

Company Name: Duke Energy
 Company Ticker: DUK US
 Date: 2017-02-16
 Event Description: Q4 2016 Earnings Call

Market Cap: 54,339.63
 Current PX: 78.875
 YTD Change(\$): +1.255
 YTD Change(%): +1.617

Bloomberg Estimates - EPS
 Current Quarter: 1.088
 Current Year: 4.605
 Bloomberg Estimates - Sales
 Current Quarter: 6292.000
 Current Year: 24870.188

Q4 2016 Earnings Call

Company Participants

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

Other Participants

- Jonathan Philip Arnold
- Stephen Calder Byrd
- Steve Fleishman
- Michael Weinstein
- Christopher J. Turnure
- Praful Mehta
- Brian Chin
- Michael Lapidès

MANAGEMENT DISCUSSION SECTION

Michael Callahan

Non-GAAP Financial Measures

Today's discussion will include forward-looking information and the use of non-GAAP financial measures

Slide 2 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

Lynn J. Good

Business Highlights

Adjusted EPS

- Today, we announced adjusted EPS of \$4.69, closing out a very successful 2016
- We delivered strong operational and financial results, ending the year at the high end of our guidance range
- We completed our multiyear transition of our business portfolio, with the well executed exit from our International operations and the acquisition of Piedmont Natural Gas
- Through it all, we maintained strong earnings growth in our core businesses and continued to increase our dividend. 2016 was clearly a pivotal year for Duke Energy and it's a key indicator of the success we expect going forward

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Capital Plan

- As you see on slide 4, today Duke Energy enters 2017 with premier electric and natural gas franchises operating in constructive jurisdictions and with a demonstrated track record of strong execution
- With our scale and portfolio of complementary businesses, we benefit from a wide range of investment opportunities
- And as you will hear today, we're excited about our five-year \$37B growth capital plan, up approximately 25% from last year
 - We have strong growth in every segment underpinned by capital, delivering value to our customers

Strategy

- Today, we extended our consolidated growth rate of 4% to 6% through 2021, which is off of the midpoint of our 2017 adjusted EPS guidance range of \$4.50 to \$4.70
- Our capital plan and regulatory strategy has been designed to produce earnings within this range each year of the five-year plan
- And as the investments build and recovery accumulates, we're even more confident of our ability to reach the high end of the growth range

Earnings and Dividend

- The assets we have, coupled with the strategy that produces real results, offer a solid long-term investment opportunity
- We are positioned to deliver growth in earnings and dividends in a low risk, predictable and transparent way, providing an attractive risk-adjusted shareholder return for our investors
- As a capital-intensive business, our growth is supported by the scale and strength of our balance sheet, which remains the continued focus for our company
- In short, our attractive yield and demonstrated ability to reliably grow our regulated businesses positions Duke Energy as the leading infrastructure investment

Five-Year Capital Plan

- We have a great story to share today
- And in a moment, Steve will provide details on our five-year capital plan
- I want to spend the next few minutes offering insight into our long-term vision for Duke Energy and where we plan to take our company in the next decade

Customer and Stakeholder

- Our industry is undergoing transformation, from increasing customer and stakeholder expectations to rapid technology development and new public policy requirements
- The companies that succeed in this dynamic environment are those who anticipate and adapt

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- We see great opportunity in this period of transformation
- And our focus is highlighted on slide 6, investing in infrastructure, our customers value and delivering sustainable growth for our investors

Manifested

- Slide 7 shows how that vision is manifested
- We will invest at areas that position us well for this transformation
- Strengthening and modernizing our energy grid, generating cleaner energy through natural gas and renewables, and building natural gas infrastructure to support the growing need for this important resource, and by building on a foundation of customer satisfaction and stakeholder engagement
- Everything we do begins with customer service, and we also understand that working collaboratively with our stakeholders is critical to our success

Natural Gas Business

- To paint a clearer picture of where we're going, we pulled back the lens and outlined on slide 8 our aspirations for the next 10 years
- We will relentlessly pursue our goal of achieving and sustaining top quartile customer satisfaction, placing the customer at the center of everything we do
- We will strengthen our energy delivery system, investing \$25B to create a more modern, smarter energy grid
 - We will generate cleaner energy through natural gas and renewables, investing \$11B as we move to a lower-carbon future
- We will expand our natural gas infrastructure to meet customers' needs, doubling earnings contribution of our natural gas business
- And we will enable more timely recovery of revenues in all of our jurisdictions, as we work to improve regulatory cost recovery mechanisms

Operational Excellence

- Of course, any success we achieve is grounded in our commitment to maintaining industry-leading safety standards and operational excellence remains as the foundation of all we do
- Our success starts here
- Today, Duke Energy leads the industry in employee safety, and we will continue that leadership in the years ahead
 - This is our path
- It's ambitious and it's achievable

Grid Modernization

- Let me spend a few minutes on each investment area

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- First, turning to slide 9, I will discuss grid modernization and our objective to improve system performance and enable additional capabilities through smarter energy infrastructure
- Our transmission and distribution network is the largest in the nation, and on its own, our Carolinas system is the sixth largest
- Our scale requires consistent capital investment
 - But in this era of transformation, the demands on our system have never been greater

Hurricane Matthew

- And while the system is reliable, recent events such as Hurricane Matthew have highlighted opportunities to strengthen the grid
- We have outlined a 10-year \$25B plan to modernize, building a more flexible, reliable system
- We have already begun this important work in the Midwest, with plans to expand it into our other jurisdictions
- We're using data analytics to inform our investment plans, delivering the highest value to our customers
 - This work will direct our targeted undergrounding programs, as well as a number of other reliability and integrity upgrades
- Additionally, new technologies available today will advance our energy grid and deliver services our customers and communities increasingly expect

Investments

- Our initial investment will focus on enhancing basic services with smart meters and communications technologies, increasing power quality and improving reliability
- These investments will also support more distributed energy resources on our system
- Subsequent capital spending will integrate emerging technologies, such as storage and improved remote monitoring, communications and control

O&M Expenses

- We expect to reduce our outage frequency and duration rates by 50%, and significantly reduce our O&M expenses through the deployment of more advanced technology
- Much of this work will also support our goal of moving the company into the top quartile for customer satisfaction

Environmental Footprint

- Our next major investment platform focuses on generating cleaner energy
- I'm proud of our efforts to reduce our environmental footprint, including reducing our carbon dioxide emissions by 29% since 2005
- As you can see on slide 10, our retirement of more than 40 older, less efficient coal units, coupled with the addition of clean natural gas plants and renewable, is driving our emissions reduction

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- In the next 10 years, we will invest \$11B, increasing new, highly-efficient natural gas generation to 35% of our portfolio, and cleaner renewable energy sources to approximately 10%
 - These renewable energy sources include hydro, wind and solar
- With these investments and our carbon-free nuclear generation, by 2026, we will reduce carbon emissions by 35% from our 2005 levels

Carbon Footprint

- In addition to regulated renewables, we will also invest in commercial renewable assets, as we continue to pursue projects that meet our return criteria
- Reducing our carbon footprint is important to many in our communities
- We remain focused on being a leader with environmental stewardship at the forefront of our plans

Natural Gas

- Moving to slide 11, our third area of investment focus is natural gas infrastructure
- We look at the future of this industry and the future generation needs of our company, natural gas will continue to play a major role
- With the acquisition of Piedmont, we now operate a five-state gas distribution business and have investments in midstream natural gas pipelines
- We rank second nationally for natural gas consumption across our electric utilities and LDCs
 - This underscores how these business will continue to complement one another

LDC Business

- With more than 90% of our margins in the LDC business mostly fixed through decoupling and weather normalization mechanisms and our low-risk natural gas pipeline investment portfolio, we have very little exposure to volumetric risk in this business
- Similar to our electric businesses, our LDCs, which serve more than 1.5mm customers, are located in states with strong customer growth of over 1% over the last five years, including customer growth of 1.5% at Piedmont

Midstream Business

- Our growing midstream business is anchored by our investments in highly contracted pipelines such as Atlantic Coast, Sabal Trail, and Constitution
- This infrastructure will bring much needed gas supplies to the Eastern U.S. for an economic growth and helping us grow our customer base in the Southeast

Atlantic Coast Pipeline

- Atlantic Coast Pipeline is a prime example of the tremendous overlap between our electric utilities, LDCs, and midstream pipeline investments, driven by transportation contracts with our natural-gas-fired plant and Piedmont

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- ACP will provide opportunities for industrial and manufacturing growth and infrastructure investment in our Eastern Carolinas communities
 - This growth, as well as combined heat and power, coal-to-gas conversions and dual-fuel projects will boost our gas business

Natural Gas Platform

- We look forward to benefiting from coordinated infrastructure planning between our electric and gas utilities as we prepare for new gas-fired generation facilities that will maximize this new gas platform
- We also anticipate continued economic development opportunities across the region as a result
- In the next 10 years, we expect our natural gas platform to account for 15% of our portfolio, up from 8% today, as we expand and scale our natural gas business

Few Policy Issue

- Before turning to Steve, let me turn to slide 12 and touch on a few policy issues that are top of mind for investors
- We are engaged with Congress and the new administration as they begin to address important policy issues impacting our company and customers
- The President and congressional leaders have an ambitious agenda that includes a few particular areas of focus for us, including tax reform and infrastructure policy

House GOP Blueprint

- While it's early in the process and much work remains ahead, Duke Energy supports many of the goals of comprehensive tax reform, which could benefit our customers and support critical investments needed for economic growth
- No specific legislation has been introduced, so we are working with the administration's campaign tax plan and the House GOP blueprint
 - We've analyzed a number of scenarios to evaluate a range of potential impact to our business

Debt and Capital

- Our preliminary analysis shows that the administration's tax plans, which would allow the option to retain interest deductibility and forego immediate expensing of capital, is neutral to slightly accretive for our company on a consolidated basis
- On the House GOP plan, the range of potential outcomes will be impacted by a number of factors, including the treatment of existing debt and other transition rules
- The loss of interest deductibility and immediate expensing of capital will impact our utility rate base over the long term
 - But given our NOL position, it's not expected to have a material impact over the next five years

Cost of Capital

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- It's important to recognize, however, that loss of interest deductibility will permanently impact the cost of capital to our customers, whereas expensing is a timing difference
- The most significant impact from the House GOP plan is on our holding company
- If we assume the loss of interest deductibility on new and refinanced holding company debt and a lower tax shield on existing debt, the impact could be approximately 5% dilutive by 2021
- We all recognize that we're in the very early stages of this matter, and we will continue to update our analysis as more specific information becomes available
 - We'll also actively engage in advocacy on tax reform, along with EEI and other industry CEOs

CapEx

- Given the capital intensity of our industry and the relatively high leverage percentage supported by regulations, we believe better tax policy should retain interest deductibility and forego immediate expensing of CapExs
- This approach is recognized in the administration's plan, and we will continue to meet key stakeholders to advocate for our position on behalf of our customers and investors

Infrastructure

- Turning to infrastructure, the regulated electric industry invests more than \$100B annually in critical infrastructure, and Duke Energy accounts for nearly 10% of that figure, a welcome effort to streamline the siting and permitting of infrastructure project, such as grid investments and natural gas pipeline necessary to meet the long-term needs of our customers and communities
- These topics are complex and will take time
- We will be actively engaged with congressional leaders and administration officials to advocate on behalf of our customers and investors, emphasizing the critical role of low-cost energy in driving America's economy
 - So that's a brief overview of our longer-term strategy

Steven K. Young

Financial Highlights

Adjusted EPS

- As mentioned, I am going to spend the majority of my time walking you through our five-year financial plan
- Turning to slide 13, we are introducing our adjusted EPS guidance range of \$4.50 to \$4.70 per share today
- In addition, now that we have successfully closed on the Piedmont and International transactions, we will anchor our long-term growth rate off of the midpoint of our 2017 guidance range of \$4.60
- Over the next five years, we anticipate growing our adjusted EPS by 4% to 6%, consistent with the historic growth rate we have achieved in our domestic businesses

Ongoing Investments

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- In 2017, our results will be driven by our ongoing investments in electric and gas infrastructure and retail and wholesale customer growth
- Positive results in the electric business will also be driven by our base rate increases in Duke Energy Progress South Carolina, and the generation base rate adjustment mechanism in Florida
 - These positive drivers will be partially offset by higher depreciation, interest expense and other taxes, as we continue to place new assets in service

International Sale

- Given that we have completed the International sale in December, we will not have results from that business in 2017
- That will have an approximate \$0.05 benefit from the use of proceeds from that sale, and another \$0.05 contribution from National Methanol, which we retained and is now reported in Other

Capital Plan

- Moving to slide 14, we have a robust five-year capital plan of nearly \$50B in place to drive our 4% to 6% earnings growth
- In fact, we have increased our growth capital plan to \$37B, an increase of \$7B, largely driven by grid modernization investments in the Carolinas and our growing gas platform
 - This investment plan will drive earnings base growth in our combined electric and gas businesses of approximately 6% over the next five years

Gas Utilities and Infrastructure Business

- As we look at each of our segments' contributions, electric utilities and infrastructure, representing 89% of our adjusted earnings, is well-positioned to grow at 4% to 5% over the next five years
- Our gas utilities and infrastructure business will contribute approximately 8% to our 2017 results, with a five-years growth rate of 10% to 12%

Commercial Renewables Segment

- And our Commercial Renewables segment, which includes owned wind and solar assets, as well as our operating services and third-party contracts, will contribute approximately 3% with a five-year growth rate of 8% to 12%
- We are confident these businesses will generate stable earnings and cash flows delivering solid results in 2017 and beyond

Strategy

- Turning to slide 15, growth in our electric business will be supported by our five-year \$30B growth capital plan, the investments align with our strategy to modernize the energy grid and to generate cleaner energy
- Our plan also reflects environmental compliance cost of over \$4B, including approximately \$3B to safely close ash basins across our system

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- These significant investments drive a strong earnings-based CAGR of over 5.5% for our electric business through 2021

Electric Business

- Now, let me walk you through additional details of our five-year plan for our electric business
- On slide 16, you will see our focus on upgrading our transmission and distribution system
- We have allocated nearly 60% of our \$30B plan to transmission and distribution, which includes \$10B for modernizing our grid infrastructure to make the system smarter and more reliable
- The other \$7B will be devoted to investing in our system for additional customer growth

Capital

- Nearly 45% of the capital we invest in the grid will be devoted to storm hardening to ensure our system is better prepared for severe weather events
- We will focus on key projects, such as elevating substations located in vulnerable or low-lying areas, and making our power poles more resilient
- We are also identifying areas more susceptible to frequent power outages using data analytics capabilities
 - This information will be used as we develop our targeted undergrounding programs where we have allocated 25% of our grid investment to increase the reliability of our system for our customers

Cost Efficiency

- Another part of the program will include installing smart meters to provide better information and services for our customers, as well as additional cost efficiency
- To-date, we have completed this effort in Ohio, and we'll be moving forward with smart meter installations in our other jurisdictions
- We expect to fully deploy all smart meters across our system over the next five years
- This accelerated deployment will allow us to offer additional products and services and help to reduce our overall O&M cost given that the advanced technology will avoid the need for many manual processes

Environmental Footprint

- Moving to slide 17, we are committed to further reducing our environmental footprint, with plans for new natural gas generation and renewables
- Our five-year plan includes investment of \$3.3B in highly-efficient natural gas-fired combined-cycle plants
 - This will include completing our Lee combined-cycle facility in South Carolina, our Western Carolinas Modernization Project in North Carolina, and our Citrus County plant in Florida, and beginning work on plants within service states beyond 2021

Renewables

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- We are pursuing additional generation projects, such as dual-fuel capabilities and combined heat and power facilities to increase the flexibility of our system, as we continue to meet growing energy demands in the dynamic environment
- We will also increase our focus on additional renewables in our regulated utilities
- Our \$1.3B investment plan for carbon-free utility-owned renewables will be led by investments in Florida and the Carolinas

Customer Growth

- Moving on to slide 18, we operate in attractive service areas where customer growth remains strong, especially in the Southeast, and continues to support load growth in our electric business
- That, coupled with cost management, has allowed us to earn our ROEs even without significant rate cases since 2013
- We are committed to earning these ROEs and generating stable earnings growth for our shareholders while we invest in infrastructure our customers value

Industrial Sector

- In 2016, weather-normalized retail load growth was 0.2%
- This was largely driven by lower-than-expected results in the industrial sector
- One of our large Duke Energy Carolinas customers in the metals industry is reorganizing and plans to begin returning to full operations in 2018
- And some other industrial customers saw similar pullbacks from operations, would expect to ramp up as we go forward
- Looking ahead, we continue to expect approximately 0.5% load growth in our long-term planning assumptions

Carolinas and Florida Region

- Several factors give us confidence that this assumption remains true
- We are experiencing consistently strong customer growth, especially in our Carolinas and Florida regions given a recent uptick in construction in our service areas and greater housing permit applications
- We've also seen a recent shift away from starts of multifamily homes to single-family homes
 - This shift is highlighted by the fact that four major cities within our service territories recently ranked among the top 16 in the country, with a number of single-family building permits filed
- Two of these metro areas ranked in the top 5

Government Sector

- The decline in the government sector has leveled out a bit, and we are cautiously optimistic about increased business investment in manufacturing, as inventory levels have declined from previously elevated levels
- Based on current and expected economic trends, we're also optimistic about potential for the industrial sector to pick up in the next few years

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- These positive factors will be partially offset by the continued adoption of more efficient building codes and standards and utility-sponsored energy efficiency programs

Customer Growth

- While these programs do offset some of our customer growth, they also contribute to earnings through our approved energy efficiency riders
- Overall, we believe all of these factors will allow us to achieve 0.5% load growth during our planning horizon

Cost Control

- Regarding cost control, we have held O&M flat since 2014, and we'll look to continue that trend going forward, creating headroom and customer bills for important energy and infrastructure investments

O&M Costs

- 2016, we reduced our O&M costs even with unusually high storm costs compared to the prior year, and after re-planning O&M activities on behalf of our customers to take advantage of the above-normal weather
- We committed to reducing our O&M cost in 2016, and we clearly delivered on that commitment
- We have outlined our economic growth plan and significant capital investments that we will make over the next five years

Stakeholders

- Now, let me take a few minutes on slide 19 to discuss our plans for cost recovery, as we balance our growing business and maintaining competitive rates for our customers
- We will be very active in the regulatory space over the next five years
- As we have done in the past, we will continue to work constructively with key stakeholders to achieve results that benefit our customers and shareholders, while managing our cost to keep bill increases at a moderate level and overall rates below the national average

Economic Growth

- Investments we have planned will drive economic growth in our desirable service areas and support additional customers and new technologies
- As you can see, we will file two base rate cases with the North Carolina Utilities Commission in 2017; one for our Duke Energy Carolinas utility and the other for Duke Energy Progress
- Both North Carolina cases are scheduled to be filed in the summer of 2017, anticipating new rates effective in H1 2018

North Carolina

- These filings will be the first in North Carolina in four years to recover costs associated with our capital investments and more efficient generation such as the Lee combined cycle facility, nuclear projects, and coal ash basin closure activities

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- Looking beyond 2017, we're making substantial investments in the grid
- As we look to accelerate those investments over the next five years, we will be engaged in the regulatory and legislative process to pursue recovery mechanisms such as multi-year rate plans and trackers which are better suited to grid infrastructure

Regulatory Modernization Initiatives

- As these regulatory modernization initiatives move forward, we will also evaluate more frequent base rate cases in the interim to ensure timely recovery and more moderate rate impacts to our customers
- Updated constructs would avoid the need for filing numerous larger rate cases and level out the rate impact to our customers

Florida

- Turning to Florida, we are also planning additional transmission investment and additional renewable projects, as we look to 2019 and beyond
- The regulatory construct in the state of Florida, which includes generation-based rate adjustments, solar-based rate adjustments and multi-year rate plans, is well-suited to our investment plan
- We will continue to make significant investments in the transmission and distribution systems in Indiana and Ohio, with timely recovery of the investments through previously approved riders

Gas Segment

- As we turn to our gas segment on slide 20, we have outlined the five-year \$6B growth capital plan to expand our national gas infrastructure and further develop this platform
- Our plans are split evenly between investments in our LDCs and our midstream gas pipelines
 - This business will grow rapidly, driven by an earnings-based CAGR of 11% over the next five years as part of our larger 10-year plan to grow this business to 15% of earnings

LDCs

- Growth in this segment will come from strong organic growth opportunities in our LDCs and midstream investments
- We expect to deploy approximately \$3B in our gas LDC systems, with Piedmont accounting for more than two-thirds of our LDC earnings base, and the Midwest accounting for the remaining third
- Our LDCs will continue to invest in infrastructure for our growing customer base, as well as integrity management programs that maintain the safety of our system
 - These integrity investments are recovered efficiently through well-established riders in several of our jurisdictions

Midstream Investments

- Moving to our midstream investments, we plan to invest an additional \$3B in our pipelines during the five-year period, much of which will contribute to the completion of ACP.

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- This project is now anticipated to cost between \$5B and \$5.5B, and is still expected to meet the second-half 2019 in-service date
- We look forward to growing this platform as we expand our natural gas infrastructure and leverage the expertise of our Piedmont team

Commercial Renewables Business

- Turning to slide 21, I have already mentioned our \$1.3B investment in regulated renewables
- In addition, we will also invest \$1B in commercial renewable assets
- This expands upon the more than \$5B we have already invested in our contracted commercial renewables business since 2007, focusing on entering long-term power purchase agreements with creditworthy counterparties
- Our Commercial Renewables business continue to expand its wind and solar portfolio, ending the year with nearly 3,000 megawatts in 14 states

Renewables Footprint

- These commercial investments, plus our growing regulated renewables footprint, have positioned us as a top 5 renewables company in the country, and our plan will continue to advance that position
- And we do not currently pay significant cash taxes
- Due to our corporate net operating loss tax position, we will continue our disciplined approach to capital deployment in our commercial business, focusing on projects that meet our return criteria
- Given the more attractive tax credit profile from the Production Tax Credit or PTC, we will explore wind projects more aggressively than solar in this segment

RFPs

- In 2016, we invested in approximately 1,000 megawatts of new wind projects that qualify for the 10-year PTC under Safe Harbor rules
- This gives us flexibility to bid on RFPs over the next several years
- Historically, we have not employed tax equity to finance our renewables projects
- Given that we have had more efficient and less costly options, we are always seeking the most cost-effective means to develop and finance these projects, and we'll continue to evaluate other capital sources including tax equity structures when appropriate

Balance Sheet and Credit Quality

- Strong balance sheet and credit quality are foundational to our overall financial objectives
- Slide 22 shows our high level 2017 cash flows and financing plan
- With our portfolio transition complete, we have a better risk profile with more predictable and stable earnings and cash flows
- We are supporting the balance sheet with \$350mm of DRIP equity per year from 2018 to 2021, which will advance our efforts to fund the increasing level of growth investments in our business

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Internal Plan

- We expect the frequent rate case activity and equity through our internal plans to strengthen our financial metrics over the five-year plan
- I would also like to highlight S&P's recent affirmation of our ratings and revision of our outlook from negative to stable
 - This action reflects the strength of our balance sheet and confidence the rating agency has in our ability to execute on our commitments

Dividend

- Before I turn it back over to Lynn for closing remarks, let me turn to slide 23
- We understand the value of the dividend to our shareholders and are committed to growing the dividend responsibly
- We have paid a dividend for 91 consecutive years, demonstrating the steadfast commitment to our shareholders
- Moving forward, we expect to maintain our annual dividend growth rate at approximately 4% to 6% through 2021, as we target a payout ratio in the 70% to 75% range

Lynn J. Good

Q4 Highlights

Cost Recovery

- We are excited about the future and remain confident in our ability to deliver strong growth and financial results
- We have an ambitious and achievable strategy focused on investing in the grid, cleaner generation and natural gas infrastructure, all while modernizing our cost recovery mechanisms and providing customers with the service they value
- As this slide shows, we bring many advantages to this conversation, including scale, constructive jurisdictions, a track record of execution and importantly, we are unencumbered by the challenges that we have successfully put behind us

Conclusion

In conclusion, our vision for where we want to take Duke Energy is clear and compelling

Our strategy to achieve the vision is well underway

We have the right plan and are working to plan

It is producing results and we entered 2017 with confidence

We're well-positioned to deliver value for customers and steady growth, strong yields and an attractive risk-adjusted total shareholder return for our investors

- That is a compelling investor proposition, representing a solid, long-term holding for our shareholders

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 Company Ticker: DUK US
 Date: 2017-02-16
 Event Description: Q4 2016 Earnings Call

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 Current PX: 78.875
 YTD Change(\$): +1.255
 YTD Change(%): +1.617

Bloomberg Estimates - EPS
 Current Quarter: 1.088
 Current Year: 4.605
 Bloomberg Estimates - Sales
 Current Quarter: 6292.000
 Current Year: 24870.188

Foundational to this proposition is the strength of our dividend and with an adjusted earnings growth plan of 4% to 6%, we feel confident in our ability to continue to grow the dividend

Over the long term, the combination of these factors has the potential to generate 8% to 10% total shareholder return to our investors

QUESTION AND ANSWER SECTION

<Q - Jonathan Philip Arnold>: It's very helpful. I just have a question on the financing and the split between HoldCo and utility and project financing this year. It looks like it's a little over 40% HoldCo. Is that on a net basis? Is that something we should anticipate going forward? Do you stick with that structure, or is HoldCo a little up above where the trend will be?

<A - Steven K. Young>: I don't know that it's necessarily going to be a trend. It'll be related to timing of maturities and other investments. So I don't think that there's any trend in that, Jonathan.

<A - Lynn J. Good>: Yeah, Jonathan, our target, as we've laid out on the credit metrics slide, is to have low-30% overall HoldCo debt to total. So that's the long-term trend you should be thinking about.

<Q - Jonathan Philip Arnold>: So I guess that was the thrust of my question that it seems in 2017, you obviously – you'll be moving away from the target, and then it only comes down a little bit by 2021. So, how should we think about the 34% is – within – do you consider that to be in the target range or is it more sort of backend of the decade that you can – you get further back down towards it?

<A - Steven K. Young>: Well, as Lynn said, our target is in the low-30%s, and we're a bit above that as we work through this transition of our portfolio. But we'll be looking to move the HoldCo debt into our target range. And we're making progress to our five-year plan. And we'll continue to strive to get it to that point.

<Q - Jonathan Philip Arnold>: Okay, great. And then if I may just on tax, what gives you confidence that the sort of downside scenario under the House GOP is that interest deduction would only apply on new debt?

<A - Lynn J. Good>: Jonathan, this is a fluid situation, as you know. And we've looked at a variety of scenarios. We thought presenting the new HoldCo debt would give you a sense of where the exposure is. We recognize we do have downside exposure under the GOP plan. As this continues to develop and legislation is introduced and we learn more specifics, of course, we'll update that. But we thought it was a reasonable planning assumption to share with you at this point based on our understanding of how things are developing.

<Q - Jonathan Philip Arnold>: Okay. But if we wanted to think about what the implications of losing it on the embedded – the existing debt, I would take the \$557mm of HoldCo 2017 interest plus the \$87mm in commercial renewables and eliminate the 20% assumed tax shield....

<A - Lynn J. Good>: ...I'll give you a – yeah, I'll give you a quick one. It's closer to 7%.

<Q - Stephen Calder Byrd>: Thought that was a very thorough and thoughtful update on your strategy and growth outlook. Let me just follow up on Jonathan on tax reform which I imagine is a popular topic. When you look at potential levers, I'm thinking first about the potential loss or the potential immediate expensing of CapEx. You obviously have a lot of growth levers at your disposal. How would you think about potentially changing your spending profile to the extent that, that actually got enacted that you immediately expense CapEx?

<A - Steven K. Young>: Well, if you move in that direction with the immediate expensing of CapEx, one thing I'd say, we're currently in an NOL position throughout the majority of our five-year planning horizon. So, the immediate expensing to CapEx would deepen that NOL position at the backend of our plan. So it's not a significant rate base change for us during the five-year plan. Broadly speaking, I would say, as you heard from our capital planning as a whole, we have a lot of investment opportunities as we rebuild the grid and decarbonize and produce cleaner energy. And those opportunities I think will carry us for quite a while.

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<Q - Stephen Calder Byrd>: Understood. Thank you. And then, just shifting over to solar and energy storage and grid modernization, I think you're pretty clear in your plans. But let's assume that cost for solar continue to fall and storage continue to fall. Later in the decade, is there a potential for accelerating spending there? How do you think about solar and storage for your – I'm really thinking for your regulated territories in terms of the potential for additional spending there?

<A - Lynn J. Good>: Yeah, Stephen, I think that is a developing area that we continue to pursue. I think you're aware we have an RFP out now for 400 megawatts in the Carolina, the western part of the state, and we're also in discussions around our avoided cost filing which could provide a pathway for additional solar.

We believe there is a wealth of investment opportunities, and putting forward \$1.3B, we're targeting a substantial investment, but I could see scenarios in which it can go higher. Our objective is to own some amount of the solar in the state of North Carolina and Florida and our other service territories, and we're working to move in that direction.

<Q - Stephen Calder Byrd>: Okay. Thank you. And on storage, Lynn, is there a role for storage any time soon, or is it really just premature given the fairly low penetration of renewable energy in your territories?

<A - Lynn J. Good>: It's modest, Stephen, over the next five years. We do have probably a half a dozen to a dozen sites that are under development where we have batteries in place on our system ranging in size from small residential, all the way up to a 35-megawatt battery paired with a wind farm in West Texas. As we look at this planning horizon, we do have some battery megawatts in our plan, but we see it as being a greater contributor, 2021 to 2025, than we do over the next five years.

<Q - Steve Fleishman>: In your – I think in your early prepared remarks, you mentioned something about potentially being at the high end of the 4% to 6% growth rate over time. Could you just give – I missed the intro of that, could you repeat that and just what would you need to see to kind of be looking more at the high end?

<A - Lynn J. Good>: Yeah. So, Steve, what I talked about is, it's really successful execution of this plan which includes ramping up investments such as the grid investment in the Carolinas, coupled with timely recovery gives us greater confidence at the higher end of the range. So we feel like we've got a plan that gives us that potential, and our assignment is to execute it.

<Q - Steve Fleishman>: Okay. And I guess – I mean, one thing might be just getting maybe through resolution of somebody's rate cases to get better visibility on those?

<A - Lynn J. Good>: Sure.

<Q - Steve Fleishman>: Okay.

<A - Lynn J. Good>: We have rate cases filed this year. I think better visibility might present to you how we have addressed rate cases for historical investments. Steve, I think it's important to recognize that we have a demonstrated track record of successful execution of regulatory outcomes. If you look at what we have accomplished around our jurisdictions, whether it's related in Florida, the new generation, Crystal River and Levy in Indiana, rate cases in the Carolinas, we have confidence that we can find the right balance between customers and investors and putting capital to work in our jurisdictions in a constructive way. So we come at this with a plan that we believe we can execute.

<Q - Steve Fleishman>: Okay. And just – should we assume the earned ROEs that you're kind of assuming in 2017 for the different states, or is that roughly kind of the range for the five-year plan?

<A - Lynn J. Good>: I think that's a reasonable assumption.

<Q - Steve Fleishman>: Okay. And then one other question just on the coal ash. In the 2017 guidance, what are you assuming on how that is treated, just to continue deferral at a debt return, on equity return or...

<A - Lynn J. Good>: So, for GAAP purposes, Steve, there will be – we only record a debt return on...

<A - Steven K. Young>: That's correct.

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<A - Lynn J. Good>: ...on coal ash.

<A - Steven K. Young>: It'll be a debt return. We'll continue to defer up until the point of commission order.

<A - Lynn J. Good>: And we will request coal ash recovery in the upcoming cases here in 2017.

<Q - Michael Weinstein>: Just to follow up on Steve's question a little bit, so are you saying that the successful execution of the plan gets you to the higher end or the upper end of the range, and that even if there were some problems, you would still be at the midpoint? Is that a good way of looking at it?

<A - Lynn J. Good>: So, we've put together a plan exactly, Michael, that if we successfully execute, will position us at the higher end of the range.

<Q - Michael Weinstein>: Got you. And in terms of the – can you discuss like the impact of the NOL position on the renewable growth plans? Because I remember it is a little bit slower now, and it sounds like you're going to be more focused on wind going forward. How is that being impacted by the NOL position? And also what's the status of the 500-megawatt plan for Florida solar?

<A - Steven K. Young>: Yes. Regarding our NOL position and how it's impacting our commercial renewables, we've talked about this a bit in the past. We've been in an NOL position for a while, and under current rules, we're projecting to come out of that in 2020. And that affects the timing of the ability to monetize the various tax credits that these projects generate.

In spite of that, we've been able to land projects and bring them in very efficiently and economically. As we move – what we've seen over the past years is that it's a competitive landscape with some narrowing margins there. We've still been able to put in service 500 megawatts of commercial renewables in 2016.

So as we look forward, what we wanted to do is give an indication here that recognizing our NOL position. We will look at tax equity. Partnership arrangements is a possible financing tool. We've looked at that in the past, we haven't found anything that was acceptable, and we found other options that were more beneficial to us. But we will be open and continue to examine those possibilities.

<A - Lynn J. Good>: Michael, a couple of additional things I would point to. As we get toward the end of the decade, we are planning at this point to be out of an NOL position, now that's setting aside tax reform which could of course change the landscape. So, we believe we'll become increasingly competitive as we enter the latter part of the decade under current tax law.

And the other thing I would point to, consistent with your question on Florida, is that we have directed more capital in this plan to regulated renewables, \$1.3B in the Carolinas and Florida, which we believe will be underpinned by increasing economics, improving economics of those investments in those states. And we will look for ways we can add that form of renewable which has a better return profile for our investors.

<Q - Michael Weinstein>: Okay, great. Thank you. And also just one last question on taxes, I don't think you made any comments on the border-adjusted tax and how that might affect your operations at all?

<A - Lynn J. Good>: Yeah. So, Michael, we do have some exposure to border-adjusted tax within our regulated businesses. I'd point to – our nuclear fleet is being impacted with fuel and so on. I think what's important is to recognize that our nuclear fleet is regulated that this would become a part of our cost of service. And we are – of course, as we advocate around impacts to customer rates, the benefits of low cost energy and other items, we are pointing this out in our advocacy plan to our key legislators, is important to Duke Energy and Duke Energy customers.

<Q - Michael Weinstein>: All right. That's great. Thank you very much. And by the way, the presentation looks great. The new slides look very well done, so...

<Q - Christopher J. Turnure>: You touched on a couple things around the rate cases that you're going to file for in North Carolina this year, but I wanted to try to get some more detail there. And if we think over the last kind of four years, what has changed since the last filings and decisions there? I'm wondering how we can think about that. You've

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had some load growth. You definitely had rate base growth, but a big chunk of that is deferred with the coal ash expenses. So, are we kind of looking at you guys pretty much earning your authorized ROE right now and the main benefit of these cases being just a cash recovery on coal ash?

<A - Lynn J. Good>: Chris, I would point to a couple of things. I think the other variable – and what has happened over the last four years is, we have executed very effectively on cost management, which gives us some headroom in order to put capital investment in and recovery in without raising prices in a significant way for our customers, and that's very important as we enter in a rate case.

We do have capital investment. We intend to recover nuclearly combined cycle. We have deferred costs in the form of Hurricane Matthew, and, of course, we have recovery of ash. So it will be a mix of cash recovery and returns. And as we get closer to filing, of course, we'll give you more specifics on what we're filing for and the composition, and you can expect that later this year.

<Q - Christopher J. Turnure>: Okay. And then my next question is on your capital plan for the next five years. You already talked about commercial renewable growth in there. But are there any placeholders that we should be aware of for kind of large lumpy projects that are not yet approved or kind of maybe even aspirational on the pipeline side or things of that nature for pipelines or other?

<A - Lynn J. Good>: No, we do have growth capital in the plan, Chris, and I would think of it in kind of the \$500mm range over this five-year period. And we typically maintain some level of growth capital if you look at us historically because you think about five years, there's time to develop, and we want to put those aspirations out there. So there is some growth capital, kind of \$500mm to \$700mm, in the gas plan.

<Q - Christopher J. Turnure>: Okay. But nothing kind of particularly large that would move things year-to-year if you were not successful in getting them.

<Q - Praful Mehta>: I had a quick question on holding company debt and tax reforms. I want to just quickly come back to that. If the interest deductibility does go away, do you plan to change the target holding company level that you want to have in terms of debt? And if you do, what are the level do you have in your tool kit right now to think about how you'll reduce that level over time?

<A - Lynn J. Good>: I think – let me start, and I'm sure Steve has some thoughts on this as well. I think as we think about tax reform, we turn the discussion to the holding company because of the impact. But I think as you face tax reform, you also have to look at what's happening to the underlying earnings power of the utilities and what options we have there. And that would be a part of the decision process on how we would address the holding company. Certainly, delevering could be something we would consider, but I think there's a lot of work to do before we would reach a conclusion like that.

And so as this develops, we will continue to keep you informed. And we understand the assignment of mitigating impact to the extent we can, and that's one of the benefits of looking at scenarios that is underway right now.

<Q - Praful Mehta>: Got you. Thank you. And then on the utility side, the growth profile you provided was very helpful through 2021. But if we have to look at retail customer rates, and I know there was a slide you provided with rates in 2017, but just to get a sense, well, what kind of load growth you're looking at over that timeframe, and how do you think rates would go or increase over that timeframe to get a sense for sustainability of that growth over time?

<A - Lynn J. Good>: So, we focus very keenly on customer rate impact. And you'll have more visibility on specifics as we think about the plans in 2017 as we announce these rate cases. But over a longer term, we target kind of rate of inflation for – CAGR for customer rate. So, that might be in the range of 2% to 3.5% depending on the jurisdiction. And we actually use that as a governor when we think about capital deployment and our cost of service because of the importance of keeping competitive rates. I think you recognize that we operate in a very competitive environment where our rates in the Carolinas in particular are 20% below national average, and that is an advantage to our service territories if we can continue to perform in that way.

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<A - Steven K. Young>: And we've seen rate reductions due to fuel over the past several years to our customers. So that's part of the overall picture as well.

<Q - Praful Mehta>: Got you. That's very helpful. Just a quick follow-up. So if there is, in fact, tax reform that reduces customer bills just because of newer tax rates, does that mean you have more headroom to spend more CapEx during that timeframe?

<A - Steven K. Young>: Yes. In general, if income taxes are lower like any other operational expense, that provides an opportunity for a utility to make further investments in infrastructure under the same rate scheme. So those can be beneficial situations that we have taken advantage of in the past.

<Q - Brian Chin>: I guess following up on Praful's earlier questions related to debt. On the HoldCo debt, does the 5% dilutive comment on the House plan, does that incorporate expected changes to the HoldCo debt structure or is that just holding the HoldCo debt outlook in your plan constant and then you could react to it later to mitigate that 5% dilutions?

<A - Lynn J. Good>: It's a modeled level of HoldCo debt in our five-year plan, also considering cash flow impact that we can see in a very preliminary way from the utilities up to the parent. And so that's about a 5% dilutive, Brian.

<Q - Brian Chin>: Got you. Got you. Okay, great. And then one other thing, the grid modernization CapEx update is pretty helpful here. What proportion of the grid modernization spending is subject to legislative approval? I think based on the last couple of conversations I've had with you, there were some legislation in the Carolinas, for example, that was necessary for some of that spending, can you just give a little bit of color on that?

<A - Lynn J. Good>: There's nothing subject to legislative approval, Brian. We believe the compelling customer value for this is quite strong. And so we have been discussing the importance of infrastructure growth in our jurisdictions, Carolinas, in both the regulatory and legislative level to inform them of the opportunity that exist here and the value we think we can deliver. We also see it as an economic development driver in our service territories. As we set out a long-term plan where workforce could be developed to work in areas that are rural areas of the state, we think there's a compelling business case for the leaders of the state.

<Q - Michael Lapidès>: I have a question, just – I'm looking at the detail you provide in slide 18, and you show the adjusted book ROEs by state. And then you talk about O&M cost to management and the need to file rate cases in North Carolina. And I'm – I'm just – I'm a little confused only because you're kind of expecting on a 10% to 10.5% or so ROE in the Carolinas. And you're also managing O&M in the Carolinas as one of your bigger jurisdictions. So just curious what drives the need for a case, especially in a state that typically uses historical test years?

<A - Steven K. Young>: Yes, Michael. We've got a number of things occurring here. We've been deferring a lot of costs on our balance sheet that we need to start getting some recovery on. Coal ash is certainly one of those items. We've spent about \$900mm on coal ash to-date. We requested and have deferred Hurricane Matthew cost to the tune of about \$150mm as well.

So, we'll be seeking recovery in some form or fashion of those types of costs. Additionally, we have had infrastructure buildup. Nuclear uprates and the Lee combined-cycle plant are two good examples there that we'll be incorporating into rates.

<Q - Michael Lapidès>: Got it. But wouldn't those things be weighing on – right, if they're already in service, you would have lost the AFUDC. Wouldn't they be weighing on the earned returns? And yet it seems like you're doing a great job of actually earning your ROEs there.

<A - Steven K. Young>: We have been. To the extent you make capital investments and put them into plant and service, they will weigh on the earned returns. But that's where we have worked very diligently to control our O&M cost, to expand our wholesale sales, to keep our regulated ROEs up. But now, as we move forward, it's time to catch up that rate base growth. And also, we do have the singular Lee combined-cycle plant as an example that will be timed with rate recovery, which will be moving from CWIP to in-service. So there's a number of factors, as we've mentioned earlier, some deferred cost cash recoveries and some earnings uplift potentials as well, a mix of the two.

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<Q - Michael Lapidès>: Got it. And last thing, just thinking about the O&M cost management. You're saying a 5% reduction and I'm still on that kind of same slide, page 18. Is that a 5% reduction on the total kind of GAAP level of \$6.2B, or a 5% reduction on that smaller number, the \$4.6B or \$4.7B?

<A - Steven K. Young>: It's on the non-recoverable O&M number. The smaller number there. The larger number has recoverables and pass-through type items, as well as some cost-to-achieve type items. So, we're looking at the non-recoverable, lower number.

<Q>: Just a really quick question on the 4% to 6% across the five years. Should we think about it linear across the five years or is it more frontend or back-end loaded?

<A - Lynn J. Good>: No, as we said in our prepared remarks, we have designed this plan to deliver within the range every year, both the capital and the recovery mechanisms.

<Q>: Couple of questions on the tax issue. One, Steve, I thought what you said was very interesting. If the corporate tax rate goes down, it sounds like you were suggesting that you get to keep that benefit and then take that money and reinvest it in new infrastructure. Is that kind of right or I would've thought that the rates would be reduced to compensate for the lower tax rates?

<A - Steven K. Young>: Well, not necessarily. There's a number of options that can be put forth here as we work with the various stakeholders. But we've had cost, O&M items drop in the past. There's a number of things that can be done.

You can reinvest in capital and keep your ROEs the same under the current rates, but advance your infrastructure for customers. You can use situations like this to accelerate amortizations of regulatory assets and things of that nature when an O&M cost declines and keep current rates where they're at. We've done that in the past, so there's a number of strategic opportunities that exist out there.

<A - Lynn J. Good>: And I think the important point...

<Q>: Excellent.

<A - Lynn J. Good>: ...is if customer rates are otherwise going down for a reduction in tax rates, that gives you the opportunity to deploy capital without an increase in [indiscernible].

<Q>: Right. Right.

<A - Lynn J. Good>: So that's the point we're trying to emphasize here.

<Q>: Okay. That's excellent. Gas LDC, M&A, is that something that is still in the mix?

<A - Lynn J. Good>: So this plan does not contemplate M&A. We feel like with the portfolio of businesses that we have that we've got a good growth trajectory. Asset acquisitions, if we saw something that fit with one of the businesses, we of course would be opportunistic. But there's no, what I would call, corporate M&A contemplated here.

<Q>: Got it. Personal tax rates going down, I would assume if that happens, your 4% to 6% growth rate would start to look very low, correct?

<A - Lynn J. Good>: If personal tax rates go down?

<Q>: More money to the consumer, consumers spend more, more household formations, therefore more electric connections and gas connections, no?

<A - Lynn J. Good>: We love load growth. We do.

<Q>: Exactly.

<A - Lynn J. Good>: That's probably the best thing that can happen to our business.

<Q>: Exactly.

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<A - **Lynn J. Good**>: So let's move to the Southeast. Let's build industrial in the Midwest, we're all for it.

<Q>: But first the tax rate has to come down.

<A - **Steven K. Young**>: But to the extent the economy picks up based on various tax initiatives, whether corporate or personal and discretionary spending increases, well, that will certainly help our business. And certainly our Southeast jurisdictions are very desirable areas with a lot of growth. We'd love to see that uptick.

<Q>: Got it. And last question, if you're going to Washington to influence the outcome of the tax results, why not push for deduction of dividends?

<A - **Lynn J. Good**>: That's interesting question because we have that raised by a legislator actually in an early conversation. So, all things are on the table, I guess.

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