

## Q2 2018 Earnings Call

### Company Participants

- Lynn Good, Chairman, President and Chief Executive Officer
- Mike Callahan, Vice President of Investor Relations
- Steven Young, Executive Vice President and Chief Financial Officer

### Other Participants

- Andrew Bischof
- Andrew Weisel, Analyst, Scotia Howard Weil
- Christopher Turnure, Analyst, JPMorgan
- Jonathan Arnold, Analyst, Deutsche Bank
- Praful Mehta, Analyst, Citi
- Unidentified Participant

### Presentation

#### Operator

Good day, and welcome to the Duke Energy Second Quarter Earnings Call. Today's conference is being recorded.

At this time, I would like to turn the conference over to Mike Callahan, Vice President of Investor Relations. Please go ahead, sir.

#### Mike Callahan {BIO 19728882 <GO>}

Thank you, Cathy. Good morning, everyone, and thank you for joining Duke Energy's second quarter 2018 earnings review and business update. Leading our call today is Lynn Good, Chairman, President and CEO; along with Steve Young, Executive Vice President and Chief Financial Officer. Today's discussion will include forward-looking information, and the use of non-GAAP financial measures. Slide two presents the Safe Harbor statement, which accompanies our presentation materials. A reconciliation of non-GAAP financial measures can be found on duke-energy.com and in today's materials. Please note, the appendix for today's presentation includes supplemental information and additional disclosures.

As summarized on slide three, during today's call, Lynn will discuss progress we've made executing on our 2018 commitments. She will also provide an update on our North Carolina regulatory activity and our strategic investments. Steve will then provide an overview of our second quarter financial results and insight about economic and load growth trends. He will also

get an update on tax reform and our financing plan before closing with key investor considerations.

With that, let me turn the call over to Lynn.

**Lynn Good** {BIO 5982187 <GO>}

Thank you, Mike and good morning everyone. Let me begin on slide four and summarize what has been a very productive first half of the year. We are delivering on our 2018 commitments in key areas across the business. As of June, we have resolved both rate cases and our home state of North Carolina. The DEC order was issued on June 22nd, following the first quarter order received in the Duke Energy progress case. North Carolina is a constructive jurisdiction, demonstrating a commitment to affordable and reliable power for our customers and financial strength for our utilities.

During the quarter, we also continued to make progress on the resolution of federal tax reform in our jurisdictions. The clarity we have received is consistent with the plans we described to you in February. We now have direction from our regulators in Florida, the Carolinas and Kentucky. In addition, we are awaiting approval of a settlement filed in Indiana and a proposal submitted in Ohio. Based on these results, we have updated our credit metrics forecasts, we now expect our FFO to debt metric to be in our target range of 15% to 16% in 2019, a year earlier than previously estimated.

We are pleased to see that as of yesterday, Moody's has removed the negative outlook, and affirmed our current ratings at the holding company. Recognizing the benefits of Duke's scale, our constructive regulatory jurisdictions and our response to tax reform. As we execute on our long-term strategy, we are on track to achieve our financial objectives, with strong results for the first half of the year, we are reaffirming our 2018 EPS guidance range of 455 to 485 and our long-term earnings growth CAGR of 4% to 6% through 2022. We expect to be at the low end of the range in 2019 and at the mid to high-end of the range in 2020 and beyond. We also increased our quarterly dividend by 4.2%, this is in line with our objective to grow dividends, consistent with our long-term earnings growth range.

Turning to slide five, I'll provided a detail on the order received in June for our Duke Energy Carolinas rate case. Resolution of both the DEC and DEP rate cases in '18 provides clarity as we continue investing to benefit our customers. The Commission approved new rates for our \$13.5 billion DEC rate base, with rates effective yesterday. Similar to the DEP decision received in February, the order approved a 9.9% ROE on a 52% equity component of the capital structure. We also received approval to recover deferred coal ash cost over a five year period, with the full debt and equity return. Ongoing full ash costs will be deferred with a return and be considered in the next rate case. Specific to DEC the order approved to the cancellation of the nuclear project as originally envisioned and recovery of development costs over a 12 year period, without the return.

We will maintain the combined operating license as an option for possible future development. The order also addressed federal tax reform, rates will be reduced for the lower income tax rate and the commission will consider the treatment of excess deferred income taxes in three years

or in the next rate case, whichever is sooner. This is a constructive outcome that balances providing immediate benefits to customers with supporting credit quality at the utility.

Finally, the order addressed grid investment. The commission noted that maintaining adequate and reliable electric service includes staying abreast of the latest developments in technology and equipment. The order deemed it reasonable and prudent to deploy smart meters on a full scale basis. It also approved deferral costs associated with our new customer information system, the digital platform that will allow us to tailor new solutions for customers. And though, we were disappointed the order denied a request for grid reliability and resiliency writer, arguing the commission lacked statutory authority in this instance, the commission encourages, ongoing grid investment and our efforts to collaborate with stakeholders.

Moving forward, we will continue advancing the dialog with key stakeholders to enhance North Carolina's regulatory framework for recovery of grid investments. This infrastructure will provide significant benefits to our customers including improved customer control and convenience and cyber and physical security enhancements, while creating 1,000 of jobs and supporting the state's economy. In addition, our customers have expressed clear interest in battery storage and other reliability investments, as well as new technologies that enable distributed generation and energy efficiency. We will build on the momentum from our efforts over the last year, including the grid settlement with environmental groups and our DEC rate case and generate even broader support for grid investment that aligns with our customers' interests.

Moving to slide six, let me provide an update on some of our other strategic investments. Construction continues on our 1600 megawatt Citrus County combined cycle plant in Florida. We have begun commissioning activities, and yesterday we achieved first fire on power block 1, a significant milestone for the project. We are on track to place unit one in service this fall with unit two following by the end of the year. On July 10, the Florida Public Service Commission approved our request to \$200 million revenue increase for the plant under the GBRA mechanism. New rates are expected to be implemented the month following the end-service dates.

Also in Florida, we filed our first petitions under the solar-based rate adjustment mechanism for two new solar projects. The projects totaling 149 megawatts are expected to come online in team in March 2020. The requested revenue requirement for the two projects is approximately \$30 million. Our Western Carolinas modernization project is progressing well and remains on track for the expected 2019 in service date. This project fits clearly within our strategic priorities, we are replacing aging coal units with new natural gas-fired generation and utility scale solar and updating transmission and distribution assets, including adding battery storage.

We continue to look for opportunities to apply similar solutions elsewhere in our jurisdictions. In July, we launched first request for proposal for new renewable energy resources in North Carolina under House Bill 589, this 680 megawatt solicitation six projects capable being placed in service by the end of 2020, bids are due September 11th. Recall that Duke can participate in the RFPs with proposals from our utilities and commercial renewables business subject to certain restrictions. In commercial renewables our 25 megawatt Shoreham solar facility on Long Island, New York achieved commercial operation in the third quarter and we have closed the tax equity financing for this project.

Turning to our gas business on slide seven, we're making significant progress on the Atlantic coast pipeline. In May we received FERC approval to start full construction on the West Virginia portion of the pipeline. We made a similar request for North Carolina and received approval in July. Instruction also continues in West Virginia and North Carolina on two of the three compressor stations and other facilities required for the project. We expect the final state permit in Virginia in the coming weeks and are targeting a fourth quarter 2019 in-service date for the project.

Last week we voluntarily requested a temporary suspension of our nationwide permit from the Army Corp Engineers for water crossings in West Virginia. We remain committed to complying with the permit requirements and the suspension will allow the Army core time to thoroughly review our crossing plan. We do not expect any significant delays resulting from this review.

And finally, last month we announced Piedmont Natural Gas will construct a new liquefied natural gas facility in North Carolina, this \$250 million investment will help Piedmont provide a reliable gas supply to customers during peak usage periods. The facility will be located in Robertson County on property Piedmont already owns. We expect to begin construction in the summer of 2019 with an estimated completion date in the summer of 2021. Piedmont will seek recovery of the investment in the future rate case after the project is in-service.

As I turn the call over to Steve, our results this quarter show that the fundamentals of our business remain strong. We've continued executing on our long-term strategy, investing in infrastructure our customers value and delivering sustainable growth for our investors. As we head into the third quarter, our achievements reaffirm the confidence we have in the business and reinforce our belief that Duke Energy is the leading energy infrastructure company.

Steve, let me turn it to you.

**Steven Young** {BIO 7307044 <GO>}

Thanks, Lynn. I'll start on slide eight with quarterly results, including our adjusted earnings per share of variances to the prior year quarter. For more detailed information on segment variances versus last year and a reconciliation of reported to adjusted results, please refer to the supporting materials that accompany today's press release and presentation. On a reported or GAAP basis, 2018 second quarter earnings per share were \$0.71 compared to \$0.98 last year.

Second quarter 2018 adjusted earnings per share was \$0.93 compared to \$1.01 in the prior year. The difference between reported and adjusted earnings was primarily due to changes related to the DEC rate case order. For the quarter, lower adjusted results compared to the prior year were primarily due to a lower tax shield on holding company interest, as a result of the tax act, higher depreciation and higher O&M, partially offset by warmer weather and contributions from the DEP North Carolina rate case.

Within the segments, electric utilities and infrastructure results were down \$0.03 compared to the prior year. The primary drivers were higher depreciation due to our growing asset base, higher O&M driven by storm costs and costs related to the resolution of FERC accounting matters that impacted wholesale. Partially offsetting these drivers were favorable weather, the contribution from the DEP North Carolina rate case and increased rider revenues. The growth in

rider revenues was primarily due to the recovery of our grid investments in the Midwest and the recovery of qualifying facility power purchases with the fuel rider in North Carolina as a result of House Bill 589.

Shifting to gas utilities and infrastructure. As expected, results were flat in the quarter, we continue to expect our LDC businesses to provide the bulk of their remaining earnings contribution in the fourth quarter. In our Commercial Renewables segment, results were up \$0.02 for the quarter, primarily due to a favorable settlement on a contractual agreement. Finally, although was down \$0.07 due to a lower tax shield on Holdco interest, as a result of the tax act and higher interest expense at the holding company. Based on our results today, the expectations for the second half of the year, we are tracking to the midpoint of our full year adjusted earnings guidance range of \$4.55 to \$4.85 per share.

Turning to slide nine, let me walk you through our retail volume trends. On a rolling 12 month basis, weather normalized retail electric load growth was 0.3%. Load growth remains particularly strong in our residential clients, which was up 1.5% on a rolling 12 month basis. This was largely supported by continued customer growth across our service territories. And in several jurisdictions load grew faster than the number of customers in the quarter, indicating growth in usage per customers, like we saw in the first quarter of this year. In the customer class, sales were flat over the rolling 12 months, we continue to see relatively flat volumes from this sector, as strength and leisure and hospitality businesses offset weakness in large retailers competing with online offerings.

The industrial class saw decline of 1.2% on a rolling 12 month basis, similar to the first quarter results continue to be impacted by production declines for a few large customers last year and recent outage activities. We expect the impact from these specific declines to peak this quarter and start to diminish in the second half of the year. At a macro level, economic indicators for our service areas remains strong. Population growth is solid, and we are now seeing wages in non-urban areas increase for the first time in quite a while. We remain confident in our long-term assumption of 0.5% retail load growth for our electric utilities, supported by healthy economies and growth in our jurisdictions.

Turning to slide 10, we have made significant progress addressing tax reform across our utilities. As Lynn mentioned, we received clarity in North Carolina, the tax reform incorporated into the DEC rate case. We also reached a constructive tax reform settlement in Indiana, it defines a balanced approach that will ensure customers receive benefits with a base rate reduction in September, the settlement also maintains the utilities, credit quality by staggering the return of excess deferred income taxes or EBIT and utilize some of the tax benefits to offset deferred costs.

And finally, just last week, we filed a request in Ohio to implement a new rider that will flow back all remaining impacts of federal tax reform to our electric customers in that state, including the return of unprotected EBIT over 10 years. Our successful work to engage stakeholders over the past six months demonstrates our ability to reach balanced solutions and provides us with increased clarity in our largest jurisdictions as we move into the second half of the year. With constructive rulings on tax reform along with greater clarity from the DEP and DEC rate cases, we've refreshed our credit metric projections.

As you can see on slide 11, we now expect our FFO to debt metric to be within our target range of 15% to 16% in 2019. A year earlier than originally expected, we met with all three rating agencies to go over these updates and as Lynn mentioned Moody's responded just yesterday by lifting our negative outlook, and affirming our current ratings at the holding company, We are now at a stable outlook with both Moody's and S&P, further highlighting the successful execution of our plan. As we outlined in February, our financing plan includes a \$2 billion equity target for 2018. And to date, we have price nearly the entire amount. During the second quarter we priced 200 million of equity under a forward contract through our ATM program. We also settled half of our March offering in June, drawing down 800 million. We expect to settle all outstanding equity forwards in the fourth quarter. We call that beyond 2018, we intend to issue 350 million of equity per year through our DRIP and ATM programs, during the remainder of the five year plan. Our improved credit metrics and Moody's move to stable are further evidence that our financing plan is sound, and we do not expect to issue additional equity over the five year plan.

I'll close with slide 12. It is clear we have the right strategy in place, investing to benefit our customers, growing the business and delivering value for investors. The foundation of our attractive investor value proposition is a growing dividend which currently yields approximately 4.5%, coupled with earnings growth of 4% to 6% this provides a compelling risk adjusted total shareholder return of 8% to 10%. We believe our combination of scale, diversity and constructive jurisdictions and growth from low risk regulated investments is unmatched. And our consistent execution and demonstrated ability to achieve results positioned Duke Energy as a core energy infrastructure investment.

With that, let's open the line for your questions.

## Questions And Answers

### Operator

Thank you. (Operator Instructions) And we'll take our first question from Jonathan Arnold with Deutsche Bank.

**Q - Jonathan Arnold** {BIO 1505843 <GO>}

Good morning, guys.

**A - Lynn Good** {BIO 5982187 <GO>}

Hi, Jonathan.

**A - Steven Young** {BIO 7307044 <GO>}

Good morning.

**Q - Jonathan Arnold** {BIO 1505843 <GO>}

Thanks for reiterating your prior statements on the guidance range, which we were wondering where that was in the slide deck.

**A - Lynn Good** {BIO 5982187 <GO>}

We appreciate the feedback, Jonathan, you're firstly reviewing the slide deck. (Multiple Speakers)

**Q - Jonathan Arnold** {BIO 1505843 <GO>}

Yeah. And then -- can I ask about the industrial sales. Steve, you mentioned you've been seeing curtailments, by which segments is that in? Why are you -- well, can you just give us some more color into your confidence, so there's going to be a rebound second half?

**A - Steven Young** {BIO 7307044 <GO>}

Well, I think there will be, we've seen a few customers about three customers that have had some closings or some outages, I don't want to give any customer information that specific. We've seen that in the Midwest and then in the Carolina, so I will give that information. But we think these are singular, we think the economic health of our service territories are good, good places to do business, and we are seeing economic projects landing in our footprint. And I do think that as we move forward we'll be lapping if you will, quarters where these outages began. So I think we'll see some uplift in the industrial load as we move to the last half of the year because of just that fact.

**Q - Jonathan Arnold** {BIO 1505843 <GO>}

Without naming names though, can you share what -- which industrial sectors we are talking about?

**A - Steven Young** {BIO 7307044 <GO>}

We've seen some textiles, we've seen some paper, and we've seen some metals.

**Q - Jonathan Arnold** {BIO 1505843 <GO>}

Okay. Great. Thank you. And then the other question, we had was on the -- you said you're going to come out with the winners in the 589 RFP shortly. Can you remind us sort of what you have in the plan for the utility in terms of renewables, the owned renewables and then maybe what's currently in for commercial renewables?

**A - Lynn Good** {BIO 5982187 <GO>}

Jonathan, we put all of the renewables capital in one place in the five year plan, so it's under commercial renewables and it's about 1.5 billion over the five year period. The 589 RFP will close September 11th, so in the third quarter or fourth quarter we should have more clarity on that. And we will be bidding into it, as I know, others will we have the opportunity to win up to 30%, but also have an opportunity to buy beyond that if we think the economics work for us.

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**Q - Jonathan Arnold** {BIO 1505843 <GO>}

So we should think of the base holder and commercial is potentially being partly in the utility, eventually, but it's just all there at the moment.

**A - Lynn Good** {BIO 5982187 <GO>}

That's right. And I think the other point to note on that Jonathan is because it's in commercial, we would expect investment beyond North Carolina in those numbers, right? So as we continue to pursue commercial developments. So everything is in there and as we get more clarity on how the RFP plays out, and so on will of course update those numbers. So there could be some upside potential. But I think the 1.5 billion is a good planning assumption.

**Q - Jonathan Arnold** {BIO 1505843 <GO>}

Thanks very much.

**Operator**

(Operator Instructions) And we'll take our next question from Julien Dumoulin-Smith from Bank of America Merrill Lynch.

**Q - Unidentified Participant**

Hey, Good morning, this is actually Claire stepping in for Julien.

**A - Lynn Good** {BIO 5982187 <GO>}

Hi, Claire.

**A - Steven Young** {BIO 7307044 <GO>}

Hi, Claire.

**Q - Unidentified Participant**

Hi, good morning, thanks for taking my question. So my first actually has to do with the South Carolina rate case. So I know there's been bit of political situation down there. Just your thoughts on timing and your prospects on the case.

**A - Lynn Good** {BIO 5982187 <GO>}

Yeah, so Claire we're evaluating the case in South Carolina, and as you know from our history we typically have investments impacting both of our jurisdictions similarly. So you can think about a South Carolina case perhaps later this year towards the end of the year that within -- be -- go through the process in 2019.



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**Q - Unidentified Participant**

Got it. Anything more than 3Q, 4Q event or just generally send half of the year?

**A - Lynn Good** {BIO 5982187 <GO>}

I'm sorry, could you repeat that we had a trouble hearing you a little bit?

**Q - Unidentified Participant**

No problem. Any specificity besides end of the year maybe 3Q or 4Q or are you just saying for now end of the year?

**A - Lynn Good** {BIO 5982187 <GO>}

I would target fourth quarter for filing the case, so it won't be sooner than that.

**Q - Unidentified Participant**

Got it. That's helpful color. And turning to North Carolina here. Do you have any color you can give right now on the grid mod rider strategy for the legislative session for next year? And anything we should be watching in the ongoing state elections?

**A - Lynn Good** {BIO 5982187 <GO>}

Clearly, we have talked about our strategic priority on grid for sometime, and described that as being a parallel process between the regulatory and the legislative arena, we have a number of options that we're considering. And our objective is to continue to advance the dialog, we think they're great customer benefits, economic benefits, and our goal will be to continue to engage with customers and stakeholders to build momentum for what we're trying to achieve.

And so, I think what I would leave you with on this is our strategic priority around this has not changed and the work continues and as we have more clarity about specific tactics that we'll pursue, we'll discuss them with you at that time, but it remains front and center priority for us here in the Carolinas.

**Q - Unidentified Participant**

Thank you for that.

**A - Lynn Good** {BIO 5982187 <GO>}

Thank you.

**Operator**

We'll now take our next question from Michael Weinstein with Credit Suisse.

**Q - Unidentified Participant**

Hi. Good morning. This is Maheep on behalf --

**A - Lynn Good** {BIO 5982187 <GO>}

Good morning.

**A - Steven Young** {BIO 7307044 <GO>}

Good morning.

**Q - Unidentified Participant**

Hi, Maheep on behalf of Mike. Thanks for taking the questions. Just on the ACP, could you discuss any potential upside opportunity at Piedmont from the pipeline?

**A - Lynn Good** {BIO 5982187 <GO>}

The ACP is an important investment into the Carolinas to support the Piedmont system, and we have capital in the plan in connection with that expansion that is part of the ordinary course business of supporting the Piedmont system. So, I don't have anything specific that I would point to, but our hope and expectation is that with that additional mainline pipe into the Carolinas that we will see further expansion opportunities with industrials and new customers in that Eastern part of the state that will continue to drive investment.

**Q - Unidentified Participant**

Sorry about that, that was on mute. Thanks for the answer. And just on grid mod rider, could you just talk about how these rate case settlements have helped you getting support for an in-grid rider legislation?

**A - Lynn Good** {BIO 5982187 <GO>}

I think about the partial settlement in the DEC case is being an indication of our ability and willingness to sit down with stakeholders, to come up with collaborative approaches. I think it's particularly important as you think about policy and investment strategies and you've seen us in the Carolinas with Renewables, with HB 589 and South Carolina with store [ph], with Senate Bill 236, you saw the partial settlement in the DEC case and I think engagement of stakeholders is an important part of progressing any strategic objective and our approach here will be to continue to advance the dialogue in the Carolinas around grid investment. We have a number of options, more frequent rate cases, regulatory arena, legislation and we will be focusing on all of those. The strategic priority of achieving an outcome remains key to us and our work continues.

## Q - Unidentified Participant

Thank you for answering the questions.

## A - Lynn Good {BIO 5982187 <GO>}

Thank you.

## Operator

We'll now take our next question from Christopher Turnure with JPMorgan.

## Q - Christopher Turnure {BIO 17426636 <GO>}

Good morning, Lynn and Steve.

## A - Lynn Good {BIO 5982187 <GO>}

Good morning.

## A - Steven Young {BIO 7307044 <GO>}

Good morning.

## Q - Christopher Turnure {BIO 17426636 <GO>}

Appreciate the reiteration of the 4% to 6% and getting back into the range. I wanted to know given some of the positives that you've received over the past three or so months on the regulatory front and on the credit agency front. Has anything, kind of, changed underlying that 4% to 6% range for better for worse or is the kind of makeup of how you're going to grow into '19 and '20 changed at all?

## A - Lynn Good {BIO 5982187 <GO>}

Chris, it hasn't changed. Our assignment here is to execute the plan that we've put in front of you and that's exactly what we're doing. And I think the track record we've demonstrated here in '18, whether it's on rate case execution or tax reform resolution or the balance sheet and credit metrics, we've executed across all of those things and that process will continue. And so, we look into '19 with investments and rate activity, Atlantic Coast Pipeline. We have a number of things that are in front of us and I would summarize our job is to execute and that's where our focus is.

## Q - Christopher Turnure {BIO 17426636 <GO>}

And then, my second question is on cost cuts, kind of, underlying the plan. Clearly, you're planning on filing in the Carolinas to support the growth and you have riders in most other

jurisdictions, but how important is cost cuts to, kind of, any lag catch-up or preventing any lag from opening up during that time period?

**A - Lynn Good** {BIO 5982187 <GO>}

Chris, keeping a focus on productivity and cost while maintaining a focus on operational excellence and serving customers is our job every day. And as we look at what's in our plan, we're planning for O&M to be flat over the period, and have demonstrated our agility around O&M over the last several years, as we have responded to impacts in our business, and we feel like we have a good track record of doing that, and we will exercise that agility if need be. And as I said a moment ago, that's part of execution in my mind.

**A - Steven Young** {BIO 7307044 <GO>}

Yeah, so I would add that controlling O&M cost is essential every day, and it gives us headroom to make more capital investment for our customers that are beneficial at lower rates. So, we work at that every day.

**Q - Christopher Turnure** {BIO 17426636 <GO>}

And we should think about that flat over the time period as flat in every individual year or is that just an average?

**A - Lynn Good** {BIO 5982187 <GO>}

I would think about it every year.

**Q - Christopher Turnure** {BIO 17426636 <GO>}

Okay, excellent. Thanks guys.

**A - Lynn Good** {BIO 5982187 <GO>}

Thank you.

**Operator**

We'll take our next question from Praful Mehta from Citi.

**Q - Praful Mehta** {BIO 19410175 <GO>}

Thanks guys. Hi, guys.

**A - Lynn Good** {BIO 5982187 <GO>}

Good morning.

**A - Steven Young** {BIO 7307044 <GO>}

Hello.

**Q - Praful Mehta** {BIO 19410175 <GO>}

Good morning. So on the FFO, congrats on the improvement or, at least, the earlier kind of hitting your target.

**A - Lynn Good** {BIO 5982187 <GO>}

Thank you.

**Q - Praful Mehta** {BIO 19410175 <GO>}

So wanted to understand, what does that mean from a capital allocation perspective? Is that creating headroom for something you could do incremental in terms of CapEx or on the Commercial Renewables side, just wanted to understand what's the implication of that for the story?

**A - Lynn Good** {BIO 5982187 <GO>}

I think capital allocation is something Praful, we look at every year in connection with our five year plan. And we do have some opportunities coming up with HB 589, the Commercial Business [ph] always remains. But our commitment to that balance sheet strength is also critical and maintaining within those targets is the way we manage the plan and so, we'll provide an update on capital allocation and optimization when we come to you in February with guidance. But I wouldn't share anything more specific than that at this point. Steve, any further thoughts?

**A - Steven Young** {BIO 7307044 <GO>}

I agree. We'll look at our capital plan. We have an extensive capital optimization process where we look across jurisdictions and functions and try to find the optimal placing of capital. And we'll continue that process, but we'll have further updates later.

**Q - Praful Mehta** {BIO 19410175 <GO>}

Got you, thanks guys. And then just stepping back I think like you said Lynn, you've had a very good trajectory in 2018 with some good rate case outcomes or regulatory outcomes. Clearly your credit pressure is now behind you or mostly behind you. How are you now looking forward strategically, I get the execution is still the focus which clearly is great, but strategically is there anything else in your radar that you are thinking about that needs to be done either M&A wise or anything else from a portfolio management perspective?

**A - Lynn Good** {BIO 5982187 <GO>}

Nothing specific on portfolio management Praful, but demonstrating organic growth is -- I just would like to emphasize that as part of execution, so this is getting this grid investment to work, it's delivering the benefits to customers, delivering returns, continuing to grow the dividend, that I would put at the top of the list of strategic priorities for the company.

**Q - Praful Mehta** {BIO 19410175 <GO>}

All right. Great. Thanks guys.

**A - Lynn Good** {BIO 5982187 <GO>}

Thank you.

**A - Steven Young** {BIO 7307044 <GO>}

Thank you.

**Operator**

We'll take our next question from Andrew Weisel from Scotia Howard Weil.

**Q - Andrew Weisel** {BIO 15194095 <GO>}

Hey, good morning everyone.

**A - Lynn Good** {BIO 5982187 <GO>}

Good morning.

**A - Steven Young** {BIO 7307044 <GO>}

Good morning.

**Q - Andrew Weisel** {BIO 15194095 <GO>}

Before I get to my question, I'd just want to clarify if I heard you right. For grid modernization, are you suggesting that the rider would have helped, but it's not the only way and would you move forward with accelerating some of those initiatives without a potential legislative fix?

**A - Lynn Good** {BIO 5982187 <GO>}

So, the grid rider is not the only way Andrew, I would say, and we will always pace our investment in a way that makes sense for the recovery strategy. That's part of capital optimization that Steve talked about a moment ago. And so, our work continues here to pursue appropriate next steps. We'll keep the dialogue going, bringing stakeholders together on the way forward. But we'll look at capital relative to the tactical plan around recovery and make the appropriate adjustments that we need to make.

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**Q - Andrew Weisel** {BIO 15194095 <GO>}

Okay. Great, that's helpful. And then a two part question on renewables. First under HB 589, you mentioned there's that 30% cap that you could acquire beyond that cap. When might deals like that potentially be announced? Would it be at the time of the RFP decision, during construction or maybe after it begins operations?

**A - Steven Young** {BIO 7307044 <GO>}

I believe they would be after bids have been selected and winners of bids have been selected that some of those types of transactions might subsequently occur.

**A - Lynn Good** {BIO 5982187 <GO>}

When I think about September 11th, RFP closes, there'll be some reviewed analysis. I would assume following that, winners would be announced subsequently. Then, we have an opportunity to perhaps purchase some. We'll see where we performed in the RFP. So, this will play out over the next couple of quarters, it's the way I would think about it Andrew.

**Q - Andrew Bischof** {BIO 17454969 <GO>}

Great. That's helpful. Then lastly, if I understand correctly, Shoreham was your first tax equity financing. How would you describe your appetite for more tax equity deals going forward? And how would you describe the market for it?

**A - Steven Young** {BIO 7307044 <GO>}

We do have an appetite for using tax equity in our deals. Shoreham was the first that we've executed on. And there is a market out there for tax equity. There is the tax appetite there and that's useful to us in our Commercial Renewables business. So we'll continue in that direction.

**Q - Andrew Weisel** {BIO 15194095 <GO>}

Very good. Thank you.

**A - Lynn Good** {BIO 5982187 <GO>}

Thank you.

**Operator**

That concludes today's question-and-answer session. Ms. Lynn Good, at this time, I would like to turn the conference back to you for any additional or closing remarks.

**A - Lynn Good** {BIO 5982187 <GO>}

Well, thank you everyone for your questions and your interest and investment in Duke Energy. We look forward to speaking with many of you over the days and weeks to come and look forward to a successful third and fourth quarter. Thank you.

## Operator

And that concludes today's presentation. Thank you for your participation. You may now disconnect.

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