Company Name: Duke Energy
Company Ticker: DUK US
Date: 2016-08-04
Event Description: Q2 2016 Earnings Call

Market Cap: 58,712.71
Current PX: 85.24
YTD Change($): +13.85
YTD Change(%): +19.400

Bloomberg Estimates - EPS
Current Quarter: 1.537
Current Year: 4.598
Bloomberg Estimates - Sales
Current Quarter: 6926.200
Current Year: 24172.125

Q2 2016 Earnings Call

Company Participants

- Mike Callahan
- Lynn J. Good
- Steven K. Young

Other Participants

- Jonathan Philip Arnold
- Stephen Calder Byrd
- Steve Fleishman
- Julien Dumoulin-Smith
- Shahriar Pourreza
- Michael Lapides
- Brian J. Chin
- Praful Mehta
- Ali Agha

MANAGEMENT DISCUSSION SECTION

Mike Callahan

Opening Comments

Financial Measures

- 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

Agenda

- As summarized on slide three, Lynn will cover our second quarter financial highlights and provide an update on our portfolio transition and strategic initiatives
- Lynn will then provide an update on our coal ash efforts as well as other operational highlights
  - Then Steve will provide an overview of our second quarter financial results, an update on low growth trends and recent regulatory activity before closing with our key investor considerations

Lynn J. Good

Financial Highlights

Let me start on slide four and express how pleased I am with our financial results this quarter

This morning we announced second quarter 2016 adjusted EPS of $1.07, an increase of $0.12 from the prior year

We generated higher adjusted earnings with strong results at our regulated utilities, which gives us confidence to reaffirm our full year guidance for 2016

We also demonstrated our confidence in the strength of our core businesses with the recent increase in our dividend

- We have consistently paid a dividend for 90 years, which extends our commitment to this key part of our total shareholder return proposition

We accomplished strong results this quarter while continuing to build our domestic energy infrastructure business as you can see on slide five

Portfolio Transition and Strategic Initiatives

Constructive Settlement Agreements

- Let’s start with our pending acquisition of Piedmont Natural Gas
- This acquisition and the expansion of our natural gas infrastructure platform supports our transition to a lower carbon future
- In June, Duke Energy and Piedmont reached constructive settlement agreements with the North Carolina public staff and other key interveners
- The settlement provide clear benefits to customers and communities
- In July, the North Carolina Utilities Commission held a hearing to review the proposed acquisition
- The acquisition review will be fully briefed on August 25, when proposed orders are due from all parties
- There is no statutory timeframe for the commission to act and we won’t speculate on their timing
  - However, integration efforts are going well and we will be opportunistic with our remaining acquisition financing such that we are prepared to close the transaction when all closing conditions are met
- We remain confident of closing the transaction by the end of this year and possibly earlier

Latin American Generation Business

- In addition, we’re proceeding as planned with our process to access the Latin American generation business
- We’ve received strong interest from a variety of parties
- We have since invited a select group of bidders to participate in detailed due diligence, including management presentations and site visits for the purpose of providing final bids
  - We will continue to provide updates as we move through this process

Major Generation Projects

- Turning to slide six, I’ll provide you with a brief update on our progress executing our $30B strategic growth capital plan

- Our vision is to invest capital in smarter energy solutions that generate cleaner energy and modernize the grid, creating value for our customers and delivering earnings and dividend growth for our shareholders

South Carolina

- Our major generation projects continue to move forward as planned remaining on time and on budget
- In South Carolina, construction of our $600mm Lee natural gas combined cycle plant is progressing well toward a November 2017 in-service date

Florida

- In Florida, construction has begun on our $1.5B Citrus County combined cycle plant
- And our up rates at Hines are on target for an October 1 in-service date
- In addition, we continue to add solar to our regulated generation portfolio
- In May, the NCUC approved two new solar projects totaling 65 megawatts in our Duke Energy Carolina service territory
  - Both of these projects are expected to be online in Q1 2017

Indiana

- In Indiana, the State Regulatory Commission approved our 17-megawatt solar plant at the Crane Naval Station, the second-largest solar power plant in the state
- Per Indiana statute, we will recover 100% of the cost of the project via a clean energy investment rider
  - We also had several positive developments regarding our grid modernization efforts
- On June 29, the Indiana Commission approved our previously filed settlement agreement for our seven-year, $1.4B plan to build a smarter energy infrastructure, which is now under way

Kentucky

- In Kentucky, we filed a request to deploy smart meters in our service territory; while in South Carolina, we received an accounting order from the commission allowing Duke Energy Carolinas to defer the cost of smart meter investments until the next rate case
- These programs will provide much needed technology and infrastructure upgrades
  - They build upon our progress in investing in the energy grid and will benefit customers with improved reliability and safety, fewer and shorter power outages and overall energy savings

Natural Gas Pipeline Projects

- Shifting to our commercial portfolio, we continue to advance our two natural gas pipeline projects:
  - Atlantic Coast Pipeline
  - And Sabal Trail
- We expect to receive FERC's notice of schedule for the Atlantic Coast Pipeline soon

- We still anticipate a FERC order allowing construction to begin by mid-2017, keeping the project on target for a late 2018 in-service date
- Meanwhile, you might recall that Sabal Trail received FERC approval in February of this year
- Pre-construction work is underway with construction expected to begin in late summer
    - The project remains on target to be in operation in mid-2017
- We also had success this quarter growing our commercial renewable fleet
- Our 200-megawatt Los Vientos IV wind project achieved commercial operation in July, a month ahead of schedule
- Our 200-megawatt Frontier wind project remains on target to begin serving customers later this year
- With the acquisition of 55 megawatts of new solar projects, we now have two additional projects in North Carolina and our first in New Mexico
- By year-end, we expect commercial renewables footprint to be approximately 3,000 megawatts

Coal Ash Basin Closure Update

Turning to slide seven, let me update you on the significant progress we made during the quarter on coal ash basin closure

As we have previously discussed, our work is underway to close basins at seven sites in the Carolinas, including two sites in South Carolina

For our remaining North Carolina basins, in Q2 we received updated rankings from the North Carolina Department of Environmental quality

The rankings established closure methods, timeframes, and ultimately cost

They also highlighted the need for additional time to complete ongoing dam improvement activities and collect additional scientific and engineering data to appropriately rank and safely close the basin

- In response, North Carolina adopted House Bill 630 to strengthen the 2014 Coal Ash Management Act

The legislation provides important clarifications, keeping final authority for coal ash oversight with the state environmental regulator and outlining a path to low classifications for many of our basins, which allows for a range of closure options, including capping the material in place

Dam Improvement Activities

- It also requires the completion of the dam improvement activities and providing access to a permanent alternative drinking water supply for certain residents
    - This removes any concerns for plant neighbors about potential impact to their surrounding private drinking wells

Construction of Ash Reprocessing Facilities

- In addition, the legislation directs the construction of ash reprocessing facilities at three sites to make the material suitable for use in concrete

- We support recycling ash, which is the only way to avoid permanent storage of this useful construction material
- The timeframes outlined in the new legislation are generally consistent with the requirements of the federal Coal Combustion Residual or CCR rule and work is underway to meet the requirements in the CCR rule and the North Carolina legislation
- The new law in North Carolina does not materially affect our current estimated costs for basin closure and we remain committed to safe sustainable long-term solutions for coal ash across all of our jurisdictions

Indiana and Kentucky

- Moving to Indiana, we filed testimony in June to support our first petition to recover approximately $400mm in costs associated with the federal CCR rule
- Our petition requests that these costs for dry bottom ash conversion projects be recovered under the Indiana Federal Mandate Statute
  - This statute provides for 80% recovery of project costs through a rider and 20% deferred until the next rate case
- Hearings are scheduled for November, and we could receive an order by mid-2017
- Finally, in July we filed a request in Kentucky for a Certificate of Public Convenience and Necessity to construct $23mm dry bottom ash handling system at our East Bend station

Operational Accomplishments

Before I turn it over to Steve, I'd like to highlight on slide eight several of our recent operational accomplishments made possible by the dedication of our employees

Fleet Performance

- Our strong generation fleet performance has persisted through Q2
- YTD, our nuclear fleet has achieved a 96% capacity factor
- At Oconee Unit 3 in the Carolinas our team set a new record for shortest outage time, an improvement of 10% over the prior period

Recognition

- In June, the company was recognized by EEI with the association's Emergency Recovery Award for our outstanding power restoration efforts in the Carolinas following Winter Storm Jonas earlier this year
  - These efforts were again on display in response to the approximately 550,000 outages caused by Tropical Storm Colin in Florida in June and powerful windstorms in the Midwest and Carolinas in June and early July
- In each of these storms, our teams worked diligently and safely both day and night to restore service as quickly as possible, and I commend their commitment to meeting our customers' needs 24 by 7
- Also in June we exceeded the $687mm guarantee fuel and joint dispatch merger savings, providing a significant benefit to our Carolinas customers as a result of the 2012 Duke and Progress Energy merger
- The dedicated efforts of our teams allowed us to complete this important milestone, a full year ahead of our original commitment

Conclusion

In conclusion, I'm pleased with our financial results for the quarter and our progress in advancing our strategic initiatives as we invest in cleaner and smarter energy solutions for our customers and deliver growth for our investors

We are maintaining a sharp focus on operational excellence, which includes our commitment to safety and cost efficiency

Our portfolio transition enhances Duke's position as an industry-leading domestic infrastructure business with stable transparent earnings and cash flows

We look forward to completing this transition

Steven K. Young

Financial Results

As Lynn mentioned, we are pleased with our strong quarter

Given the results through H1, we remain on track to achieve and today have reaffirmed our full-year 2016 guidance range of between $4.50 to $4.70 per share

Let me walk you through some of the key drivers from the quarter as well as provide updates on current retail volume trends within our service territories and regulatory activity underway in our jurisdictions

I'll start with the quarterly results on slide nine

For more detailed information on segment variances vs. last year and a reconciliation of reported results to adjusted results, please refer to the supporting materials that accompany today's press release and presentation

EPS

- On a reported or GAAP basis, 2016 second quarter EPS were $0.74 compared to $0.78 last year and were impacted by an impairment in Central America
- Due to the continued advancement of our process to exit the Latin American generation business and the increased probability of sale, we evaluated the carrying value of the asset groups within International Energy
- We determined that certain assets in Central America were impaired and as a result we recognized a pre-tax charge of $194mm
  - In addition to this impairment, costs related to mergers and savings initiatives were also special items that have been excluded from our adjusted EPS results

Business Segment Results

Regulated Utilities

- Let me now discuss our adjusted quarterly earnings and key drivers at each of our business segments
- Second quarter adjusted diluted earnings were $1.07 per share compared to $0.95 in Q2 2015
- Regulated Utilities quarterly adjusted results increased by $0.13 per share despite less favorable weather

  - This was primarily driven by higher pricing and riders
- We also realized higher wholesale margins, primarily due to the long-term contract associated with the NCEMPA acquisition in the prior year
- In addition, reduced outage costs and ongoing cost management efforts enabled us to further reduce our O&M in the quarter
- Even with $0.06 in higher storm related costs YTD, our focus on operational efficiencies and cost savings initiatives position us to achieve our full-year O&M reduction target and helps position us to maintain a flat O&M cost structure through 2020

Commercial Portfolio

- Commercial Portfolio results increased by $0.01 per share in Q2
- The higher results were largely driven by increased investments in our share of the Atlantic Coast and Sabal Trail pipelines
- Our renewables portfolio was flat compared to the prior-year quarter as weaker than expected wind resources were lower than historical averages, a trend similar to last year
- On a YTD basis, our commercial portfolio was slightly behind our original expectations for H1
- We will continue to monitor this trend throughout the remainder of the year

International

- Moving on, other was flat for the quarter as a favorable income tax adjustment resulting from a completed IRS audit was offset by higher interest expense
- International's quarterly earnings declined by $0.02 over last year
- Lower earnings at National Methanol were driven by the completion of planned maintenance and lower MTBE prices
- Looking ahead, the expansion of the new palm facility at National Methanol has been delayed and is now expected to come on line in Q2 2017
- As a reminder, once in service this expansion will reduce our ownership percentage from 25% to 17.5%
- International's results were also impacted by higher income tax expense
- Because of our announcement in early 2016 of our intent to exit our Latin American operations, we no longer expect to permanently reinvest earnings in that business
  - As a result, we will continue to recognize additional U.S. income taxes up to the point of sale
- Stronger results in Brazil due to improved hydrology more then offset weaker foreign currency exchange rates
- Overall, it was a solid quarter and we are pleased with our results

Other Operating Highlights

Retail Customer Volume Trends

- Moving on to slide 10, let's review our retail customer volume trends

- On a rolling 12-month basis, weather-normalized retail load growth was 0.3% through Q2 and continues to track our long-term expectations of approximately 0.5% load growth
- We are particularly pleased with the strength of our residential volume trends, which continue to grow at 0.8% over the last 12 months
- Growth has been bolstered by a 1.4% increase in the number of customers
  - This has more than compensated for the usage reduction by our residential customers due to their increased adoption of energy efficiency and general housing trends
- For the first time since the recession, we are beginning to witness single-family housing starts reaching the level of multi-family starts
- At a macro level, employment and wage growth were also trending favorably for the residential class

Commercial Class

- Moving to the commercial class, we experienced a decline of 0.2% over the rolling 12 months
- Commercial continues to grow in our Carolinas and Florida jurisdictions, led by gains in non-manufacturing employment and declining office vacancies
  - However, in the Midwest, we see continued declines in the government sector related to the impacts of budget cuts

Industrial Class

- In our industrial class, we continue to see growth of 0.4% on a rolling 12-month basis
- Industries that support construction and automotives remain strong, and we are seeing positive signs once again in the chemicals, rubber and plastics industries
- A few large industrial customers in the Midwest completed production outages during the quarter, which we believe temporarily impacted growth
  - Meanwhile the softer global economy and strength of the U.S. dollar are still impacting companies influenced by exports
- Of note, this quarter, we saw a renewed strength in sales in the metals sector
- In particular, Indiana showed growth in this sector as tariffs on imports have resulted in increased domestic metal production that is critical to the Midwest industrial base
- We will continue to closely monitor economic conditions and our customer usage patterns throughout the remainder of the year

Recent Regulatory Activity

Filings in South Carolina

- Moving to slide 11, the company recently submitted regulatory filings in South Carolina and Florida
- On July 1, we filed a request with the Public Service Commission of South Carolina to increase revenues by about $79mm for Duke Energy progress, our first rate case in this jurisdiction since 1988

- We've made significant investments to build new energy infrastructure to meet the needs of a growing customer base and comply with environmental regulations at both the state and federal levels
- These investments allow us to provide affordable, reliable and increasingly cleaner energy to customers
  - They are key drivers for the proposed increase, which will allow us to recover the costs associated with assets we have placed into service in recent years
- These include our H.F. Lee, Smith, and Sutton natural gas fired combined cycle facilities
  - They also include the South Carolina retail share of costs from the NCEMPA acquisition, in addition to renewables investments
- The hearing will begin on October 31 and, if approved, new rates could go into effect in January 2017
- We have also filed two separate petitions with the Florida Public Service Commission under the generation base rate adjustment mechanism to increase revenues by approximately $70mm
  - The first petition includes the Hines Energy inlet chilling air units, which will provide approximately 220 megawatts of additional capacity to the current plant
  - The second petition is filed to recover the total revenue requirements associated with the previously approved acquisition of the Osprey generating facility from Calpine
- We expect this acquisition to be completed in early 2017

Filings in Florida

- Also in Florida, I am pleased to announce that we recently completed the securitization of cost associated with our retired Crystal River 3 nuclear plant
- By issuing bonds at very attractive interest rates, this transaction will save our Florida customers nearly $800mm over the next 20 years
  - This financing represents a win-win solution that allows us to continue making investments in Florida that provide cleaner energy solutions for our customers and at the same time, help manage the impact to our customer's bills
- I'm proud of our team that worked diligently to create significant value for our customers through this transaction

Investor Considerations

Strategic Transactions

- I'll close with slide 12
- Duke Energy has tremendous scale, offering an attractive investor value proposition which includes balanced growth in earnings and reliable dividends over time
- As Lynn mentioned, we are making good progress on the exit of the Latin American generation business in preparing for the integration of Piedmont
  - After completion of these strategic transactions, we will operate a portfolio that provides low risk and high-quality earnings and cash flows to support stable earnings and dividend growth

Capital Plan

- We are making significant strides in executing on our capital plan, including investing in cleaner energy resources and technologies that modernize our energy grid to provide the enhanced services that our customers expect
  - And we are excited about the growth opportunities for natural gas infrastructure across our service territories, particularly in the Southeast

Dividend and Adjusted EPS Guidance

- Our dividend is very important to us
- The strength of cash flows generated by our operating companies allows us to continue to target annual growth in the dividend consistent with our long-term 4% to 6% earnings growth objective
- We had a good H1 the year and are looking ahead to Q3, traditionally our strongest
  - This gives us confidence to reaffirm our $4.50 to $4.70 adjusted EPS guidance range for 2016

QUESTION AND ANSWER SECTION

<Q - Jonathan Philip Arnold>: On the Latin America sale, can you give us any update on just when you would anticipate this wrapping up? I think you're saying it's – you've gone into the second round already. Is this a this quarter or more a fourth quarter type of thing?

<A - Lynn J. Good>: You know, Jonathan, it's progressing as we expected. We are targeting an announcement by the end of the year and believe closing is a 2017 event. So we will give more specifics as we continue through the process. But we're on pace to achieve that at this point.

<Q - Jonathan Philip Arnold>: Okay. Great. And then just on the same topic, I think on the last call you had said that you would sort of give some updated thoughts around likely dilution as the year progressed. And given that we've seen an improvement, I guess, in the fundamentals and some other aspects, do you have anything new to say on that or should we sort of stick with the prior commentary?

<A - Lynn J. Good>: I think the prior commentary still works, Jonathan. I think until we can talk more specifics on the price and the timing, it's difficult to be more specific at this point. So we will provide that information when we have clarity and give you the kind of update you'd expect on implications to long-term earnings trajectory.

<Q - Jonathan Philip Arnold>: Is it fair to say that you might feel better than you did three months ago, given changes in the marketplace? Or is that just …

<A - Lynn J. Good>: No, I certainly – yeah, I think your observations of optimism. We see stronger GDP growth being projected for 2017 working through some of the political issues seems to be moving forward. Of course, the hydrology has returned to normal so there are a number of positive trends. And you all watch FX, that's trended favorably as well.

<Q - Jonathan Philip Arnold>: But you're definitely selling, right?

<A - Lynn J. Good>: We're definitely selling.

<Q - Stephen Calder Byrd>: Wanted to just check in with you on coal ash spend and recovery. I know this is a topic you've talked about in the past but I just wanted to make sure I understood your latest thinking from here in terms of approach to recovery of spending, any additional thoughts you might have in terms of just strategy for addressing that spend?

<A - Lynn J. Good>: Sure. Stephen, the forecast that we have in place at this point has about $1.3B of coal ash spend over the next several years, really targeted to the first four sites. And we think that's a good planning assumption for now. We have requested deferral of those costs in South Carolina and we've received approval, and we will be pursuing recovery of cost in South Carolina in connection with the case that we just filed.

For North Carolina, we intend to file a case really in connection with in-service date of certain of the plants. So we gave you an update on our timing on that and coal ash would be a part of that general rate case process. I'm pleased with what we've accomplished so far, both in terms of the progress we've made in basin closure. And I believe the legislation that's in place today has also reduced any uncertainty, or a lot of the uncertainty, around the cost estimate and closure methods, which I also think is important.

<Q - Stephen Calder Byrd>: Okay, that's very helpful. And shifting to kind of the other side of the spectrum on solar, I guess two parts to this. One, we've been hearing a whole bunch of encouraging commentary from other utilities in terms of just potential for increased solar growth. So I was curious in terms of your take on that potential. And relatedly, in terms of your organic growth capabilities in terms of your team and being able to grow this business yourself rather than simply acquire other mature assets, if you could just speak to your capabilities. Thank you.

<A - Lynn J. Good>: Stephen, we have had a separate dedicated team focused on renewable growth since 2007. We call it our commercial renewables team. So we have about 3,000 megawatts of a combination of wind and solar. Some of it has been greenfield-developed; some of it has been acquired. And we've been in the business of not only building, constructing, operating but also acquiring assets for a long period of time.

We continue to put capital to work in a disciplined way in that business. The returns are heavily impacted by tax incentives. And so ensuring that we're delivering an appropriate return is always an area of focus in that business.

Over the last three years we've turned greater attention to regulated renewables and have made a number of solar investments in the Carolinas. We announced one in Indiana and we've had a number in Florida as well. And that team has delivered probably between 250 and 300 megawatts of owned renewables in all of our jurisdictions. We believe that's going to be increasingly important as we go forward. So there's been a lot of development in both areas of our business over the last several years. And I believe we have a strong team to continue to pursue growth in those areas.

<Q - Stephen Calder Byrd>: Understood. And, Lynn, in terms of the potential for gross step change up in terms of greater solar growth, just as the cost of solar continues to drop very rapidly, should we expect a step change or do you see it as more of a gradual evolution where you're focused?

<A - Lynn J. Good>: You know, and I think, Stephen, I would talk about it in a couple of ways. In the regulated area, each jurisdiction has a slightly different profile. We have renewable standards in some. We have solar legislation in some. In Florida, we have a site plan that has 500 megawatts under development over the next 10 years. And we are constantly looking for what is the lowest cost resource that we can bring in that makes sense for customers and really use that as part of a planning assumption for our integrated resources. So we will see that continue to build. I wouldn't see it as a step change, necessarily, but continued growth consistent with what makes sense for customers.

On the commercial side, we have a combination of wind and solar. Our portfolio today is more heavily allocated to wind. And we look for opportunistic opportunities to bring assets into the portfolio that make sense given our return expectations. So if you look at our capital plan, you see $500mm to $1B of annual spend looking for the right opportunities. And that's a good planning assumption, again, to think about how we are adding renewables to our portfolio.

<Q - Steve Fleishman>: Couple of questions related to international sale – just the assumptions kind of on the edges. What was the debt level there at the end of the quarter? I had it last time around $650mm. Is that still about right?

<A - Lynn J. Good>: That's a good assumption.

<A - Steven K. Young>: That's about right, yeah.

<Q - Steve Fleishman>: Okay. And you still expect that you will not have to pay any taxes on a sale – cash taxes?

<A - Lynn J. Good>: Because of the NOL position, Steve, it's pushed out.

<Q - Steve Fleishman>: Okay. And then is there anything you need to deal with in terms of overheads within the whole company that are being attributed there that might have to be placed to the rest of the company?

<A - Steven K. Young>: No, I think we're in pretty good shape there. We have a Houston office that deals with the international business, and so it's a bit more standalone than some of our other operations. So I think we're well prepared to deal with that.

<A - Lynn J. Good>: You know, Steve, I would add to that. In each country we run a finance organization. There's a CFO, there are HR execs, there are legal support in each country. And then we also have, as Steve indicated, a Houston office that serves as overall oversight. So there are resources here at the corporate center that support international but it's not to the extent that you might expect for a more domestic business.

<Q - Steve Fleishman>: Okay. And then unrelated question, just I think, Steve, you mentioned something about commercial maybe tracking a little bit below plan so far this year. But then I assume the utilities may be a little above. Could you just kind of clarify what you're saying there? What are – if that's true, what are the key drivers on each –below or above?

<A - Steven K. Young>: Right. Yeah, let me talk about some of our segments here. Commercial is running a bit below. We've had below-normal wind, if you will, and that's pushed some of the earnings down there. We'll see what happens in the last half of the year. International had a large favorable tax item that we booked in Q1. Some of that will come back over the remainder of the year. But that's been helpful to their results certainly for us.

On the regulated side, we started out the year with mild weather and storms and some weak weather-normal volumes. We've done a great job in Q2 coming back. Weather has picked up a bit in June and certainly in July. We'll see where that goes through Q3. Our O&M savings have been quite significant. YTD, $0.10 savings; that's been offset by about $0.06 of storm but still some very strong YTD O&M savings that help us there. We've gotten good top line revenue growth from energy efficiency riders and some infrastructure riders in the Midwest. That has helped and continues there.

We'll see how weather-normal load picks up in H2. We're optimistic about the residential side of things. So there's ups and downs in the various segments there but feel good about where we're headed for the rest of the year.

<Q - Julien Dumoulin-Smith>: Perhaps if you could – good morning. I wanted to follow up here on the commercial renewables, if you will. What is a good rule of thumb when you're thinking about wind or solar as you build those out and make the y-over-y comparisons? I know that you've had these pressures but what are the rules of thumb? What is 100 megawatts, what's a gigawatt equal on an EPS basis? Again, you've obviously got the one-time ITC element here but just kind of an ongoing basis.

<A - Lynn J. Good>: Julien, that's an interesting metric. The way we look at these projects is overall return over the life of the project with an expectation that the return has to clear hurdle rates around cost to capital and other things. So we don't look at it as a specific metric of revenue or EBIT per megawatt hour, whether it's wind or solar. The profile, as you indicated, is different.

So the ITC impact of solar for the commercial can have a more heavily weighted near-term impact. Wind comes in over the 10-year PTC period. What's influencing results for us in H1 is just the wind not blowing as much, so we had relatively weaker wind in the quarter relative to plan. But it's really consistent with what we saw last year with weaker wind, so not much of a y-over-y delta. Hopefully, that clarifies.

<Q - Julien Dumoulin-Smith>: Yes, absolutely. And then if you can expand on your strategic vision for the company. Obviously, we've seen other peers in the Southeast look at Midstream a lot more closely. Obviously, you guys have more of a history. Can you give us your latest thinking on the trajectory? Is gas utility it or are you going to go further?

<A - Lynn J. Good>: Julien, if you look at the investments we've made over the last three years, we have been turning more attention to gas infrastructure. And that is really building on the transition in our generation portfolio toward more natural gas. So if you go back to 2008, 2009, 2010, the Carolina companies had very little generation coming from natural gas. That, today, is in the range of 25% to 30% of our energy is coming from natural gas. So we made an investment in the Atlantic Coast pipeline, $2B investment, to bring more infrastructure into the state to provide infrastructure for further development of generation and also services to customers.

We made an investment in Sabal Trail, which is important to Florida, which is already a very gas-heavy area. And then we added Piedmont, which is the interstate pipeline in the Carolinas, which we believe has great growth opportunity, not only for the customers they serve, but for increasing power generation. So we believe that gas infrastructure fits with Duke. The returns, the regulated returns, the cash flows in support of our dividend are important. And we will look for ways to continue to add to that portfolio as we go forward.

At the same time, as you know, we are also adding to our electric business with grid investment, renewables, gas generation. And we'll continue with those investments as well. Always looking for ways we can add additional value to customers and to our investors.

<Q - Julien Dumoulin-Smith>: Great. Thank you. And a quick clarification on a prior question. When you were talking about recovery mechanism for coal ash and the timeline in turn for rate cases, can you elaborate a little bit on your confidence of the 4% to 6% and when that's going to materialize as it relates to the latest clarity in coal ash recovery and, in turn, the clarity that you're now getting for your rate case timeline?

<A - Lynn J. Good>: Julien, we're on track for 4% to 6% as we've talked about, really over this year. The rate cases will be more in the back half of the five-year period. So you should be thinking about greater contribution in 2018 and 2019 than in 2017, as an example.

I think what the coal ash legislation does is it provides more certainty on our larger sites, on the methods that we can use to close. And therefore, the overall cost and impact to customers will be lower over the 10- to 15-year period that we pursue closure of these basins. So I think it's all fitting together in what we have shared with you as our approach to delivering the 4% to 6% over the five-year period.

<Q - Shahriar Pourreza>: So most of the questions were answered. Just real quick on Atlantic Coast Pipeline. I think that it's obviously now fully subscribed. So is there sort of a viewpoint on when and if you would look to upsize it to around 2 BCF of laterals and compressors?

<A - Lynn J. Good>: Shar, we need to get through the FERC process for the existing status or investment of the pipeline. We expect to receive a scheduling order soon and anticipate the FERC order in 2017. So I think discussions about the future around that pipeline will be better served 2017, 2018 as we continue to progress the existing project.

<Q - Shahriar Pourreza>: Got it. And then just lastly on the solar, as we sort of think about your pipeline and your backlog and installations, how should we sort of think about the solar vs. at the regulated utility, regulated rates or at the commercial business? As you look to do more solar.

<A - Lynn J. Good>: So at this point in the regulated business, Shar, it's almost all solar. You should think about the Carolinas renewables investments as being solar investments. We have one wind investment in Indiana and there could be potential for more wind in the Midwest. But I would think about our regulated potential as being primarily a solar potential.

As we think about commercial, we look at both. And, in fact, this year we're going to install more megawatts of wind than solar, just based on the opportunistic nature of what we've developed, the returns we've delivered and what we believe to be the highest quality projects. So we'll be more opportunistic in the commercial business looking at a complement of wind and solar. We like the profile of PTC. So there might be a slight bias toward wind. But in our regulated business, as I said, solar will be the predominant investment type.

<Q - Shahriar Pourreza>: Got it. And then do you expect that mix between wind and solar commercial to potentially invert as the PTCs roll off?

<A - Lynn J. Good>: We always look at that, Shar, and what makes the most sense for the business. Where do we have the greatest return potential? We are heavily weighted to wind. We've probably put more attention to solar in 2014 and 2015 and so we continue to look at a mix.

<Q - Michael Lapides>: Hi, guys. Can you just talk about pension for a second? Just trying to think about what your sensitivity is to changes in discount rates and interest rates and how that may impact O&M and which jurisdictions do you get kind of more real-time recovery of that increased cost vs. which ones where there's a little bit of lag?

<A - Steven K. Young>: Sure, Michael. A sensitivity first: 25BPS on our discount rate is about $0.02 up or down on our pension expense. And it's a similar sensitivity on the return on assets of a 25BPS change on the return on the fund assets. A couple of things about our pension plan, it's fully funded, over 100% funded. And it's a closed pension plan. And we have de-risks that -- we're in the process of de-risking it. And so we're not quite as volatile as maybe some folks might be regarding swings there. Most of our jurisdictions have that as part of cost of service in our service territory. So you update pension cost like you do other non-fuel O&M type costs.

<Q - Michael Lapides>: Got it. One other question, a little bit of a change of topic, but when you look at demand across your different service territories, the demand trends look very different near Southern service territories vs. those in the Midwest. Can you talk a little bit about how having those very different kind of demand trajectories impacts how you might think about managing those different jurisdictions differently?

<A - Steven K. Young>: Sure, Michael. You certainly do see different characteristics across our service territories, which is one of the benefits of that type of diversity. When you look at the Midwest, you'll see less residential population growth than the Southeast. But you do see some very solid industrial growth. When you look over the past several years, we've seen a lot of the automotive and metals in the Midwest kind of carry our growth during 2012 through 2015.

What we're seeing now is that the residential growth in the Southeast is picking up as some of our industrial growth has declined a bit. But we have jurisdictional leadership that is very well attuned to the business climates in all of our jurisdictions. And they do vary. Florida has little industrial and has a lot of residential. The Midwest has a lot of industrial, so we're well in tune and manage all of those jurisdictions accordingly.

<A - Lynn J. Good>: Michael, what I would add is each jurisdiction has its own business profile challenges and opportunities as well as the public policies in each state can impact the way we think about our priorities. And so I think about the Carolinas with the focus on renewable portfolio standards and the increased interest in solar in South Carolina. We are taking advantage of that interest and making investments in that way.

In Indiana, it's been a jurisdiction that has very much been interested in infrastructure investment. The support for the grid investment of $1.5B has been something that moved through the legislature and then we've been able to put a plan in front of the Indiana Commission that they have approved.

And so the point you're making about tailoring what we do, both in terms of regulatory strategy and legislative strategy to each state, is something that our jurisdictional teams are focused on. And I think that's one of the strengths of our portfolio is we have the opportunity to take advantage of the interests in each state.

<Q - Michael Lapides>: Got it. Thank you for that. One – I guess one final, in the Carolinas, in North Carolina, have you all quantified what the coal ash expected capital spending costs are for the next few years and then kind of what the total obligation or liability is longer term?

<A - Steven K. Young>: What we have disclosed, Michael, in our five-year plan, we had disclosed $1.3B of CapEx related to the four sites that we knew we were going to excavate. And then beyond that, we had disclosed that we had between $0.7B and $1B for some other sites that we had disclosed we were going to excavate. Some of that spend gets outside the five-year window. So we'll update those numbers in February. Those are kind of the disclosures that we had. I don't know that they've changed dramatically. The overall ARO obligation on our books for the Carolinas and North Carolina is about $4B. That hasn't changed a lot over the past several quarters.

<Q - Brian J. Chin>: . Just a general industry question. We've heard from a number of your peers that are investing in wind and solar that because of the improvement in technology and economies of scale that PPA prices are now economical at lower and lower levels. Could you give just a general sense of what your commercial team is seeing with regards to PPA prices for wind and solar?

And what's your general take on to what extent do you agree with that statement vs. does the industry – is the industry experiencing a little bit of a capital discipline issue here? Can you just comment on that generally? Thank you.

<A - Lynn J. Good>: Brian, the prices are lower. PPA prices are declining. I think that reflects the improvement in the technology. And the comment that I would make, the economics are still largely, largely driven by tax incentives.

And so an important criteria in establishing returns is your ability to monetize those tax credits, either through a tax equity structure or through your own profile. And so that's something that we look closely at. I think we've disclosed that we are in an NOL position. And so our appetite for immediate monetization is limited. And so I think there are a variety of considerations as we look at additional investment and what discipline means for Duke Energy in the returns that we're trying to deliver with renewables.

<Q - Brian J. Chin>: Okay, great. And then one other question. You made it very clear at the beginning of the year that the National Methanol group was not part of the international sale effort. Can you comment on are there any conditions that might occur in the future that might prompt you to revisit that? And what is the investment case for owning National Methanol? I understand that you have a very complex relationship with the government of Saudi Arabia in terms of an ownership structure. But from just purely an investment standpoint, what is the case for continuing to own that business?

<A - Lynn J. Good>: Brian, I'll maybe give you a little perspective on history on this. We had the opportunity to renegotiate the NMC contract. My, what has it been? 2011, 2012?

<A - Steven K. Young>: Yes.

<A - Lynn J. Good>: Where we extended the life of the contract in exchange for a reduction in ownership because we were not going to put additional investment dollars into the joint venture. And we ended up with a very attractive net present value on that investment where you get another 15 years or so of earnings with no additional capital investment. And we thought that was a prudent thing to do because the value of selling it at that point of renegotiation was inferior to the extension profile.

And so at any point, I guess we could enter into discussions with our partners about an exit. But I look at it today as being a very small investment that produces strong cash flows that we're able to bring in and use to support the dividend. And in the scheme of all of Duke, it's relatively modest. Right? We're talking about less than $100mm of net income. So that's the history I would share with you and it's been a good contributor over time, as you know.

<A - Steven K. Young>: Yes, I would add that it's an investment on our books of less than $100mm that produces net income, cash dividended to the parent of, in some years, close to $100mm a year. It's lower than that, but still very profitable at the lower levels. So it is an equity investment; doesn't require a lot of management time or effort. Selling it has some challenges. So we'll hold on to it.

<Q>: A lot of my questions have been answered. But just to follow up a little bit on coal ash, would you remind us how much has actually been spent to date so far vs. the total plan, and is that the amount that you expect to file in your next North Carolina rate case?

<A - Steven K. Young>: We've spent roughly $500mm to date, and we'll be spending at accelerated clips as we go forward. So we'll be determining what – based upon levels of prior spend, that will impact our filing criteria. Typically, we would not try to recover costs that have not yet been spent. So that's why you build up a spend pattern a little bit and then make recovery applications there.

<A - Lynn J. Good>: I think, Michael, it's important, when we talk about $500mm, in the Carolinas, we operate four utilities. So it's North Carolina – Duke Energy Carolinas, Duke Energy Progress; South Carolina – Duke Energy Carolina, Duke Energy Progress. So that spend would be included in four different sets of rate cases as we go forward.

<Q>: All right. That makes sense. And I know that you said earlier that the tax – that you don't expect any kind of, I guess, gains tax on the sale of the Brazilian portfolio?

<A - Lynn J. Good>: So we're in an NOL position on our federal tax basis is what we were talking about. And so cash taxes – if there are cash taxes to be paid – will be deferred into the future.

<A - Steven K. Young>: Well, we...

<Q>: Yeah.

<A - Steven K. Young>: Well, we would suspect that we would have a taxable gain on the sale. But the level of taxes recognized depends upon the sales price and so forth and various tax mechanisms put in place. But whatever tax liability we get from that will be deferred due to the NOL positioning.

<Q>: Have you disclosed the tax basis?

<A - Steven K. Young>: No, we have not.

<Q - Praful Mehta>: Just one question on – we've talked a lot about your portfolio about for commercial, natural gas, putting the 4% to 6% growth rate that you have in context, how would you look at these different pieces of the business? As in what's driving – what's kind of delivering higher growth in the 4% to 6%, what is lower? And as you look forward, how do you look at your portfolio? I mean, what do you look to grow? What do you think will deliver that stronger growth more post the four- to five-year timeframe as well?

<A - Lynn J. Good>: I would point back to the slide that we included in our February call that laid out the components of the growth. Certainly the utilities, the regulated utilities are an important part of that. And it's a combination of wholesale growth, investment growth and modest load growth. Our commercial business will contribute. Piedmont and the gas platform will contribute. We see Piedmont as growing at a faster rate than 4% to 6% and the pipeline investment will be growing at a slightly faster rate. So I would refer you back to that slide. I think it's the – probably the best depiction of the details around how the 4% to 6% unfolds over the next five years.

<Q - Praful Mehta>: Got you. And do you see that trend happening more past that five-year trend as well? As in, do you see utility growth tapering off a little bit and that Piedmont picks up on that growth over time?

<A - Lynn J. Good>: You know, I think we continue to look for ways that we can deliver investment for customers in our electric business. I think the one thing I would point out, if you look at the profile of Duke over the last 5 to 10 years, our growth has been more heavily weighted toward generation, which means we continue to have a lot of potential in distribution, grid, transmission and customer, that we'll continue to find opportunities to put capital to work over the next five years. But I believe that trend will continue into the future. Renewables are another area that I think will continue beyond the five-year period.

<A - Steven K. Young>: Right. I would add that we see our regulated rate base growing at 5% over our five-year timeframe. And ultimately, that's a way to think about an earnings base. And now the timing can vary depending on rate case timing but that's the earnings based growth we see.

<Q - Ali Agha>: First question – just so that we don't double count these numbers, can you just remind us in the base case scenario, how much cash had you assumed you would be taking out from international on a going forward basis?

<A - Lynn J. Good>: About $300mm a year.

<A - Steven K. Young>: That's correct. And thus far we've taken back about $1.5B through the repatriation effort that we put together in late 2014.

<Q - Ali Agha>: Okay. But that $300mm a year, was that indefinite or was that over some period of years?

<A - Lynn J. Good>: So, Ali, you might remember we declared $2.7B dividend. The $1.5B that Steve indicated has already moved against that dividend. So we had $1.2B left, and I believe we were targeting to move that between now and 2021 or something like that. So it was not – what we had accomplished was a very favorable structure transaction that gave us an opportunity to move $2.7B in an advantaged way. And we were going to move the $300mm a year against that between now and 2021.

<Q - Ali Agha>: Got it. And just to be clear, Lynn, correct me if I'm wrong, so when we think about the proceeds that you'll get from the international sales, it's the stuff or cash that's above $1.2B that we should think of as incremental cash that you would not have counted on in your base case original plan.

<A - Lynn J. Good>: Certainly accelerated – an accelerated $1.2B.

<A - Steven K. Young>: Right. It accelerates it and would be greater than $1.2B.

<Q - Ali Agha>: Right, right. And then separately, with the write-off, I know you alluded to that in your opening remarks, what is the book value of those international assets now?

<A - Steven K. Young>: They are in the neighborhood of $2.4B, $2.5B.

<Q - Ali Agha>: Got it. Okay. And last question, the 4% to 6% growth longer term, can you remind us the underlying load growth weather-normalized, is that 0.5% have you assumed that stays consistent over that period or just remind us what you assumed there?

<A - Lynn J. Good>: 0.5%. You have a good memory.