Company Name: Duke Energy
Company Ticker: DUK US
Date: 2015-11-05
Event Description: Q3 2015 Earnings Call

Market Cap: 58,470.08
Current PX: 82.08
YTD Change($): -2.03
YTD Change(%): -2.414

Bloomberg Estimates - EPS
Current Quarter: 1.604
Current Year: 4.731
Bloomberg Estimates - Sales
Current Quarter: 6765.167
Current Year: 24049.455

Q3 2015 Earnings Call

Company Participants

- Bill Currens
- Lynn J. Good
- Steven K. Young

Other Participants

- Shahriar Pourreza
- Daniel Eggers
- Jonathan P. Arnold
- Steve Fleishman
- Michael Jay Lapides
- James von Riesemann
- Ali Agha
- Paul T. Ridzon

MANAGEMENT DISCUSSION SECTION

Bill Currens

Non-GAAP Financial Measures

A reconciliation of non-GAAP financial measures can be found on our website, at duke-energy.com and in today's materials

Lynn J. Good

Business Highlights

EPS, Tax Rate and Dividends

- We've reported third quarter 2015 adjusted EPS of $1.47 per share, above the $1.40 per share in 2014, as favorable weather and growth in the regulated utilities supported our results
- Our regulated businesses have performed well throughout 2015, delivering solid financial results
- As we look to Q4, we are narrowing our guidance range to $4.55 to $4.65 per share
  - This range reflects mild October weather as well as foreign expenses, unfavorable foreign currency trends and the potential for extending bonus depreciation
- The extension of bonus will modestly increase our effective tax rate for the year
- Earlier this year, we increased the growth rate of the dividend to approximately 4% reflecting our confidence in the strength of our core businesses

- The growing dividends supports our commitment to deliver attractive long-term returns for shareholders
- Our financial results are made possible by the efforts of our people who work every day to keep our plant safe, efficient, and reliable, providing our customers with valuable services

Regulated Generation and Nuclear Fleet

- Our regulated generation fleet continues to deliver for customers during the critical summer months
- Our nuclear fleet achieved a 97% capacity factor during the quarter and our growing regulated gas fleet continued to deliver value for our customers taking advantage of the low natural gas prices
- In fact, our utilities have burned more natural gas in the first nine months of 2015 than they did in either of the two prior full years
- The Edwardsport IGCC plant continues to operate well, achieving a third quarter gas supplier availability factor of around 80% matching Q1's record
  - Additionally in July, the facility achieved a record month of net generation
- In early October, we experienced heavy rains and flooding in the Carolinas and 500,000 customer outages

Restoration of Service

- We were well prepared and mobilized our crews in advance, feeding the restoration of service
- Like others in the industry, we're making progress for the safe, cost effective closure of our ash basins in the Carolinas
- Basin closure is underway at six sites and we're working through the approval of closure plans at our remaining basins
- I am proud of the way the Duke team has responded to this important industry issue with excellence and leadership

Acquisition of Piedmont Natural Gas

- We are systematically and strategically increasing our regulated business mix through a series of acquisitions and divestitures as highlighted on slide five, as well as the portfolio of investments I will discuss in a moment
- Last week we were very excited to announce the plan to acquire Piedmont Natural Gas, which will add a well established natural gas business and platform to the Duke's portfolio
- From a strategic perspective, we see this acquisition as the foundation for establishing a broader gas infrastructure platform within Duke, building upon our recent gas pipeline investments and complementing our existing gas LDC business in the Midwest, we plan to leverage the scale of Duke with Piedmont's well regarded management team and excellent operational capabilities

Regulated Gas Infrastructure

- Piedmont has long been recognized as the premier operator of low-risk, regulated gas infrastructure
- We have partnered with them over many years as they have built and operated the critical gas infrastructure that serves natural gas generation in this region

- Piedmont is experiencing robust customer growth and is investing in projects having a constructive regulatory mechanism, providing a strong base to organic growth
    - These investments are expected to grow their rate base by an average of around 9% over the coming years
    - This acquisition is expected to close by the end of 2016, and be accretive to our earnings in the first full year after close
    - This will increase our total regulated business mix to over 90%, firmly supporting our earnings and dividend growth objectives
    - We will keep you updated as we progress through the approval process

Focus on Growth and Customer Value

- Turning to slide six
- We are also focused on creating long-term growth and value for our customers and shareholders with investments that will modernize our systems both our generation, and our grid for the benefit of our customers

Natural Gas

- We continue to introduce more diversity to our fleet through world class natural gas
- Construction has begun on a combined cycle natural gas plant at the Lee site in South Carolina, while pre construction activities will commence on the Citrus County Combined Cycle plant later this year
- Both projects represent a total of over $2B in investments and remain on time and on budget
- Our Western Carolinas Modernization Project also remains on track

New Transmission Line

- You may recall that we decided to retire our coal unit in Asheville and replace it with a Combined Cycle gas plant and a new transmission line to improve reliability and support growth in the Asheville area
- After working through a comprehensive stakeholder engagement process over the course of the summer, we announced yesterday a modified set of resources to support this project, eliminating the need for a new transmission line
- Rather than the 650-megawatt gas plant, we will build two 280-megawatt combined-cycle natural gas units with the option for 190-megawatt simple-cycle unit by 2023
- A total estimated investment of just over $1B
    - This modification allows us to maintain our 2020 coal retirement schedule, while reflecting important input from our customers and communities
- Further, earlier this year we acquired the NCEMPA assets, a project that is a win-win for our customers in the eastern region of North Carolina

Gas Pipeline Infrastructure Projects

- Our two gas pipeline infrastructure projects the Atlantic Coast Pipeline and Sabal Trail will provide critical access to additional low cost natural gas in the southeast helping to meet growing demand for this fuel from our generation portfolio as well as to serve our customers' needs

- These projects continue to move through the regulatory approval and siting processes

FERC Application

- The formal FERC application for ACP was filed in September and we expect FERC approval in 2016
- Once FERC approval is obtained, the project can begin construction activities with an expected COD in late 2018
- At Sabal Trail, FERC approval is expected in early 2016 with the pipeline operational in 2017
- In Indiana, we are revising our grid modernization plan under state legislation and we plan to refile our plan by the end of this year

Renewable Investments

- We're also making meaningful progress growing our renewable investments both in our regulated footprint and in the commercial business
- On the regulated side, we are on track to complete construction of 128-megawatts of utility-scale solar in North Carolina by the end of this year and are moving forward with investments in both South Carolina and Florida
- Our commercial renewables portfolio also continues to grow as demand for wind and solar projects throughout the U.S. is supported by renewable portfolio standards and growing customer demand

Commercial Wind and Solar Projects

- We have a number of commercial wind and solar projects slated to come online later this year, which will increase this portfolio to over 2,700 megawatts of capacity
- Overall, these growth investments total $20B through 2019 and provide the foundation for growth in the coming years
- Steve will provide additional perspective on 2016 and beyond in his remarks

Conclusion

In conclusion, we continue to execute very well providing safe, reliable and affordable power to our customers

Our growth prospects remains strong as we deployed significant capital in critical energy infrastructure investments

- This establishes the foundation to provide clean modern energy to our customers and our communities for decades to come

Steven K. Young

Financial Highlights

Opening Remarks

- Today, I'll review our third quarter financial results and provide a brief look into 2016

- I will also discuss the economic drivers in our regulated service territories and the load growth experienced in Q3
- I'll wrap up with a discussion of our financial objectives

Adjusted Diluted EPS

- Let's start with the quarterly results as highlighted on slide seven
- For more detailed information on segment variances vs. last year, please refer to the supporting materials that accompanied today's press release
- We achieved third quarter adjusted diluted EPS of $1.47 compared to $1.40 in last year's third quarter
- On a reported basis, 2015 third quarter EPS were $1.35 compared to $1.80 last year

Favorable Adjustment and NCEMPA Contract

- As a reminder, last year's third quarter results included $0.43 favorable adjustment for a change in the estimated value of the Midwest generation business
- A reconciliation of reported results to adjusted results is included in the supplemental materials to today's presentation
- Regulated utilities quarterly adjusted results increased by $0.07 per share, driven largely by warmer weather and strong margins in our wholesale business, including the new NCEMPA contract
  - As we expected, these positive drivers were partially offset by higher O&M related to the timing of outages, increased cost related to NCEMPA, and higher storm costs

Earnings and Asset Impairment

- International's quarterly earnings declined $0.02 over last year, continued weakness in foreign exchange rates in Brazil and lower margins at National Methanol were partially offset by lower purchase power cost in Brazil
- Additionally, we recognized an asset impairment in Ecuador during the quarter
- Our commercial portfolio incurred $0.08 of lowered adjusted earnings as a result of the absence of prior year Midwest Generation results
- Due to low wind resource this year, earnings from our Commercial Renewables business are expected to be around $75mm for the full year vs. our original expectation of $100mm

Tax Credits and Stock Repurchase

- Commercial's results will be favorably impacted in Q4 by tax credits related to over 300 megawatts of wind and solar generation scheduled to come online
- And finally Other was up $0.06 due to favorable tax adjustments and the timing of tax levelization
- As a remainder due to income tax levelization, Other reflects projected benefits related to renewable tax credits ratably during the year
  - Once the projects become operational, these benefits are reallocated to the Commercial portfolio
- Lastly, our quarterly results benefited $0.04 from the accelerated stock repurchase completed earlier in the year

Retail Customer Volume Trends

- Moving on to slide eight, I'll now discuss our retail customer volume trends
- Across our jurisdictions, weather normalized retail load growth has increased by 0.3%, over the rolling 12 months

Residential and Commercial

- Within the residential sector, we are seeing some positive trends
- We continue to add new customers at an annual rate of approximately 1.3%
- And, we've now experienced two consecutive quarters of relatively flat usage per customer
- We also continue to seek favorable key indicators for the residential sector including employment, personal incomes and spending as well as household formations
- The commercial sector continues to grow modestly, benefiting from declining office vacancy rates and expansion in the restaurant and real estate subsectors
  - This growth was partially offset by lower governmental and retail store sales during the quarter

Industrial

- The industrial sector while strong for most of the year, has recently slowed
- We're continuing to see transportation and building materials gain momentum
- In particular, residential construction activities remained strong in the Southeast
- During the quarter, we began to experience some weakness in the metals and chemicals subsectors
  - This slowdown is due to a pause in industrial activity, driven by a deceleration of consumer, business, and government spending, a reduction in inventories and the strong dollar which has reduced global demand for U.S. products

Economic Development Teams

- Our economic development teams remain active, successfully helping attract new business investments into our service territories
- So far this year, these are activities have led to the announcement of $2.4B in capital investments, which is expected to result in nearly 7,200 new jobs, across our six states
- With rolling 12 months weather normalized load growth of 0.3%, we expect to trend towards the low end of our original 2015 expectation of 0.5% to 1%

Key Earnings Drivers

- Moving to slide nine, let me layout our key earnings drivers
- We began thinking about 2016, as has been our normal practice, we will provide our 2016 guidance range and updated financial plans in February
- For our regulated businesses, we plan for normal weather

- We expect growth from wider recovery and AFUDC on major capital investments along with the full year impact of the NCEMPA transaction and modest growth in retail load

Cost Structure

- With respect to our cost structure, we continue to build upon the success of our recent merger integration activities, cost management is an ongoing effort and we are finding ways to reduce O&M below current levels to match modest sales growth
- We expect growth in the Commercial portfolio as we continue to add contracted renewable generation, and expect the return of normal wind patterns
- The loss of Midwest generations earnings contribution is a headwind and especially offset by the accelerated stock repurchase
- We expect International's earnings have stabilized in 2015 and have the opportunity for modest growth in 2016, largely driven by an expectation for improved hydro dispatch

Water Inflows and Market Power Pricing

- Over the past several months, we have begun to see higher water inflows, and lower market power prices
- Further, meteorologists are forecasting a strong El Niño weather pattern through early 2016, which could lead to increased rainfall in Southeastern Brazil
- Currency exchange rates are expected to remain volatile, but the inflationary provisions in our contracts in Brazil can help to mitigate some of the currency devaluation
- We also expect Brent crude oil prices will stabilize in 2016

Earnings Growth Objectives

Regulated and Commercial Segments

- Now, moving to slide 10
- I want to step back and discuss our overall earnings growth objectives
- Since 2013, our Regulated and Commercial segments, representing 90% of Duke Energy, have delivered 5% earnings growth
- As we look at 2016 and beyond, these segments are expected to continue to grow within our 4% to 6% growth objective as we deployed significant capital and critical gas and electric infrastructure investments including the acquisition of Piedmont as well as renewable investments in our Commercial business
- We'll also see the potential for rate cases in the Carolinas in the coming years to provide timely cash recovery of these important investments

International Business

- The remaining portion of the company, the International business, has experienced a decline contributing earnings of $0.60 per share in 2013 and 2014 to about half that in 2015

- About half of this decline is due to the three-year drought in Brazil, while unfavorable exchange rates and lower crude oil prices comprised the remaining half
- From this point forward, we believe that International's earnings have stabilized and are positioned for modest growth
- Consistent with our past practice, we will provide more specific financial guidance in February
- We plan to reset our base for 4% to 6% long-term earnings growth off of 2016
  - This reflects continued strong growth in our core businesses as well as a more realistic base year for growth in our International business from 2016 forward

Financial Objectives

- Moving on, slide 11 outlines our financial objectives for 2015 and beyond
- For the reasons Lynn mentioned earlier, we are narrowing our guidance range for 2015 from $4.55 to $4.75 per share to $4.55 to $4.65 per share
- We have made significant progress on advancing our strategic growth initiatives, both in our regulated and Commercial businesses providing strong support for a long-term earnings growth objective
- Our objective is to grow the dividend annually at a rate consistent with our long-term earnings growth objectives
- In the near-term, our payout ratio will trend slightly above 70%
- We are comfortable with that higher range based on the strong growth in our core regulated and Commercial businesses, and the cash flows we are repatriating from International
- Our strong investment – credit ratings are important to us as they help us finance our growth in an efficient manner
- I'm pleased with our results for 2015
- We have successfully executed on a number of key strategic initiatives and delivered strong financial and operating results, helping to offset the weakness in International
- We remain focused on finishing the year well

QUESTION AND ANSWER SECTION

<Q - Shahriar Pourreza>: So this morning you reiterated your 4% to 6% growth but off a higher yet to be determined 2016 base year, and you did drop that footnote you had in Q2 around DEI potentially being a swing factor in your outlook. Steve, is this sort of what like you meant when you mentioned that Piedmont would deal with enhance your growth trajectory? Is it less concerns around DEI or sort of what's driving this increased confidence?

<A - Steven K. Young>: Well, I think, what I would refer you to Shahriar is the slide we discussed 10, where we look at our core businesses when you isolate International with our core businesses they have grown consistently at 5% from 2013 through 2015, and we would expect that to continue. The International business has been volatile, it's moved from $0.60 per year business to $0.30. And that's been the challenge we've had to deal with in 2015. That's difficult to overcome. So we believe rebasing in 2016 makes sense in the light of what International has done.

<Q - Shahriar Pourreza>: Got it. And it includes Piedmont, right?

<A - Lynn J. Good>: We expect to close Piedmont, Shahriar, towards the end of 2016 into 2017. You may recall from our announcement a week ago that we laid out a calendar, we will work as aggressively as we can to close it, but I think a year is a good planning assumption.

<Q - Shahriar Pourreza>: Okay. Got it. And then just one last question on International, it's good to see the currencies becoming a little bit less of an issue, the hydrology is improving. We haven't heard much on this lately. Is there any sort of incremental data points around the Brazilian government potentially looking at providing some sort of a retreat to the hydrogenerators or just sort of the – kind of the dead movement?

<A - Steven K. Young>: There's been a lot of activity in this area, Shahriar. Recently, there was a technical note that was issued by an arm of the government and that's really just a document that summarizes discussions to date, a number of discussions are occurring. The government is targeting, issuing effectively an executive order this CY, it remains uncertain exactly when, but that's their target. And what that order might say is not certain at this point either. So there is more work to be done here. I would say that in general, the views of people in the government and the regulators have been constructive with regard to generators in our position. So there is more to come there. In the meantime, the injunctions are still in effect and that has provided some relief to us.

<Q - Daniel Eggers>: Just taking up on slide 11 when you guys – you made the comment about the dividend trending higher than target payout ratio, but also wanting to keep with the long-term EPS growth rate. Can you just maybe translate what you're trying to signal in those comments, that seemed to be a little bit in conflict?

<A - Lynn J. Good>: Dan, I would go back to Steve's comments on slide 10 with the intent to rebase off of 2016 and move it 4% to 6% from that point forward. We see the dividend trending slightly above 70% in the very near-term. And so, as I look at the strength of the dividend, the dividend is really driven by the underlying core business, which is growing quite well and given the investments we've put in place, we believe it will continue. And so, we have confidence in growing it at that rate and allowing the payout ratio to trend up modestly in the short-term we think is a smart decision.

<Q - Daniel Eggers>: Okay. And then on O&M, obviously you guys have done a good job as far as bringing down cost into the Progress acquisition. What kind of reductions do you see from here, because part of that 2016 drivers, the idea of bringing costs down. Is it a substantial reduction 2016 vs. 2015 or is it more just absorbing inflation at this point?

<A - Lynn J. Good>: No, we are still at work, Dan, on our plans and we're targeting to absorb inflation plus. And we think that's going to be a combination of a number of things that we build a strong foundation on, but we're going after productivity and efficiency. And the company, as you said, has demonstrated a great ability to control costs and we see even more potential into 2016.

<Q - Daniel Eggers>: Okay. And then, I guess maybe the last one is just on kind of just calibrating the Commercial business, not to get too far ahead 2016. Commercial is now coming in below where you guys thought that the normal base line would be. Do you still feel comfortable with $100mm as your run rate from residual Commercial?

<A - Lynn J. Good>: This year, we've been impacted by wind resources, Dan. I think that's a theme that you've seen with others that have significant renewable exposure. So, we expect a restoration of that to more normal levels as part of our planning for 2016. And then, we do intend to continue to deploy capital in a way that meets our return expectations, so we would expect to see some growth. I think over the long-term, the tax credits and other things will have to be evaluated. But we see ongoing momentum around renewables.

<A - Steven K. Young>: And we have committed projects for 2016 lined up as well to keep the growth going there, and also in our Commercial portfolio as you move forward, we will start to see earnings from our pipeline investments kick in as well.

<Q - Daniel Eggers>: Okay. Just one last one on the load growth trends, you're kind of – you're below at the bottom end or a little bit below where you thought you'd be, even though customer growth's been pretty good this year. Are you having to reconsider what that long-term growth rate is? Is it 0% to 0.5% or do you think there is some discrete usage trends maybe around multifamily housing or something like that that's explaining why usage has been that much of a drag relative to customer growth?

<A - Lynn J. Good>: Dan, I think, we've been working with a 0.5% to 1% for some time. And I think, a 0.5% seems to be the range that we're in and I think it's all the things you talked about. It's energy efficiency, it's housing patterns and even volatility in industrial. We'd had strong industrial growth and then a dial back in this quarter. So, what we are focused on as we kind of link this discussion to our cost structure, is planning a cost structure that can absorb that variability and also be positioned for modest, very low load growth, if that's the direction things continue to head.

<Q - Jonathan P. Arnold>: I'd just like to understand a little better when you're talking about this rebase on 2016. And Steve, I'm not quite sure whether I've heard you right. Are you saying you anticipate growing at the 4% to 6% in – through 2016 and then, also off of 2016 or implicit within this concept to where rebase seems to be, the idea that maybe you won't or you want to reposition the range a little bit. I just want to understand what you're saying on 2016, when you made that statement?

<A - Steven K. Young>: What we're looking at Jonathan is, we will set a base year anchoring year off of 2016. And then you would see 4% to 6% growth from there. And we think we've got to do that given the changes in International. We think it's stabilized, and it's moved from again $0.60 business to $0.30 -ish business going forward. So we'll rebase with 2016 as the anchor, we see 4% to 6% growth there underlined by the strong core business growth in the track history that it shows and some potential modest growth in International from that new lower level.

<A - Lynn J. Good>: And so what I would add to that, Jonathan, if you look at the slide 10, you see the Regulated and the Commercial portfolio, the blue bar, that's the bar that's growing at 4% to 6%. And then you have an International business that's about $0.30 in 2015, that would add to that, and grow modestly. So that's the direction that we're trying provide here with expectations for 2016. And then we think from that base, we are in a position to grow at 4% to 6% going forward.

<Q - Jonathan P. Arnold>: Okay. Understood. Thank you. Could you maybe just, do you have an expectation currently on how Pension will look as a driver for next year just specifically or is it a little early to tell?

<A - Steven K. Young>: It's a little early to tell on Pension, you got to take a look at the discount rate right at year-end. And who knows where that will go, if the Fed raises rates or something that could have an impact on it. I don't think there would be any huge change that we're looking at in pension expense at this point. But again, whether being so sensitive to the discount rate, we'd – it's a little early to say precisely.

<Q - Steve Fleishman>: So, couple of questions. I just – these International pressures are not new, and in the past, you talked about trying to work on a plan and things to offset the International pressures. It just sounds to me like you just kind of change to – they just are what they are, and we're just resetting the base and then growing off better, because these are just became too much, is that fair to say what happened?

<A - Lynn J. Good>: Steve, I would say slightly differently and in 2015, I think the team has done an extraordinary job of offsetting what is happened in International. We started the year with an expectation they would deliver $345mm, and they are delivering just north of $200mm. And that's an execution on strategic initiatives more timely and that's been running the business well and taking the advantage of good weather and other things that have developed.

As we look forward, we did not have an expectation early in the year of whether International would rebound, the depths of the currency issues were difficult to forecast at that time, the economic implications. And so, as we sit here closing the year, we see rebound on water conditions and hydrology, but we continue to see headwinds on currency and economic growth. And so, we think it's appropriate in light of what we see today to establish a baseline of about $0.30 or $0.15 on International, and then we do believe it's stabilized, and we see an opportunity for modest growth from there. I think what's important is that the 90% of the business regulated and core has demonstrated strong growth over the period of 2013 to 2015 and we think it will keep going as a result of all of the investments we've put in place and our ability to execute.

<Q - Steve Fleishman>: Okay. And the updated guidance for the International year now are you using kind of current forwards for currency and oil and the like centrally?

<**A - Lynn J. Good**>: Yes.

<**A - Steven K. Young**>: Yes.

<**Q - Steve Fleishman**>: Okay. Great. And then just thinking about Piedmont in the context of the 4% to 6% of this 2016 base now, just would that – you talked on the deal announcement of that enhancing the 4% to 6%. So if there was no Piedmont would you still be 4% to 6% or not? Could you just kind of clarify now that you have this new base?

<**A - Lynn J. Good**>: Yes. So the growth rate is not dependent on Piedmont. We believe the base business itself, the investments that we've outlined, the way the business is executing, it's capable of growing 4% to 6%. So we see Piedmont is incremental. It's incremental to the growth rate and...

<**Q - Steve Fleishman**>: But still in the 4% to 6%?

<**A - Lynn J. Good**>: Yes.

<**Q - Steve Fleishman**>: Okay. And then just on the dividend growth and earnings growth comment, because you're saying: "we're going to grow the dividend in line with earnings, but then we're above the payout ratio". So kind of by definition you just would end up staying above the payout ratio is that's what you actually do? So could you just kind of clarify?

<**A - Steven K. Young**>: Well, I think that…

<**Q - Steve Fleishman**>: ...your communication there?

<**A - Steven K. Young**>: Our dividend is growing at about 4% now. I believe it will move above the 70% target level for a while, but as we grow the – we believe we'll return back to a target level.

<**Q - Michael Jay Lapides**>: Real quick question, just when you about the renewable business, you've had the earnings benefit in the last year or so. Can quantify and Steve, you touched on it, I want to make sure I understand it. Can you quantify the total EPS benefit of the tax credits? And then, how you think about replacing that, if solar development slows post 2016, when tax credit roll off or PTCs don't actually get extended?

<**A - Steven K. Young**>: Michael, right now, a lot of the net income bottom line benefits from the renewables, the Commercial Renewables business comes from the tax benefits. There is some profitability on the non-tax side in the, the ongoing margin, but the bulk of the earnings comes from the tax benefits. So your question is, when these tax benefits, when and if they expire, what happens there? I think based on what we've seen and heard now, there will still be a market for renewable power as no state are backing off RPS standards and that's a basis for a lot of the growth here is responding to RFPs to meet these requirements. The PPAs in the contracts may have to change, with the absence of the tax benefits and the pricing may have the change. But we will still structure this business to provide profitability here. I would also add that the cost of the renewables is going down and that helps – will help offset some of the tax benefits that exist.

<**Q - Michael Jay Lapides**>: Got it. And just how much were those tax benefits as part of your 2015 guidance? Is that the full piece of Commercial of that $75mm or just some portion of it?

<**A - Steven K. Young**>: It's the majority of the $75mm.

<**Q - Michael Jay Lapides**>: Got it. Okay. The other thing, can the O&M cost savings offset the $0.17 impact of positive weather this year?

<**A - Lynn J. Good**>: You know, Michael, we're not getting that specific on how each of these of these drivers impact. So, what I would direct you to is think about our O&M spend, and we are at work to not only offset inflationary impact, but to drive those costs lower in 2016. So, I think about weather, we always start by planning normal weather and then we're building up with investments, earnings, as well as cost control.

<**Q - James von Riesemann**>: I'm going to put my debt hat on for a second here. Can you just talk a little bit about how much cash flow is upstream from the Regulated Utilities to the parent-level every year on an annualized basis?

<A - Lynn J. Good>: I think we will probably take that question offline. Jim, I'm not sure we've got a cash flow statement sitting in front of us here.

<Q - James von Riesemann>: Okay.

<A - Steven K. Young>: Right. I don't have that with me, we'll have to work on that a bit, Jim.

<Q - Ali Agha>: Just listening to your comments, just so that I'm clear, with the normalized weather next year, International being modest, some cost savings and then the rebasing, just directionally, it appears that 2016 is pretty much flat to maybe modestly down from 2015, and then, so is that fair?

<A - Lynn J. Good>: I think we've given you the drivers, Ali. If you look at the slide, on slide 10 to grow the base business at 4% to 6%, add to it International with modest growth. And so, I think we've given you a pretty good sense of where we think it'll be. And of course, we'll give more detail in February as we finalize our business plan, so that you can understand more specifically how much of it's coming from O&M and how much is coming from each of the business segments.

<Q - Ali Agha>: Okay. Okay. And more near-term in 2015, when you lopped off $0.10 from the higher end of the range, is that all because of Commercial, is it International being worse, can you just kind of elaborate the change in 2015 guidance?

<A - Lynn J. Good>: So, Ali, we've really been working throughout 2015 to offset weakness in International and have been successful in doing that through a variety of things including favorable weather, as well as early closings on the Eastern Power Agency and the stock buyback. As we look to Q4 though, we always plan for normal weather. We've started out with October being mild. We have storm expense sitting in October. We have slightly weaker currency as a result of some of the movement that occurred in September and then, we also talked about the extension of bonus depreciation. We don't know for sure, but it feels to us like that, we'll likely get extended and if it does because of our tax position, it results in a modestly higher effective tax rate for the company. So all of those things considered, we think $4.55 to $4.65 is an appropriate range at this point.

<Q - Ali Agha>: See, and on the bonus depreciation front Lynn, I mean the talk is that if it gets extended, it's a two-year extension, I'm just curious if that's how you guys are seeing it? And if so, can you just quantify just the bonus depreciation extension impact for Duke?

<A - Steven K. Young>: We have heard various guesses as to how long it will be extended. We think there is a good likelihood of at least one year. Two years is possible as well, and the impacts for 2015, for a one year extension is in the range of $0.04 for us. If we go beyond into a two-year extension, it could be a similar number, just depends on our overall tax positioning. The issue for us is we're toggling in and out of an NOL position, which makes us perhaps unique in the industry. If you're deeply within an NOL or outside of an NOL position, this extension doesn't have an impact, and it depends a bit on when we come out of that NOL position which depends on other factors. So it's a little hard to predict beyond 2015.

<A - Lynn J. Good>: And of course Ali, cash flow. Yes, cash flow is possibly impacted if it is extended. So what Steve is giving you is earnings perspective.

<Q - Ali Agha>: Absolutely. Last question, Lynn, so on the International operations, is the mindset now look sort of hunker down and sort of work with the portfolio flat to modest growth. Is that sort of the planning now and not really be more proactive and saying, hey does this really fit in the portfolio?

<A - Lynn J. Good>: Our focus has certainly been this year, Ali, trying to run the business as efficiently as we can. We've focused on cost. I think the International team has done an extraordinary job in a difficult market. We think it's stabilized and hopefully we'll see a slightly better picture in 2016. I think the portfolio is always under review. The fact that we added Piedmont is consistent with our view that we wanted more natural gas in the portfolio. So that's an ongoing review. In the meantime we're also taking advantage of the International cash as you know.

<Q - Paul T. Ridzon>: In your release you indicate that for the quarter weather was $0.09 pickup at the utility, and then when I look at slide 19 in the deck, I see that last year was $0.06 below normal, but this year is basically showing normal, just trying to reconcile that.

<A - Steven K. Young>: Yes, I think that's – that your statements are correct. There's some rounding in some of these schedules, I believe is the difference in your cents. But we've returned to normal weather this quarter. Last year, it was mild weather.

<A - Lynn J. Good>: And probably the other thing I would note is share count is going to have a difference between 14 and 15 because of the share buyback.

<Q - Paul T. Ridzon>: Okay. And, then kind of given that the pending Piedmont acquisition, what's going to happen when it proceeds some securitization? Will that just sit on the balance sheet and then you use that cash and close the deal?

<A - Lynn J. Good>: So, we would expect securitization to move through the process in 2016, Paul. So, it will come into the cash flow of the company and be used for investments or foregoing debt in the short-term, but we do see it as a cash flow item that over a long-term basis could be used for long-term investments, Piedmont being one of them.

<Q - Paul T. Ridzon>: When do you expect that cash?

<A - Steven K. Young>: We would expect to be able to close the securitization in the first or Q2 2016.

<Q - Paul T. Ridzon>: And then just lastly your latest thoughts around filing rate cases in your regulated jurisdictions?

<A - Steven K. Young>: We're looking at filing in – I would say in the late teens. It depends upon investment plans and other factors there that we look at jurisdiction-by-jurisdiction but generally we're looking at rate cases in the Carolinas in the late teens.

<Q - Paul T. Ridzon>: And then lastly just clarification on the payout ratio discussion. If you were to look at your 2015 payout ratio, what would you use as the numerator and denominator? I guess $ 460mm would be the denominator?

<A - Lynn J. Good>: Yes. So...

<A - Steven K. Young>: I'm sorry. Ask that again I'm sorry...

<Q - Paul T. Ridzon>: I just wanted to make sure how are you thinking about the payout ratio? What's – is that the indicated dividend at year end or is that the dividend paid during the year?

<A - Steven K. Young>: It's the dividend paid during the year as it grows over the annual earnings.

<Q - Paul T. Ridzon>: So, it's a kind of mix of – a blend of two years of dividends, because you change in mid year?

<A - Lynn J. Good>: Yes. So, there is nothing fancy about this, Paul, whether you use an annualized number or whether you use what's paid out, I think it's all a matter of small rounding. I would calculate payout ratio the way you typically do for every other utility