were talking about 2% to 2.5% sales growth for the full year and I felt like you were sounding more confident towards the upper end perhaps and came in at 2%. And then looking at the release, if I'm reading it correctly you actually had weather normal sales go down in the fourth quarter and industrial tick-off about 5%. So I just can you give us a little color on what was behind and I wasn't necessarily expecting to see a down fourth quarter in industrial I guess quite yet.

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

Well, I think when you're looking at a AVA for the quarter, the fourth quarter of the previous year was starting to pick up quite a bit. So there's some comparative things there. I think, as we move forward, what we're really projecting here is that we're going to catch up by the end of '22 to where we would have been prior to COVID hitting, when you just take 2019 and extrapolate out.

So, I wouldn't look at any one particular quarter comparison to another quarter as you could have shutdowns at certain industries and that nature that might impact the stats. But looking broadly across a, what we see is returned by the end of '22 to where we were at prior to COVID. And then we've got pretty flattish load growth assumed from that point forward. We feel good about '22 growth across the board, we've added a lot of customers as we alluded to. And customers moving into the area, that'll drive commercial, education healthcare retail, that picks up. And then when we look across our industrial base and talk to our industrial customers, we've got such a diverse body of industrial customers, no one customer SIC code is greater than 10%. We see them optimistic about further growth in '22. So I'd think about that a bit more than just a quarter versus quarter examination.

Q - Jonathan Arnold {BIO 1505843 <GO>}

May I just ask you, can you talk a little bit about how the pathways to sort of integrating North and South Carolina around the carbon plan, given some of the recent developments in the South, and I guess you were trying to pull, have a joint proceeding, but that looks like it may not happen now. So this was -- how do we bring this forward on a dual track maybe.

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

Sure. And Jonathan, North and South Carolina have found a way over decades to work together and have developed a joint electric system that delivers affordable and reliable power, but they've also benefited from infrastructure investment in both states, six nuclear power plants, three in North Carolina and three in South Carolina.

So we are optimistic that we'll be able to develop resource plans that meet the needs of both states. There are of course different but both are interested in clean energy, clean energy transition renewables et cetera.

The joint hearing that we suggested and work toward was an innovative idea, we thought it would be an opportunity for the states to engage, but it's not the only way. And as we think about the future and the number of proceedings that will unfold over the next several years with resource additions and potential retirements, there will be plenty of opportunity for the states to work together in a way that makes sense for their policies.

We'd also expect South Carolina to be at the table in the stakeholder meetings over the course of 2022, I know they are not only interested in what it means for customers around affordability and resiliency but also what it means in terms of investment. And I think there is a lot here for both states and we're anxious to work towards something that makes sense for everyone.

Q - Jonathan Arnold {BIO 1505843 <GO>}

Okay. What would be the next data point in South Carolina. What is the path there?

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

Hey, Jonathan, I would I'm not going to point to a specific milestone but rather say that we will update you on these stakeholder engagements, we'll update you on the carbon plan as that gets finalized, to the extent there are filings that we might make in South Carolina. We'll of course, give updates on that. So you could expect this to unfold not only over the course of '22, but into '23 as well. And South Carolina will be at the table every step of the way.

Q - Jonathan Arnold {BIO 1505843 <GO>}

Thank you.

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

Thank you.

Operator

And we'll take our next question from Durgesh Chopra with Evercore ISI India, please go ahead.

Q - Durgesh Chopra {BIO 20053859 <GO>}

Hey, good morning. Thank you for taking my questions.

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

Good morning.

Q - Durgesh Chopra {BIO 20053859 <GO>}

Good morning, Lynn. Just can I clarify in terms of O&M savings target for 2022? I heard you say, $200 million in savings in 2021. What is embedded in the 2022 guidance is it flat O&M '22 to 2021 or are we modeling decreases further from the 2021 levels.

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

We've assumed flat O&M in '22 compared to 2021. The $200 million was taken out in '21 and is sustainable. So, it'll be in there but we're assuming it's flat in '22 and throughout our plan. But what I would point to is we have a strong track record of finding O&M savings across our footprint and none of that has stopped and we've got inflationary issues that everybody has heard about. So we flattened it out but we're certainly continuing to drive to find the opportunities to utilize that capital technology to take out variable O&M and that goes on every day.

Q - Durgesh Chopra {BIO 20053859 <GO>}

Got it. Thank you, Steve. And then just in terms of your comment the potentially higher growth rate in the back half of the plant in the upper half of the 5% to 7% is that driven by basically you getting regulatory approvals. Perhaps even, stronger-than-expected customer load, what gives you sort of what would drive that higher growth rate in the upper half, in the back half of the plan.

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

I would think about the work that's underway in 2022 Durgesh around the Carolinas. So we have -- legislation has been passed but we have regulatory proceedings underway to set the course on the performance-based ratemaking and on the plan. That of course will begin to be executed in '23 and '24. So there's going to be a sort of back half approach around the capital and the regulatory modernization in the Carolinas. And then further in Indiana, the IRP was filed in December. We're anticipating RFPs and potentially CPCNs to be filed in 2022. That would begin the execution of the next phase of the transition in Indiana as well. So those are a couple of things that I would point to. That are important as you think about the end of this five-year plan, the remaining years in this decade.

Q - Durgesh Chopra {BIO 20053859 <GO>}

Got it. Thank you so much. Appreciate the color.

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

Thank you.

Operator

And we'll take our next question from Jeremy Tonet with JPMorgan, please go ahead.

Q - Jeremy Tonet {BIO 15946844 <GO>}

Hey, good morning.

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

Hi Jeremy.

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

Good morning.

Q - Jeremy Tonet {BIO 15946844 <GO>}

I just wanted to touch on financing a bit more if I could here and just wondering if you could provide a bit more color on the 2022 hybrid security funding. What kind of -- what could that look like what type of size could that part B? And then separately looking forward, we've talked about the robust capital opportunities that you've highlighted throughout the call.

How should we think about equity needs over the course of the five year plan and beyond and I know you talked in the script about alternatives and look it just looking for a little bit more color.

What the alternatives could be, could this be other DI-type transactions or maybe monetizing commercial renewables just trying to see what possibilities are out there.

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

Yes, a couple of things there. When we look at our financing plan, I don't have any specifics on what hybrid security might look like, but we always consider those. There are times where those can certainly make sense when the value they can bring in the price makes sense to us. So we'll always allude to that as a possibility there but nothing specific on that front. When you think about the five-year and we put together a plan here that we do not believe, we need any incremental equity beyond the $1 billion of the second tranche of the GIC deal, that will be coming in within the next 12 months.

We think we've got regulatory constructs in place across our jurisdiction that are very efficient. And we have regulatory plans to make those investments and through those regulatory constructs, we've also got a great ability to control costs. We've shown that. And that helps the bottom line metrics as well. So no equity financing plans through the plant.

Now, as we move through the decade for the circumstances that Lynn had described, we could see needs coming at us, we'll utilize the most efficient form of raising equity, and we've shown great ability to do that through traditional methods through non-traditional, through monetization of businesses, we'll look at all of that, we're well aware of our portfolios value. It's good to have that optionality.

Q - Jeremy Tonet {BIO 15946844 <GO>}

Got it. That's helpful there. And then kind of pivoting here. You talk about carbon capture, hydrogen nuclear. Just wondering how far are these technologies from being widely adopted in your view here and are these items that can drive upside to the 10-year outlook or are they kind of longer-dated and then specifically with CCUS just wondering what stakeholder views are like there and what discussions have been like with the regulators on CCUS in your jurisdiction?

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

I think this is an important discussion to progress in this decade. And so the awareness around hydrogen, the awareness around advanced nuclear the awareness around what might be possible on CCUS is something that is a part of our conversations with all of our regulators. And you begin to see even offshore wind part of the conversation with regulators. It's a mature technology in Europe, but relatively new in the U.S. and the good news is we believe we have runway with existing technologies to achieve the majority of our aspirations around clean energy transition over the next five years or so. And so you're getting into the 2030s when those technologies would be more important to get to Net Zero in the next tranche of carbon reduction.

And so, I think time will tell on whether they get to commercial scale. We began to see some demonstration projects like an advanced nuclear and the 2028 time frame but I would also point to the amount of money that's in the infrastructure bill to really pilot and develop and get these technologies to scale. So it's possible, it occurs even more rapidly, but we will be thoughtful working with stakeholders and our regulators before we can begin introducing any of these technologies, so that we have a common view of what we would like to achieve and invest in to meet our goals.

Q - Jeremy Tonet {BIO 15946844 <GO>}

Got it. That's helpful. I'll leave it there. Thank you very much.

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

Alright. Thank you.

Operator

And our next question comes from James Thalacker with BMO Capital Market, please go ahead.

Q - James M. Thalacker {BIO 1794957 <GO>}

Good morning everybody.

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

Good morning

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

Hi Jim.

Q - James M. Thalacker {BIO 1794957 <GO>}

Thank you. Thanks for the time and none -- I didn't want to really kind of beat a dead horse. But just regarding the acceleration of your growth rate in to the upper half of the 5% to 7%, maybe Lynn or Steve, should we think about this in the context of the current 2022 to 2026 plan or as you look farther out into the kind of 2030 timeframe given your capital plan shows some significant acceleration in that kind of 27 through 30 timeframe.

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

In the back half of this five-year plan Jim but certainly continuing in the back part of the decade.

Q - James M. Thalacker {BIO 1794957 <GO>}

Okay, perhaps. Thank you so much for that color.

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

All right. Thank you.

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

Thank you.

Operator

And that concludes today's question and answer session. At this time, I'll turn the conference over to Lynn Good Chair President and CEO, for any additional remarks.

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

Thank you, and thanks, everyone, for joining. I know these calls in February are always full of information, not only in what we have achieved, but where we're going. And so we're available to answer any follow-on questions and look forward to talking with many of you in the weeks to come. So thanks again for your interest in Duke Energy.

Operator

This concludes today's call. Thank you for your participation. You may now disconnect.