

## Q2 2022 Earnings Call

### Company Participants

- Jack Sullivan, Vice President of Investor Relations
- Lynn Good, Chairman, President & Chief Executive Officer
- Steve Young, Executive Vice President & Chief Financial Officer

### Other Participants

- Anthony Crowdell, Analyst, Mizuho
- Durgesh Chopra, Analyst, Evercore ISI
- Jeremy Tonet, Analyst, JP Morgan Chase
- Julien Dumoulin-Smith, Analyst, Bank of America
- Michael Lapides, Analyst, Goldman Sachs
- Nicholas Campanella, Analyst, Credit Suisse
- Shahriar Pourreza, Analyst, Guggenheim Securities

### Presentation

#### Operator

Good morning. My name is Julianne, and I will be your conference operator today. At this time, I would like to welcome everyone to the Duke Energy Second Quarter 2022 earnings call. All lines have been placed on mute to prevent any background noise. After the speakers remarks, there will be a question-and-answer session. (Operator Instructions) I would now like to introduce Jack Sullivan, Vice President of Investor Relations. You may begin your conference.

#### Jack Sullivan {BIO 21652795 <GO>}

Well, thank you, Joanne, and good morning, everyone. Welcome to Duke Energy's Second Quarter 2022 Earnings Review and Business Update. Leading our call today is Lynn Good, Chair, President and CEO; along with Steve Young, Executive Vice President and CFO. Today's discussion will include the use of non-GAAP financial measures and forward-looking information within the meaning of securities laws. Actual results may be different than forward-looking statements and those factors are outlined herein and disclosed in Duke Energy's SEC filings. The appendix of today's presentation includes supplemental information and disclosures, along with a reconciliation of non-GAAP financial measures.

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

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

Jack, thank you. And good morning, everyone. Today we announced adjusted earnings per share of \$1.14 for the quarter, delivering strong results driven by continued growth in electric volumes and favorable weather. We remain on track to deliver within our original guidance range and are reaffirming our full year guidance range of 530 to 560 with a midpoint of 545. We're also reaffirming our long-term earnings growth rate of 5% to 7% through 2026 of the midpoint of our original 2021 guidance range.

Turning to slide 5. I'd like to offer context on our announcement this morning to perform a strategic review of our commercial renewables business, which has been an integral part of Duke Energy's renewable energy platform over the past 15 years. Since 2007, we've built a portfolio of approximately 5,000 megawatts of commercial wind, solar, and battery projects across the US and established a robust development pipeline. While it represents less than 5% of Duke Energy's earnings, we're proud of the fact, it's among the top 10 largest US renewable companies.

But as we look forward to the remainder of this decade and beyond, we have line of sight to significant, renewable, grid and other investment opportunities within our faster growing regulated operations, as we execute the industry's largest clean energy transition. We believe this is the appropriate time to review the ongoing strategic set of our commercial operations as we prepare for an acceleration in capital spending within our regulated businesses. Our strategic review will be thorough yet timely. We expect to conclude the review later this year or early next and we'll update you along the way.

Today, our regulated utility operations represent over 95% of Duke Energy's earnings profile and have long been the growth engine of our company. We operate premier regulated franchises in growing service territories with constructive regulatory jurisdictions and robust customer focused investment opportunities. Our regulated businesses are strongly positioned to grow within our earnings guidance range of 5% to 7%, providing consistent earnings and cash flow and supporting our attractive dividend.

Turning to slide 6. Let me share an overview of the proposed carbon plan we filed with the North Carolina Utilities Commission on May 16. We've already made significant progress in the Carolinas and this plan continues our transition to lower carbon resources while maintaining affordability and reliability. Our plan contains four portfolio, that achieve the interim 70% carbon reduction target and carbon neutrality by 2050. Each portfolio presents a roadmap to lower emissions through an orderly retirement of coal replacing that with a diverse set of carbon free and dispatchable resources.

The primary difference among the portfolio relates to the pace of deployment and availability of replacement resources. As part of the filing, we've requested the approval of a defined set of near term activities, related to replace the resources needed regardless of the path selected. This includes new solar, battery storage, onshore wind and hydrogen capable natural gas. We also requested to begin early development of long lead time zero carbon resources, which are needed in the early 2030s, including offshore wind, small modular nuclear and pumped storage. These activities help us preserve option value for a broader set of resources.

The result of these development activities will be filed in 2024 with an updated carbon plan, providing the commission with more information as they consider resource selections required to meet carbon reduction targets. We look forward to continued engagement with stakeholders as the MCUC finalizes the carbon plan by year-end. Our proposed plan has also been shared with the Public Service Commission of South Carolina. And the final plan will be foundational to the next comprehensive South Carolina IRP in 2023.

Moving to slide 7. We have a robust regulatory and legislative plan that is underway in the vibrant economies we serve. Our thriving jurisdictions were highlighted recently in CNBC's annual list of America's top states for business, which ranked five other states we serve in the top 15, including North Carolina, which ranked number one for the first time. I'd like to touch on the progress we're making in each of our jurisdictions to continue providing affordable and reliable energy for our customers.

In North Carolina, we expect to file a DEP rate case in the fourth quarter and likely a DEC rate case early next year. Both cases will introduce the modernized rate making tools approved in HB 951, including multiyear rate plans, performance incentive measures and residential decoupling. The MCUC hosted a T&D technical conference in late July. The EP presented to the commission and stakeholders and discussed key transmission and distribution investments that enhance grid resiliency and flexibility and expand the use of renewables and distributed energy resources on our system.

In South Carolina, storm securitization legislation was signed into law in June. This creates a valuable tool to recover prior and future storm restoration costs, while saving customers millions of dollars compared to traditional recovery mechanisms. We expect to file an initial application with the Public Service Commission of South Carolina in August, and expect to issue storm bonds in late 2023 or early 2024.

Earlier this week, we gave notice of an upcoming DEP South Carolina rate case. Our first case to be filed in South Carolina since 2018. We expect to file the case in September and anticipate rates to go into effect in the first half of 2023. In Florida, we have placed three out of four solar projects planned for 2022 online and we remain on track to install a total of 300 megawatts of solar by the end of this year.

Shifting to Indiana. The commissioner approved our \$2 billion Tietze's plan, which includes grid modernization investments and improved reliability and resiliency. We will begin executing a 2023 following the completion of our initial Tietze's plan this year. In May, we received a robust response to our request for proposals for generation resources in Indiana. We're evaluating the proposals now and we will incorporate the results into our CPC end filings later this year.

And turning to Ohio. Our electric distribution rate case continues to move forward and the hearing is scheduled to begin in mid-September. In June, we filed in Ohio gas rate case, which is our first detailed review of gas base rates since 2012.

Moving to slide 8. I'd like to touch on the inflation reduction act that was announced this week. Duke Energy has always advocated for policies aligned with our mission to deliver affordable, reliable and increasingly clean energy to our customers. And the clean energy tax provisions of

this draft legislation do just that. If passed, the clean energy tax credits will lower our cost of service, which in turn reduces the cost to customers of our energy transition.

Furthermore, the transfer ability provisions could help direct the intended value of these credits to our customers more efficiently. [ph]Duke also recognizes the important role that existing nuclear plays, with nuclear PTC is awarded operators of highly efficient nuclear stations. Duke Energy operates the largest regulated nuclear fleet in the US, with some of the highest efficiency measures. As such, we would likely qualify for significant nuclear production tax credits also to the benefit of our customers in the Carolinas.

We're pleased to see the strong support of the clean energy provisions in the (inaudible) legislation and we look forward to tracking the progress and we'll keep you informed along the way. In closing, we have a clear path ahead of us as we execute our energy transition and I'm confident in our ability to continue to deliver value to customers and shareholders.

Before I hand the call over to Steve, I'd like to comment on some important organizational changes we announced earlier this week. Effective September 1, Brian Savoy, currently Executive Vice President and Chief Strategy and Commercial Officer, will become Executive Vice President and Chief Financial Officer succeeding Steve. Brian's deep financial acumen and broad business experience have prepared him well for this role, allowing for a seamless transition. Steve will become Executive Vice President and Chief Commercial Officer, one of Steve's main priorities will be to oversee the strategic review of our commercial renewables portfolio that we announced this morning.

Steve is an exceptional leader. And during his 40 year career, he has played an instrumental role in transforming Duke Energy into the strong company it is today. He has been an extraordinary partner of mine and a trusted counselor and his commitment to our company, customers, communities and employees is deeply appreciated, and recognized by all of our stakeholders. Brian also shares this commitment and will play a critical role in advancing our strategy while delivering sustainable value to our customers and shareholders. The depth of leadership at this company is impressive. I would say it's second to none. And these changes will further position us for success as we execute the industry's largest clean energy transition.

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

## **Steve Young** {BIO 7307044 <GO>}

Thanks, Lynn. And good morning, everyone. I'll start with a brief discussion on our quarterly results highlighting a few of the key variances to the prior year. As shown on slide 9, we had reported an adjusted earnings per share of \$1.14. This is compared to reported an adjusted earnings per share of \$0.96 and \$1.15 last year. Please see our non-GAAP reconciliation included in the earnings release materials for more details.

Within the segments, Electric Utilities and Infrastructure was up \$0.03 compared to the prior year. Results were driven by favorable weather, higher retail volumes and rate increases. Partially offsetting these items were higher O&M, including timing of outages as compared to last year, and higher depreciation cost on our growing investment phase.

Shifting to Gas Utilities and Infrastructure. Results were \$0.02 lower due to timing of O&M. In our commercial business, we were flat with higher wind resources offset by fewer projects placed in service. And then in the other segment, we were \$0.02 lower, primarily due to lower-market returns on Benefit Trusts.

Turning to slide 10. I'll touch on electric volumes and economic trends. We continue to see strong volume growth and our results for the second quarter were approximately 1.5%, were up approximately 1.5% year-over-year. On a rolling 12 month basis, volumes are up 2.6% and are slightly higher than volumes for 2019. The last full year prior to COVID. We continue to expect our rolling 12 month volume growth rate to moderate throughout the year. But now forecast 2022 load growth between 1.5% to 2%, above our original guidance of 1.5%.

Looking at the customer classes, residential volumes were up 1.2%, bolstered by year-over-year customer growth of 1.8% and the continuation of remote and hybrid work for many office workers. Our commercial and industrial classes both increased 1.7%. Within commercial, we saw the benefit of returned to normal business hours. And in industrial, our load growth was driven by a continued rebound for existing customers, coupled with new load for companies attracted to our service territories. We remain encouraged by our volume recovery, which is supported by the vibrant economies we serve.

Moving to Slide 11. I'd like to go over timing considerations for the second half of the year. We expect third quarter adjusted earnings per share will be slightly lower than 2021, mainly due to favorable weather in the prior year, higher interest expense, tax timing and lower contributions from Commercial Renewables. This will be partially offset by higher revenues from rate cases, riders and wholesale. In the fourth quarter, we expect to see favorability from several drivers, including normal weather, higher load, lower O&M and higher revenue from rate cases and riders.

As we discussed on our first quarter call, we expect to hold O&M flat for the year, absent our first quarter storm costs. I'd like to take a moment to discuss several initiatives we're working on to respond to rising interest rates and inflation. To address these macroeconomic headwinds, we're targeting cost mitigation of \$200 million across the enterprise, beginning in 2023. The key areas we're focusing on are employee driven productivity and cost savings initiatives, digital automation, leveraging our size and scale to reduce cost to our supply chain, tax optimization and reducing regulatory lag through CapEx timing.

We believe much of this will be sustainable, similar to what we achieved in 2020 in response to COVID. Over the long term, this effort will benefit our customers and help enable our energy transition as lower O&M will moderate future rate impacts. For every dollar in O&M we eliminate, we can invest about \$7 of capital without increasing cost to customers. Work is underway for each of these initiatives and we'll provide additional details as we move through the process.

Before we open it up for questions, let me close with Slide 12. We're off to a strong start in the first half of the year and we are well positioned to achieve our 2022 adjusted earnings per share guidance range of \$5.30 to \$5.60 with a midpoint of \$5.45. And this marks the 96th consecutive year paying quarterly cash dividends and the 16th consecutive annual increase. As

Lynn discussed earlier, we are undertaking a strategic review of our commercial renewables business. We will keep you updated on any decisions from that evaluation and any impacts that may have on our future financial guidance.

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

## Questions And Answers

### Operator

(Operator Instructions) Your first question comes from the line of Shar Pourreza with Guggenheim Partners. Your line is open.

### Q - Shahriar Pourreza {BIO 15145095 <GO>}

Hey, good morning, guys.

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

Hi Shar.

### Q - Shahriar Pourreza {BIO 15145095 <GO>}

So I'm starting on sort of the commercial news. There is a lot of renewable assets out there for sale right now. I guess what prompted the process? Why now? Did you get unsolicited offers? And maybe just fine [ph] tuning on timing as we're thinking about presentation packages being sent out and data rooms being set up. Thanks.

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

Sure. And you know, Shar, what I would say on timing is we have been looking at this for some time. I think you have known us to review our portfolio and make strategic decisions about the future a number of times in our history. And this is no exception to that. As we look at the pipeline of regulated investment that is in front of us over the next many years, we believe this is the right time to step back and really look at the strategic fit of the commercial business, because there is going to be competition for capital at Duke.

And we think we operate a very strong commercial business that can grow and grow well in the future. And we want to take the opportunity to evaluate as we're a better strategic owner at this moment. And as I think about other portfolios in the market, I believe there will be a robust market for these assets, given that it's not only operating assets, but also the development pipeline, a platform, a team of very capable developers and operators. So I think they have the potential to add a great deal of value.

And if I focus just a moment on the pipeline, we have a gig to a gig and half of near-term projects that could be quite valuable in 2024, 2025, in addition to what we had planned for

2023. So when we think about our timing for execution, we commented that we will be completing the strategic review by the end of '22 into early '23. We will move quickly to get information into the market. There is an interest in these types of assets from a broad range of buyers and would hope Shar to have more to share as we think about third quarter EEI, and then moving into February of next year.

**Q - Shahriar Pourreza** {BIO 15145095 <GO>}

Got it. And then just from a numbers perspective, I know you've highlighted that there could be a time in the future where you could need some equity to fund the incremental regulated capital growth opportunities that are out there for you. Could this potential sale, I guess, provide enough balance sheet capacity in and threshold improvements where future equity needs are off the table, even as capital growth opportunities accelerate. And just remind us what the basis in tax leakage is on the asset? Thanks.

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

Yes. So, Shar, it's a really good question. And as we look at our potential to accelerate and what we believe the potential from this transaction represents, we do think it would postpone equity into the future. But I think we're getting a little bit ahead because I don't want to comment on value. We have given you an indication that we think the right bias right now is to use the proceeds to avoid debt. It's a high interest rate environment, inflation, a variety of other uncertainties around the economy. But I do think it strengthens the balance sheet at a moment when we see accelerated capital and that would lead to a period in which we can delay any further equity issuances.

On tax leakage, let me turn to Steve just to make a comment on that.

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

Yes, Shar, a couple of comments here. The book value of this body of assets is approximately \$4 billion and that would include about \$1 billion of tax attributes. And we don't see any significant tax leakage, if a transaction were to occur.

**Q - Shahriar Pourreza** {BIO 15145095 <GO>}

Got it. And then just one last one from me and I'll jump back in the queue, Steve is, there is a viewpoint that you may need to re-base. I mean is that a scenario or do you feel that just given the robust nature of the process and the demand for renewables that you could more than sort of offset, sort of that lost earnings and maintain the current trajectory? Thanks.

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

So Shar, I don't want to comment on 2023 guidance at this point. I feel like the process is thoroughly -- we're going to be testing the market on value. We have given you a sense of how we're thinking about use of proceeds at this point. But what I would point you to is if we are successful in executing a robust transaction, which we have every confidence, we will, then Duke Energy lessons volatility, we increased transparency, we draw focus and attention to this

regulated business, which I would say is one of the strongest franchises in the US with 5% to 7% growth and the ability to earn at the top half of that range as we deploy capital and move through the regulatory modernization that sits in front of us.

And so I think that's the real takeaway. We'll keep you informed on this process every step of the way and bring guidance at the right time. But I think there is just a strong pipeline of investment and a strong confidence in our ability to grow 5% to 7% on the regulated business.

**Q - Shahriar Pourreza** {BIO 15145095 <GO>}

Great. Fantastic. Thank you guys. I'll pass it to someone else. Appreciate it.

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

Thank you.

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

Thank you.

**Operator**

Your next question comes from the line of Julien Dumoulin Smith with Bank of America. Your line is open.

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

Hey, good morning, team. Thanks for the time and appreciate the opportunity.

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

Thank you, Julien.

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

Good morning.

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

Hey, good morning. Congrats, Steve, again.

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

Thank you.

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



Absolutely. Just to keep going on the stop process, I mean obviously this has seemingly been in some thought for a little time. How do you think about the accretion dilution and the commitment of pursuing this through. And then related to that, just again given some of the use of proceeds considerations, is there a potential that this ends up taking some time? (indiscernible) to align with some of your CapEx needs through the course of the decade. I guess just thinking about some of the parameters here.

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

Yes. And Julien, I'm not going to comment on value. I think we're too early in the process, we're testing the market. But we do believe we have a very strong set of operating assets, development pipeline, etcetera. We've given you an indication of use of proceeds. So I'd like to leave the comments there. And that's as the process progresses, we'll move forward to give you more information. The second part of your question -- lost the train.

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

Well, I was just thinking about use of proceeds and perhaps elongating it to align with your CapEx. Again, more of a pushing you on the parameters that you alluded to a moment ago.

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

Yes. So, the use of proceeds, as I said in my comments to Shar, our bias right now would be to use the proceeds to avoid debt. But Julien, as the review progresses, we get a better sense of the market, where sometime in '23 likely we will finalize that decision and keep you informed every step of the way.

And as I think about the way this will work when we reach a decision, we will likely move the business to discontinued operations. So the Commercial business would come out. We would give you very clear guidance on the regulated business and we'll give you a sense of use of proceeds so we can put all of those various pieces together. And we will do that when we have progressed far enough in the strategic process to have a sense of how to guide you into 2023. But I would point again to -- this gives us an opportunity to really draw a great focus and attention on the regulated business which is poised to continue to grow at a very healthy pace.

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

Got it. Actually, I'm sorry. Sorry to keep going on some of the core operations here, just with respect to some of the other moving parameters at present, any initial thoughts on the AMC impact from IRA? Again, I guess that's a moving target itself. And then related obviously continued successful on cost mitigation, and kudos Steve, just with respect to that, again, feel fairly good about the outlook of '23 onwards, in some of the earlier comments that you've made, again, I get that the gross level of inflation is potentially accelerating against what you guys had previously thought, establishing your EPS CAGR?

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

Yes. Julien, we feel very confident in our ability to execute on cost mitigation. And I think if you track back COVID and even prior to that, dating back to '15 and '16. We have consistently managed our O&M trajectory in a way that's not only been helpful to investors but helpful to our customers. It's been a part of keeping our prices low in all of our jurisdictions.

We are looking at the Inflation Reduction Act and we see meaningful benefits to customers from the renewable tax credits, the recognition of nuclear, the incentives around critical infrastructure. We will be impacted by the corporate minimum tax, but we will also benefit from the credit, which will pass through our customers.

So we are in the early analysis of this, as I know so many others and we'll be tracking it closely, as you would expect us to.

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

Right. But not ready to quantify given the moving pieces etcetera, on FFO to debt and cash flow?

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

No

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

Okay, excellent. All the best. Speak to you guys soon.

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

Thank you.

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

Thank you.

**Operator**

Your next question comes from the line of Nicholas Campanella with Credit Suisse. Your line is open.

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

Hi, Nick.

**Q - Nicholas Campanella** {BIO 20250003 <GO>}

Hey, there. Hey, thanks for taking my question today. And congrats to Steve and Brian on their new roles.

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

Thank you.

**Q - Nicholas Campanella** {BIO 20250003 <GO>}

I just wanted to ask, just go back to CEB quick and I'm just thinking to -- about contribution in total, like, what is the EBITDA for that business? And then, also, last quarter, I think you commented that CEB in 2023 would be somewhat flattish to 2022. So we've had some relief via AD CVD there. So I'm just trying to think what is like ultimate loss earnings for those assets in 2023? How we should be thinking about that?

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

Yes. Nick, thank you for that. Our target for 2022 is around \$150 million of net income, which we kind of stepped down the contribution at the end of last year as we saw some of the challenges in the supply chain and panel availability, etc.

We also in the last calls, we see a trending more in line with that for 2023 because despite the favorable executive action, the delay and uncertainty that was created during that period of time really pushed execution of projects from '23 into '24. And so, I'll leave it there, I don't know, Steve, if you would add anything to that?

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

No, I think that's correct. We had stepped down the contribution for those years in light of the supply chain issues and we had kind of capped the earnings throughout our plan, prior to that, in the \$200 million type range per year and stepped it down for the recent supply chain issues. So that's I think about is in that fashion.

**Q - Nicholas Campanella** {BIO 20250003 <GO>}

Okay. So just run with the \$150 million. And then, do you have EBITDA for that business that you're willing to disclose or --?

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

I'll leave it at that, the \$150 million. And you know Nick, Jack and the IR team are available for any further follow-up on specifics.

**Q - Nicholas Campanella** {BIO 20250003 <GO>}

Great. No, thank you. I appreciate that. And then I guess I just.

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

Thank you.

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

All right, thank you.

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

Thank you.

**Q - Nicholas Campanella** {BIO 20250003 <GO>}

All right, thanks.

**Operator**

Your next question comes from the line of Jeremy Tonet with JP Morgan Chase. Your line is open.

**Q - Jeremy Tonet** {BIO 15946844 <GO>}

Hi, good morning.

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

Good morning, Jeremy.

**Q - Jeremy Tonet** {BIO 15946844 <GO>}

Just wanted to look forward to the ESG Day on October 4. Are there any kind of updated metrics or any other kinds of messages we should be looking for at that point in time?

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

Jeremy, we're really looking forward to ESG day because we've had -- over the course of this year, a chance to give you some visibility into new targets, right? So we added scope two and scope three emission so you can expect to hear more from that. We've also filed our carbon plan. We've also continued to progress our integrated resource plan in Indiana and have continued to build solar in Florida.

So, we will give you an update on what all of that could mean. You can expect ranges of capital to be discussed as we kind of take all of these plans and do a more financial perspective at ESG day. And then, of course, we'll comment on some of the social issues around environmental justice, just transition, affordability, which is increasingly important, and then, of course, governance. You can expect to have a member of our Board join the conversation. So I think it, it'll be a great day to really hone in on the clean energy transition story that we have here at

Duke. We're not only making good progress, but we have good plans and targets in place in all of our jurisdictions to continue that work.

**Q - Jeremy Tonet** {BIO 15946844 <GO>}

Got it, thanks. That's very helpful there. And just want to pick up with the carbon plan a little bit more if I could, if you could just give us a little bit more flavor on stakeholder conversations? We hear some stakeholders might have a different kinds of concerns about the proposal. Just wondering if there are any sticking points or alternative pathways around that to get a sense on how that's all going?

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

Yes. And you know Jeremy, it's been a robust stakeholder process. And I would say to you, as we have been engaged in so many meetings and discussions there. There are a wide range of topics being discussed. But it's nothing that we would say as surprising. And one of the reasons that we've put together multiple pathways is really to get all of the topics on the table so that we can have the kind of discussion, the commission can have the kind of information they need to make decisions.

So if I were to just comment briefly on the types of things that are under discussion, there is a lot of agreements on retirement of coal, there's a lot of agreement on near-term actions, particularly solar, storage, wind, a lot of agreement on energy efficiency, demand response being a part of the conversation. A lot of agreement on the need to accelerate the integration of renewables, because it's not just a matter of naming megawatts, it's a matter of getting them interconnected.

And then I think if I were to talk a little bit about areas of different points of view, some are more aggressive on how quickly solar comes in, some are more optimistic on the pricing of storage and pricing of offshore wind, some believe we could do more onshore wind than what we considered. And then of course, a lot of discussion on the attributes of natural gas, the assumptions on price and the role that natural gas should play.

So in price. I put price as a top-of-mind consideration on the minds of our industrials, as well as customers in general. So I think this just provides a fruitful menu of items and discussions that will result in a thoughtful plan. I think as you know, we have asked for authority to move on the no regrets elements of the plan. Not to lock into any specific one. Allow things to continue to mature, prices on certain technologies to continue to decline. And I think there will be just a really good discussion.

Hearings are scheduled for mid-September. We will be filing testimony in late August. So, there'll be more data points along the way that we can share with you as this process continues.

**Q - Jeremy Tonet** {BIO 15946844 <GO>}

Got it. That's very helpful. Just last one if I could. I just wanted to touch on nuclear a bit here and touch -- your understanding of the nuclear PTCs and as supply to regulate nuclear and the level

of benefit do you see there? And just also if you could update us on Duke's involvement in SMRs and any thoughts on that technology going forward?

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

Sure, and Jeremy, we're digesting what we know about the inflation reduction Act at this point. We believe regulated plan are included in that consideration and frankly we're really pleased to see nuclear being recognized as a critical part of the clean energy transition. We're a believer of that at Duke. And as we look at the products, we believe there is value for those who are low cost producers and Duke certainly is. So, we'll learn more as this model progresses and have an opportunity to share more with you as we know more. And of course, the bill has to pass before we can give you any [ph] new specifics. On the SMRs, in advanced nuclear, we are working on both technologies. I would say stated advisory capacity and the capacity to understand more to lend our operating expertise, we do not have an intention of being version one of anything, first of a kind, we would like to see a broader adoption of the technologies, a broader understanding of not only operating characteristics, but the commercial attributes of price, ability to construct them within a timeframe that we're comfortable with.

And so we see this decade of the 2020 as an important one to continue that work. And if it progresses as we all hope it does, we would be in a position to potentially invest in one to come into service in the early 2030s. So more to come on that. This will be a fruitful area of discussion in front of the commission. I think you know that we operate in the Carolinas for 50% of the power today comes from nuclear. So it's an important part of the equation in the Carolinas. And if there is a way to add to it in an economic way that's supportable to our customers and fits with the expectations of our regulators, we would welcome the opportunity to do that.

**Q - Jeremy Tonet** {BIO 15946844 <GO>}

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

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

Thank you.

**Operator**

Your next question comes from the line of Durgesh Chopra with Evercore. Your line is open.

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

Good morning.

**Q - Durgesh Chopra** {BIO 20053859 <GO>}

Hey, Good morning, Lynn and Steve. And Steve, congrats and thank you for your very patience here. So, thank you for answering all of our very detailed annoying questions over the years. I appreciate it.

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

You're welcome.

**Q - Durgesh Chopra** {BIO 20053859 <GO>}

Just, maybe just really quickly, is there any debt on the renewable assets that we are pursuing a strategic review on?

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

Yes, there is. There is about \$1.6 billion of project debt on the Commercial Renewables assets.

**Q - Durgesh Chopra** {BIO 20053859 <GO>}

And that's included in the \$4 billion number that you gave us? The value, I wasn't sure if that was the equity value or the enterprise value?

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

Yes, that's correct.

**Q - Durgesh Chopra** {BIO 20053859 <GO>}

Okay, thank you. And then just, Lynn, just wanted to get your thoughts on the -- conceptually on this transfer ability topic. Obviously, this was another plan that doesn't have direct pay but has transfer ability, how would you compare in contrast this versus tax equity? And just as a concept, what's the market for these credits? Just any color you could share there would be appreciated.

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

Yes. Durgesh, we have been spending some time thinking about this. What we like about transfer ability is we do believe there could be some efficiency in the market to move cash which would be valuable to our customers. It has been a concept that has been used for certain state tax attributes. But the market I think will be quite different if we introduce credits of this level. And so I think trying to forecast how the tax equity market would react to the introduction of this market and who shows up to be a counterparty for transfer ability is something we're spending some time on. I don't have all the answers. But we do like the introduction of another technique that more efficiently moves cash, with the hope and expectation that a liquid market develops at a level that would monetize these credits for our customers.

**Q - Durgesh Chopra** {BIO 20053859 <GO>}

Got it. Thank you so much, Lynn.

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

Thank you.

## Operator

Your next question comes from the line of Michael Lapidès with Goldman Sachs. Your line is open.

### Q - Michael Lapidès {BIO 6317499 <GO>}

Hey guys, thanks for taking my question.

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

Hey, Michael.

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

Hi, Michael.

### Q - Michael Lapidès {BIO 6317499 <GO>}

Hi, Lynn. Hey, Steve. And Steve, congrats on the new role and same to your successor as well.

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

Thank you.

### Q - Michael Lapidès {BIO 6317499 <GO>}

The regulated capital spend that you laid out in your fourth quarter (Technical Difficulty) relative to what we know today, just on the regulated side, can you talk to us about the puts and takes? About what may be has moved around? Maybe has some upside to it? Maybe has some downside to it when we think about that capital spend in directional guidance?

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

Yes, and Michael, what I would say to you on regulated spend, I'm going to focus on the Carolinas just for a moment, we used one of the 2020 IRP scenarios to develop that capital plan recognizing that we were going to put a carbon plan in front of the commission and it needed to be reviewed. And so there will be a fine tuning of Carolina capital coming out of the carbon plan. We also were on this technical conference on the multiyear rate plan and put forward a recommended range of transmission and distribution that will be filed in connection with the cases that are upcoming. So there could be some fine-tuning there. And then I think about just around the corner, we'll be opening up 27 when we come to the street in February.

And I think we've talked to you about the fact that we see an acceleration of capital in the back half of the year as we get deeper into the multiyear rate plan, deeper into coal retirements,



deeper into replacement generation. So we do see that capital trending up and we'll have an opportunity to give you some perspective on that at ESG day.

**Q - Michael Lapidès** {BIO 6317499 <GO>}

Got it. And is that capital trending up? Is that more of a post 2025 and maybe '23 to '25, doesn't move a lot?

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

Yes. Yes, I would think about it as post 2025 because honestly, Michael, 2025 is tomorrow for us. When you think about large infrastructure build. The other thing I would point to is there will be some fine-tuning of capital in Indiana. As a result of the integrated resource plans, the CPCN process that we plan to file later this year. So that's another update that you can expect from us. Again, it will be more in the back half of the decade. As we move more deeply into our clean energy transition in Indiana.

**Q - Michael Lapidès** {BIO 6317499 <GO>}

Got it. And then one final one, Lynn, just curious on coal generation retirements, both in the Carolinas and in the Indiana. Given supply chain issues for a battery and a little bit for solar panels, as well as just given high commodity prices. Does that have you rethinking the timeline for coal power plant retirements?

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

Yes, Michael. That's, it's a good question because there are puts and takes on that question from every direction. And what I mean by that, you've highlighted supply chain issues on the replacement side. You also highlighted fuel prices for natural gas generation. But frankly, coal, the supply of coal, the logistics of getting coal from point A to point B are also a challenge. And so we cannot assume that there is some steady state perfect situation here. We have to manage all of this. And so trying to find the right balance between timing of coal retirement and replacement generation is something that we're spending a lot of time and attention to. And also trying to ensure, for the period of time the coal assets are with us, that we have a reliable supply. There have been labor shortages in the railroad, labor shortages in the mining community, the global market has impacted coal and pricing. So I would just raise that as another dimension to your question that we're also working on.

**Q - Michael Lapidès** {BIO 6317499 <GO>}

Got it. Thank you, Lynn. Much appreciated.

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

Thank you.

**Operator**

Your next question comes from the line of the Anthony Crowdell with Mizuho. Your line is open.

**Q - Anthony Crowdell** {BIO 6659246 <GO>}

Good morning, Lynn. Good morning, Steve.

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

Good morning.

**Q - Anthony Crowdell** {BIO 6659246 <GO>}

Congrats on the new position Brian and Steve. Wish you best of luck.

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

Thank you.

**Q - Anthony Crowdell** {BIO 6659246 <GO>}

Hopefully, just two quick questions. Lynn, one, I understand the size of the renewable business relative to Duke, but do you think the sale of the renewable business will have any impact to like the ESG rating that Duke Energy has? Such as, hey, maybe they're not as focused on ESG as previously?

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

Anthony, I appreciate you asking that question, because I would unequivocally say no. Because when we talk about our carbon reduction target and what we're trying to accomplish by 2030 and 2050, it's all within our regulated business. So we have not taken credit for any commercial renewables and our clean energy targets that we have shared with you. It will mean that we'll have a fewer number of megawatts of renewables until that regulated renewable growth accelerates in the back part of the decade because we'll sell some of them. But our commitment around carbon reduction and the clean energy transition is unchanged. All of our targets are on track. And this will give us an opportunity at ESG day to really zero in on that even more and make it very clear. But I appreciate the question, because it's an important one.

**Q - Anthony Crowdell** {BIO 6659246 <GO>}

And just lastly, on load trends, it looks like you're coming in maybe above your original 2022 guidance of 1.5%. I'm curious, what do you see long-term? It seems that maybe the electrification of the economy is accelerating, then maybe we previously thought. Maybe a couple of years ago, we were talking about flat is the new up. Do you think going forward, 1% or 2% may be the new norm as hybrid work and all these other things come to benefit the electric utility?

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

Yes, Anthony. We look at that very closely. And back in February, we had projected at that after 22, it was pretty flat, our growth through the rest of our five-year plan, electricity sales, weather normal, was pretty flat. And we're keeping an eye on energy efficiency products that are getting rolled out in addition to electrification. And these are variables but we do look at as we project our load. We'll be updating that as we move forward. But right now we're going to stick with pretty flat load growth throughout our planning horizon and hope for that upside on that.

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

And Anthony, what I would add to that is, we believe the discipline around cost management is really grounded in the fact we're not putting in overly optimistic assumptions on load. So we manage our cost structure consistent with sort of a flat expectation on load growth. But when I look at some of the trends around in migration in the Southeast, I look at these economic development numbers and the business ratings of our states. We do have some tailwinds on growth, right? That I think we'll enjoy for a period of time. But we continue to believe this flat to 0.5% is the best way to manage the business and always have to be surprise to the upside.

**Q - Anthony Crowdell** {BIO 6659246 <GO>}

My last question will be -- Steve, you brought up about energy efficiency as may be a headwind to demand growth. Do you think as we -- we had big energy efficiency gains in appliances, home construction over the years, and we just reached maybe the peak of these energy efficiency gains and right now it's just all really small gains that you're going to get with, upgrading a refrigerator, a new appliance, and that will be the pivot in demand?

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

Well, we'll continue to monitor that. We do see a desire to increase energy efficiency as part of carbon reduction plans. You'll see that as an increasing area if for example on our North Carolina plant. One of the things that's helpful to us as we move forward, is we're also going to have residential unbundling as part of our multi-year rate plan. And that takes away that volatility for that large customer class on usage, whether it's weather or just growth as well. So, I think we've got protection there if we saw economic issues or energy efficiency coming along to affect the top-line demand.

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

And Anthony, the only other thing I would point to is energy efficiency hasn't been uniformly adopted across all of our customer classes. So we do have an opportunity, particularly with low income and vulnerable customers to continue to drive energy efficiency. And I also believe that home energy management technology, time of use rates, other things to give us an ability to help a customer move their usage around and minimize is an opportunity that will lower price to customers over time and giving us headroom for these clean energy investments.

**Q - Anthony Crowdell** {BIO 6659246 <GO>}

Great. Thanks for taking my questions.

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

Thank you.

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

Thank you.

**Operator**

There are no further questions at this time. We will now turn it over to Lynn Good to conclude the call.

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

Great. Thank you. And thanks to everyone who has joined us today. A strong quarter. A lot of promise ahead. We're available this afternoon for questions as we always are. And again, congratulations to Steve and Brian on their new roles. So thanks again for your investment in Duke Energy.

**Operator**

This concludes today's conference call. You may now disconnect.

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