

Q1 2016 Earnings Call

Company Participants

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

Other Participants

- Ali Agha, SunTrust Robinson Humphrey, Inc.
- Andrew Levi, Avon Capital/Millennium Partners
- Christopher J. Turnure, JPMorgan Securities LLC
- Greg Gordon, Evercore Group LLC
- James von Riesemann, Mizuho Securities USA, Inc.
- Jonathan Philip Arnold, Deutsche Bank Securities, Inc.
- Julien Dumoulin-Smith, UBS Securities LLC
- Michael Lapides, Goldman Sachs & Co.
- Paul Patterson, Glenrock Associates LLC
- Praful Mehta, Citigroup Global Markets, Inc. (Broker)
- Steve Fleishman, Wolfe Research LLC

MANAGEMENT DISCUSSION SECTION

Operator

Good day, and welcome to the Duke Energy First Quarter Earnings Call. Today's conference is being recorded. And at this time, I would like to turn the conference over to Bill Currens. Please go ahead, sir.

Bill Currens {BIO 18075897 <GO>}

Thank you, Yolanda. Good morning everyone, and welcome to Duke Energy's first quarter 2016 earnings review and business update. Leading our call today is Lynn Good, Chairman, President and CEO along with Steve Young, Executive Vice President and Chief Financial Officer.

Today's discussion will include forward-looking information and the use of non-GAAP financial measures. Slide two presents the Safe Harbor statement, which accompanies our presentation materials. A reconciliation of non-GAAP financial measures can be found on duke-energy.com and in today's materials. Please note that the appendix to today's presentation includes supplemental information and additional disclosures.

As summarized on slide three, Lynn will cover our first quarter financial and operational highlights and provide an update of our recent strategic and growth initiatives. Then Steve will provide an overview of our first quarter financial results, an, update on economic activities within our service territories and close with our key investor considerations.

With that, I'll turn the call over to Lynn.

Lynn J. Good {BIO 5982187 <GO>}

Good morning, and thank you for joining us. I'm very pleased with our solid first quarter financial results, our continued focus on operational performance and the progress we've made on our strategic portfolio transition and important growth initiatives. I'll provide an update on our progress on these initiatives in just a moment. First, let me begin with a few financial and operational highlights of the first quarter as summarized on slide four.

This morning we announced first quarter 2016 adjusted earnings per share of \$1.13. Results for our regulated utilities were modestly below our internal plan as a result of significant storm costs in the Carolinas, milder weather and weaker than expected customer volumes. We continue to see strong customer growth and our 12-month rolling average volumes continue to track consistently with our expectations.

Operating results for our international business were in line with our expectations as hydrology began to return to more normal levels in Brazil. We also recognized tax adjustments at international during the quarter, which Steve will review in a movement. As we've looked at the balance of the year, we are affirming our full year 2016 guidance range of \$4.50 to \$4.70 per share. Daily operational excellence continues to underpin our commitment to our customers, communities and investors. That commitment starts with our focus on safety.

For 2015, Duke Energy's employees safety record received the top rank among large utilities as recognize by EEI. Our generation fleet also performed well during the quarter. Our nuclear fleet achieved a 95% capacity factor, building on its record breaking performance in 2015. In Indiana, our Edwardsport IGCC facility continues to improve its operational performance. In February the gasifiers achieved 100% availability, our best month ever.

Our growing natural gas fleet is also benefiting customers and the environment, taking advantage of low natural gas prices. In March of this year, our gas-fired plant set a record for monthly natural gas consumption, surpassing the record set last June. This is indicative of the strategic coal-to-gas shift in our generation portfolio, which has enabled us to reduce carbon emissions by 28% since 2005.

Our organization responded well to weather challenges in the first quarter. In January, Winter Storm Jonas struck the Carolinas causing approximately 600,000 customer outages. There were also ice and wind storms in February, impacting more than 500,000 customers in the Carolinas. Our teams performed admirably during these events, continuing to provide customers with the level of service they've come to expect.

Next let me update you on our coal ash basin closure activities in the Carolinas. We continue to make outstanding progress with closure activities underway at six sites. For each of our basins, the North Carolina Department of Environmental Quality is required by statute to recommend risk classifications. Preliminary classifications were released at the end of January followed by a public comment period. We expect DEQ to finalize their classifications shortly.

The risk classifications will impact basin closure methods, timing and costs. Based on our comprehensive engineering analysis of our basins, we believe the majority of the remaining unclassified basins meet the requirements for a low classification, allowing 15 years and closure methods which include storing the ash in place. We are committed to safe basin closure in a way that protects our communities and the environment, while minimizing cost to customers. We will keep you informed as the regulatory review process continues to advance.

Turning to slide five. I'll highlight several recent milestones in our important growth initiatives. Our five-year capital plan through 2020 includes a deployment of between \$25 billion and \$30 billion in growth capital in new natural gas-fired generation, grid investment, commercial and regulated renewables and gas pipeline infrastructure.

These investments are directed at improving customer service, modernizing our generation fleet and the electric grid, as well as investing in natural gas infrastructure that is complementary to our system. These investments support our transition toward businesses that provide stable, long-term growth in earnings and the dividend.

During the quarter, we received approval from the North Carolina Utilities Commission for our \$1 billion Western Carolinas modernization project in Asheville. This allows us to move forward with retiring the Asheville Coal Plant by 2020 and replacing it with two highly efficient natural gas combined cycle units.

In South Carolina, construction of our \$700 million W.S. Lee Natural Gas Combined Cycle Plant is well underway. The project is on budget and on target for a November 2017 in-service date. We also broke ground on our \$1.5 billion natural gas-fired Citrus County Combined Cycle Plant in Florida, staying on track for a 2018 in-service date.

We're building on our success and growing our commercial and regulated renewable assets. In our commercial portfolio, our two 200-megawatt wind projects, Los Vientos IV and Frontier are on target to come online later this year.

Since the beginning of the year, we've announced the acquisition of nine new solar projects including eight in North Carolina. In our regulated utilities, we've announced 100 megawatts of planned solar installations for 2016 in the Carolinas, Florida, and Indiana. That's already about 75% of what we achieved in 2015, which was a very strong year for solar investment. In fact, Duke Energy progress was ranked third among all utilities in 2015 for bringing new solar capacity online. Additionally, as pictured on this slide, we recently completed an iconic solar farm to serve the power needs of Walt Disney World Resort in Orlando.

In the first quarter, we also made good progress in our grid modernization efforts. In March, we announced a settlement agreement with nearly all interveners including key consumer groups

on our seven-year Indiana T&D infrastructure investment program. The \$1.4 billion plan will provide much needed technology and infrastructure upgrades that will benefit customers, providing improved reliability and safety, fewer and shorter power outages, better information, and overall energy savings.

In addition, the settlement allows us to continue evaluating the installation of smart meters in our Indiana service territory, which would be eligible for recovery in a future rate case. The grid modernization hearings with the Indiana Utility Regulatory Commission began yesterday, and we expect a decision around mid-year.

Our two commercial natural gas pipeline infrastructure projects, Atlantic Coast Pipeline and Sabal Trail, continue moving forward. Sabal Trail received FERC approval in February, and the pipeline is on target to begin construction in the second quarter and be in operation in 2017. Atlantic Coast Pipeline is also progressing and has adopted several alternate routes, increasing the lengths of the pipeline from about 550 miles to just under 600 miles. The project partners recently submitted updated information related to these alternative routes as well as responses to all of FERC's outstanding environmental information requests.

We're confident that FERC will soon be able to issue its draft environmental impact statement, the next important project milestone. And in fact, I believe that statement was issued this morning. The project partners have devoted significant time and resources to ensure that the environmental issues have been fully addressed. And as a result, we've adjusted our expectation for receipt of the FERC certificate to mid-2017. We are still planning for a late 2018 in-service date for the project.

Turning to slide six, I will address recent activities around the strategic transition of our overall business portfolio toward regulated and contracted electric and gas infrastructure businesses. The two strategic transactions highlighted on this slide will complete the realignment of our portfolio to focus entirely on domestic businesses that drive more stable earnings and cash flows.

Let's start with our pending acquisition of Piedmont Natural Gas. In March, we received approval from the Tennessee Regulatory Authority for a change in control upon acquisition by Duke Energy. The final remaining approval is with the North Carolina Utilities Commission, which has scheduled hearing for July 18. We remain confident of closing the transaction before the end of this year.

Additionally, at the end of February, we successfully priced a common stock offering to fund the equity portion of the Piedmont acquisition. The \$766 million offering was well received by our investors. As a reminder, the shares were offered in a forward structure. This means we will not issue the shares until the forward is settled at the time the Piedmont transaction closes.

We are also progressing on the planned exit of our Latin American generation business. We've begun initial steps in marketing the assets including signing nondisclosure agreements and providing information to interested parties. This business includes high quality assets, which we believe will attract significant interest for potential buyers. We will keep you updated on this important strategic transition.

In conclusion, I'm pleased with our financial results for the quarter and our progress in advancing our growth investments. We're also maintaining a sharp focus on operational excellence, which includes our commitment to safety and cost efficiency. Our business portfolio transition positions Duke as an industry-leading domestic infrastructure business with stable, transparent earnings and cash flows. We're looking forward to continuing our progress on this transition throughout 2016.

Now, let me turn it over to Steve.

Steven K. Young {BIO 7307044 <GO>}

Thanks, Lynn. Before I begin, I'd like to take a moment to thank Bill Currens for his seven years as a leader with the Investor Relations team. Bill's tireless commitment to delivering accurate, transparent information to our analysts and investors has been outstanding. I will look forward to continuing to work with him in his new role as our Senior Vice President, Chief Accounting Officer & Controller.

As many of you know, Mike Callahan is succeeding Bill as Vice President of Investor Relations. Currently Mike serves as Director of Regulated Utilities Forecasting. He has also had extensive experience in treasury, financial planning and analysis, and investor relations. We're delighted he's returning to IR to lead the team, where he will continue our efforts to serve our shareholders and investors.

Today, I'll focus on four primary areas. First, I'll discuss the major drivers of our first quarter results and provide an update to our full-year adjusted EPS guidance range for 2016. I'll discuss our retail volume trends and the economic conditions within our service territories. I'll spend a few moments on the continued cost management efforts underway, and then I will close with a review of our key investor considerations.

Let's start with the quarterly results. I will cover the highlights on slide seven. For more detailed information on segment variances versus last year, please refer to the supporting materials that accompany today's press release.

First quarter adjusted diluted earnings were \$1.13 per share compared to \$1.24 in the first quarter of 2015. The lower results in the current year reflect milder winter weather in 2016 and the absence of Midwest generation results due to the successful sale of the business in April 2015.

Additionally in 2016, we incurred significant winter storm costs and somewhat softer retail volumes, which were offset by a tax adjustment at international. On a reported basis, 2016 first quarter earnings per share were \$1.01 compared to \$1.22 last year. Let me briefly review key quarterly earnings drivers at each of our business segments.

On an adjusted basis, regulated utilities results declined by \$0.11 per share, principally driven by the milder weather in the Carolinas and Midwest. Higher revenues from pricing and riders in the Carolinas and Ohio were mostly offset by higher depreciation and amortization expense due to additional plant in service, including the acquisition of the NCEMPA assets in July 2015.

Additionally, we incurred higher O&M expense during the quarter as a result of winter storm cost in the Carolinas, which were higher than our planning assumptions by \$0.05. Offsetting emergent storm expenses were lower outage costs and increased cost efficiencies throughout the organization. As expected, our commercial portfolio declined by \$0.11 per share in the first quarter of 2016, primarily due to the absence of the Midwest generation business, which was sold in April of 2015. Our commercial renewables benefited from improved levels of wind production this quarter and growth from new renewable projects. Other was down \$0.06 per share, primarily due to prior year tax adjustments and higher interest expense in the quarter.

Moving to international operational performance, in particular in Brazil, strengthened during the quarter. Hydrology in Brazil has improved significantly during the recent rainy season. Reservoir levels in southeast Brazil are approximately 60%, compared to around 30% this time last year. This improvement has resulted in increased hydro production throughout Brazil and lower purchased power costs to meet our contractual commitments.

We also had \$0.11 of favorable tax related items associated with the international segment during the quarter, which represents the impact of several events. You will recall in the fourth quarter of 2014, we declared a \$2.7 billion dividend at international in order to efficiently bring funds back to the US. In early 2016, we announced our intent to exit the international business. This decision, combined with the extension of bonus depreciation by Congress in late 2015, allows us to more efficiently utilize foreign tax credits and reduce our US income taxes. As a result of our intent to exit the international business, we will recognize additional US income taxes for international up until the point of sale. Overall, and with our first quarter results, we remain on track to achieve our 2016 guidance range of between \$4.50 to \$4.70 per share.

Moving onto slide eight, I'll now discuss our retail customer volume trends. On a rolling 12-month basis, weather-normalized retail load growth was 0.7% through the first quarter. For the first quarter, our retail load growth trends were soft. Within the residential sector, we continued to experience strong growth in the number of new customers, approximately 1.3% over the recent 12 months. However, after moderating for most of 2015, residential customer usage trends have declined during the quarter due to the slow economic recovery and adoption of energy efficiency initiatives.

Employment and wage growth trends continue to be favorable for the residential sector, along with the improving housing sector. The commercial and industrial classes continue to grow, to show growth of 0.2% and 1.1% respectively over the rolling 12 months. The commercial sector continues to be supported by office vacancy rate declines and job creation remains strong. Offsetting this growth is the governmental sector, as many agencies face tighter budgets, elimination of jobs and adoption of energy efficiency measures.

As for the industrial sector, construction, automotives and textiles continue to show strength in the Carolinas and Midwest. Other industrial companies continue to reduce production as they work through unusually high inventory levels accumulated in 2015. However, the softer global economies and the stronger dollar is still impacting companies that compete globally, such as steel and metals. Our 12-month trends continue to track to our planning assumptions, despite a weak first quarter. We will continue to closely monitor customer usage patterns as we progress through the year.

Moving to slide nine, as we continue to position our company for a low load growth environment, I'd like to spend just a moment discussing the progress that we made in managing costs across the organization. So far this year, absent the emerging storm costs, O&M is tracking favorable to the prior year, which is consistent with our expectations. We are focused on standardization of our operational processes and systems to manage our business much more efficiently. We also continued to take advantage of the flexibility and cost savings associated with the transition of our generation portfolio from coal to natural gas.

Also within our nuclear and fossil generation fleets, we're making changes in how we plan and execute our plant outages and how we utilize resources across our fleet. Although the Nuclear Promise is an industry-wide approach to controlling costs, activities are already underway within our nuclear fleet to drive out cost and place more discipline on capital allocation.

In our transmission and distribution businesses, we continue to pursue technology that not only provides greater reliability and information for our customers, but also helps control work volumes, metering costs and contractor needs.

I'll close with slide 10, which summarizes our key investor considerations. Duke Energy has tremendous scale, offering an attractive investor value proposition, which includes balanced growth in earnings and dividends over time. As Lynn mentioned, we are making excellent progress on the acquisition of Piedmont and the exit of the international business. After the completion of this strategic transition, we will operate a portfolio that provides lower risk and higher quality earnings and cash flows to support growth in both earnings and the dividend.

Our strong capital plan includes the transition toward a lower carbon future as we retire coal and build new efficient combined cycle natural gas and renewable resources. We're excited about the growth opportunities for natural gas infrastructure across our service territories, particularly in the Southeast. Our electric grid investments allow us to deliver higher levels of reliability and offer new innovative products and services to our customers.

Our dividend is very important to us. We continue to target annual growth in the dividend consistent with our long-term 4% to 6% earnings growth objective. Strong cash flows from our core businesses support our dividend. We are only one quarter into the year, but remain on track to achieve the \$4.50 to \$4.70 adjusted earnings per share guidance range for 2016.

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

Q&A

A - Bill Currens {BIO 18075897 <GO>}

Okay. Greg, I think we've got you first in the queue. We'll go to Greg Gordon. Greg? Operator, if you can hear us, we'll go ahead and take Q&A now.

A - Lynn J. Good {BIO 5982187 <GO>}

We appear that we having some technical difficulty. So, we'll wait for a few minutes to see if we can establish the line for questions.

A - Bill Currens {BIO 18075897 <GO>}

If everyone could just bear with us for one second. They had a fire alarm over at the operator's location. So just bear with us for a second here.

Operator

We'll take our first question from Greg Gordon with Evercore ISI. Please go ahead.

Q - Greg Gordon {BIO 1506687 <GO>}

Hey. Thanks. Bill, first of all I wanted to say congratulations. You've run a fantastic IR program. You're leaving it in great hands as well.

A - Bill Currens {BIO 18075897 <GO>}

Great. Thank you for that comment Greg.

A - Lynn J. Good {BIO 5982187 <GO>}

Good morning, Greg.

Q - Greg Gordon {BIO 1506687 <GO>}

Yes. Good morning. How are you? So, couple of questions on tax. So you're ahead of the game on tax and international. I was a little bit distracted when you were going through that part of your script, so can you rehash what's going on there? And does that effectively put you ahead of target for the year for that segment, since you're already more than halfway there in the first quarter on your targeted guidance assumptions? Or is the tax drag year-over-year from other parts of the business offsetting it? And finally, you're at a 26% effective tax rate year-to-date. Are you still expecting it to be 32%, 33% levelized over the course of the year, or is that also trending better?

A - Lynn J. Good {BIO 5982187 <GO>}

So Greg, let me start with a little explanation on the tax adjustment, then I'll turn it to Steve on specifics around effective tax rate. So coming into this year, we had the extension of bonus depreciation and then the planned announcement of the exit of international, put us in a position where we could relook at the tax consequences of the sale of the business and we are going to be in a position to utilize more of our foreign tax credits, which is real economic benefit from the combination of the extension of bonus and the decision to exit. And so that economic benefit is being reflecting in the first quarter. It does put us ahead of our first quarter plan on international as a result of that. But also as we indicated in the script, we will begin recognizing tax expense, because we will no longer be making the assertion that the proceeds do not come onshore and that tax expense will be reflected over the balance of the year. So,

ahead of plan through the first quarter, good economic benefit from the tax planning that the team has accomplished here, and I'll turn it to Steve to talk about effective tax rate.

A - Steven K. Young {BIO 7307044 <GO>}

Yes, we had expected and forecasted an effective tax rate for the year of about 32% to 33%. I think it will be lower than that. You might lower it by 1% on that range, as a result of the tax strategies we put forth related to international.

Q - Greg Gordon {BIO 1506687 <GO>}

Okay. So some portion of that \$0.11 will flow back, but there will be a net benefit when we look back at the end of the fiscal year. Is that a fair summary?

A - Lynn J. Good {BIO 5982187 <GO>}

That's correct.

A - Steven K. Young {BIO 7307044 <GO>}

Yes, that's true.

A - Lynn J. Good {BIO 5982187 <GO>}

That's correct. A modest amount will turn, Greg.

Q - Greg Gordon {BIO 1506687 <GO>}

Okay. I think I understand. Thank you, guys. I'll cede to the next question.

A - Lynn J. Good {BIO 5982187 <GO>}

Okay. Thanks so much.

Operator

We'll take our next question from Jonathan Arnold with Deutsche Bank. Please go ahead.

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

Thank you, guys. That was actually going to be my first question. So, I'll ask my second one which was on the international sale. Can you give any insight at this stage whether you feel it's more likely the assets get sold in one block or in packages or some other structure?

A - Lynn J. Good {BIO 5982187 <GO>}

Jonathan, we're pleased with where we are on the process. There's been good market interest in the assets. We're still in preliminary phases. So, I can't speak to whether or not the transaction will be a single transaction or a combination. Our objective will be to optimize the value of the portfolio. And as the year progresses, we'll keep you informed on timing and expectations. But I would say we're off to a solid start on the process.

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

Are you committed to exiting everything, or is it possible that there would be a partial sale if that was the better value outcome?

A - Lynn J. Good {BIO 5982187 <GO>}

We've made a decision to exit, and are certainly in that process today, Jonathan, and as we move through it we'll have a better sense of timing and approach. So, I think that's a question that we'll be prepared to give more specifics on as the year progresses. But again, we're off to a good start with the degree of market interest we're seeing in the assets.

A - Bill Currens {BIO 18075897 <GO>}

Thank you. And thank you to you as well Bill. And good luck.

Thank you, Jonathan.

A - Lynn J. Good {BIO 5982187 <GO>}

Thanks, Jonathan.

Operator

We'll go next to Steve Fleishman with Wolfe Research. Please go ahead.

Q - Steve Fleishman {BIO 22027192 <GO>}

Yeah. Hi. Good morning.

A - Steven K. Young {BIO 7307044 <GO>}

Good morning.

Q - Steve Fleishman {BIO 22027192 <GO>}

Thanks for that peaceful moment there earlier.

A - Steven K. Young {BIO 7307044 <GO>}

We didn't know what was going on for awhile.

A - Lynn J. Good {BIO 5982187 <GO>}

I know, when we figured out it was a fire alarm, it has to be one of the first ever. Mr. Currans (32:20) on his final call.

Q - Steve Fleishman {BIO 22027192 <GO>}

Yes. So, we'll always remember your final call, Bill. So, just one other clarification on the international. There were Bloomberg Radio story headlines this morning that seemed to imply there was a comment from that saying that the dilution from the sale would be less than you had thought going forward. That's not what you said though here in this call. So, could you just clarify, did you say something about that or is there anything to add there?

A - Lynn J. Good {BIO 5982187 <GO>}

Steve, thanks for that question. So it's kind of all a part of this discussion around economic value from this tax adjustment. So, we still intend, believe the transaction will be dilutive. We'll give more visibility on valuation as the process continues. But the fact that we've had a tax planning strategy here that has provided an economic value reflected in the first quarter is significant. It's a combination of bonus and the decision to sell. So that was the point I was making. But we'll know more on the valuation of the entire transaction as the year progresses.

Q - Steve Fleishman {BIO 22027192 <GO>}

Okay. But there just to, I'm sorry to clarify again. So you were referring to the benefit that you got in this first quarter. There is not some other tax benefits that occur post sale that we weren't.

A - Lynn J. Good {BIO 5982187 <GO>}

That's correct.

Q - Steve Fleishman {BIO 22027192 <GO>}

Okay. Great. And then, just maybe on the clarifying kind of going back to last call. So you had said before, the 4% to 6% growth rate and it's going to be kind of maybe kind of lower toward the beginning of the period, then rising toward the end of the period. Is that still kind of the way you look at it?

A - Lynn J. Good {BIO 5982187 <GO>}

That's correct, Steve.

Q - Steve Fleishman {BIO 22027192 <GO>}

Okay.

A - Lynn J. Good {BIO 5982187 <GO>}

We don't expect linear, just given the timing of our capital deployment, the approach we take toward rate cases and resetting our prices. But over the five-year period, we believe we have the capital investments, the growth initiatives that will drive growth within our 4% to 6% targeted range.

Q - Steve Fleishman {BIO 22027192 <GO>}

Okay. And then lastly, I think Piedmont has a stake in the Constitution Pipeline. I mean, I'm sure that's not a huge part of the company, but just does that affect much at all your kind of expectations there, the delay?

A - Lynn J. Good {BIO 5982187 <GO>}

So, we've been following that closely. Steve, and of course are disappointed in the ruling in the State of New York. I think the partners in the projects have been very clear on where they are and the fact that they are reviewing a number of options to go forward. At this point, we're planning for a delay in the project. But as these options are pursued, some of which could include resubmission or appeal through the courts, we'll have a better sense of timing and outcome, so more to come on that.

Q - Steve Fleishman {BIO 22027192 <GO>}

And their stake is like \$250 million, is that the right number?

A - Lynn J. Good {BIO 5982187 <GO>}

Around \$200 million. Around \$200 million, Steve.

Q - Steve Fleishman {BIO 22027192 <GO>}

Okay. Okay. Thank you.

A - Lynn J. Good {BIO 5982187 <GO>}

Thank you.

Operator

We'll move next to Julien Dumoulin-Smith with UBS. Please go ahead.

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

Hey. Good morning.

A - Lynn J. Good {BIO 5982187 <GO>}

Good morning, Julien.

A - Steven K. Young {BIO 7307044 <GO>}

Good morning.

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

Get it started. So, a few clarifying questions here. Following up on Steve's last question, how do you think about hitting the bottom end of the range through at least the near-term period? Just to kind of clarify that. Do you expect to be able to hit that 4% in the subsequent years, especially given the year-to-date start and where the sales process is et cetera?

A - Lynn J. Good {BIO 5982187 <GO>}

You know, Julien, I think our guidance on that is as it was at the end of the year. We have reaffirmed our range of \$4.50 to \$4.70 for this year. We're in the midst of portfolio transition with the sale of international and the acquisition of Piedmont, both of which we expect to make substantial progress on in 2016. That will have bearing on 2017 and forward, so we'll give you a better sense of 2017 as we get close. We're confident in the range. We believe it will be nonlinear, as we've talked about, but don't have anything further to say on that at this point. But we're working hard on all elements of both growth initiatives, capital deployment, pursuing rate cases at the right time, and moving aggressively through the transition in the portfolio.

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

And then a quick follow-up on pension accounting here. We've seen some companies in the sector pursue some new policies on discount rates. I'd be curious, is that something you all are reviewing?

A - Steven K. Young {BIO 7307044 <GO>}

We keep abreast of the various accounting rules and options available to us and those are things that we look at with a regular basis and we're keeping an eye on those things. We're aware of the different methods of selecting discount rates, yield curves, bond methods, spot methods, so we're keeping an eye on that.

A - Lynn J. Good {BIO 5982187 <GO>}

Just no decisions at this point. Julien. Those decisions will be finalized in connection with our year-end planning process.

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

So, would that still affect potentially this year?

A - Lynn J. Good {BIO 5982187 <GO>}

No, no decisions have been made at this point.

A - Steven K. Young {BIO 7307044 <GO>}

No decisions, and typically a decision like that would impact prospective years.

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

Okay. Thank you. And then, more strategic question here. As you think about the gas expansion that you are undertaking by the acquisition of Piedmont, how are you thinking about future expansions or exposures on the gas side of the equation? And specifically here, either more gas utilities or more importantly, I suppose the more direct midstream pipeline exposure. I'd be curious.

A - Lynn J. Good {BIO 5982187 <GO>}

Julien, we're excited about what the potential of the Piedmont acquisition represents for Duke and our focus here in 2016 is on closing the transaction and also progressing Atlantic Coast Pipeline and Sabal Trail. We also see growth within the Piedmont franchise, both with customer additions as well as infrastructure that would support gas generation here in the Carolinas. So, we expect to continue to build on that platform in particular. We'll look at assets that make sense for Duke, whether they're midstream or local distribution companies, but don't have anything more specific to share with you at this point. We're focused on closing the transaction and integrating it in a successful way.

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

Got it. Thank you.

A - Lynn J. Good {BIO 5982187 <GO>}

Thank you.

Operator

We'll take our next question from Chris Turnure with JPMorgan. Please go ahead.

A - Lynn J. Good {BIO 5982187 <GO>}

Good morning, Chris.

Q - Christopher J. Turnure {BIO 17426636 <GO>}

Good morning. I had a more specific question on timing for the international sale. I do respect that it's still relatively early in the process, but it's my understanding that you really got the ball rolling back in January, so it's been a couple months now. At least you do have those I guess confidentiality agreements in place, and you are in discussions. Maybe it would be helpful to hear a best case scenario here knowing what you know, in terms of timing for the ultimate close of the transaction.

A - Lynn J. Good {BIO 5982187 <GO>}

Sure. And you know, Chris, the ball was rolling in January and February on planning. The ball began rolling into the market with discussions with counterparties on non-disclosure agreements and interest more in the late March, April timeframe. And so we are two months into that process. The data room, the data book is in the hands of prospective buyers, and over the next couple of months, we'll be learning more about degree of interest, number of parties that intend to stay in the process, and we'll have more to update in the second quarter.

I just you know, given where we are, I don't have any more specifics to share with you. Jonathan I believe or someone asked earlier about, is it one transaction or multiple. That of course would impact timing. Our objective is to optimize the value of the portfolio, and we're going to move through this in a thoughtful way to accomplish exactly that. And we'll give you more specifics when we are further into the process.

Q - Christopher J. Turnure {BIO 17426636 <GO>}

Great. And then my second question is on Atlantic Coast Pipeline. We did have the delay in the start of construction I guess that you gave some color on in your prepared remarks, but the overall cost and completion date remains unchanged. Is there any more information that you can give us there in terms of the drivers of that delay and start of construction and maybe moving pieces within the lack of change of completion date and lack of change of total costs that might have kind of netted to no effect there, I guess.

A - Lynn J. Good {BIO 5982187 <GO>}

Chris, there has been a very active engagement on the part of the partners throughout this process and the delay in receipt of FERC approval has really been the result of pursuing alternate routes and addressing environmental and stakeholder concerns along the way. So the schedule, as originally developed, had contingency timing in it which we've continued to work actively with our partners, including you know the way we're engaging with contractors. And at this point believe that we are on target for a mid-2017 approval from FERC, which should give us an ability to continue to target late 2018 for in-service. So, a lot of good work has been going on to look at a variety of alternatives and to work with the contingency that was within the original project plan.

Q - Christopher J. Turnure {BIO 17426636 <GO>}

Okay, that makes sense. Thank you.

A - Lynn J. Good {BIO 5982187 <GO>}

Thank you.

Operator

Our next question will come from Michael Lapidès with Goldman Sachs. Please go ahead.

Q - Michael Lapidès {BIO 6317499 <GO>}

Hey, guys.

A - Lynn J. Good {BIO 5982187 <GO>}

Hi, Michael.

Q - Michael Lapidès {BIO 6317499 <GO>}

Couple of easy ones. Can you all talk about how much utility O&M was down year-over-year in the quarter excluding the impact of storms?

A - Steven K. Young {BIO 7307044 <GO>}

Yes, Michael. The O&M, the non-recoverable types O&M was down \$0.04 year-over-year in the quarter. And again, we had about \$0.05 of storms delta quarter-over-quarter offsetting that. But we had the \$0.04 benefit.

Q - Michael Lapidès {BIO 6317499 <GO>}

Okay. And then CapEx in the quarter came in, like if I just annualize that number, that would imply a year-end number several billion below kind of what you highlighted for 2016 levels. Should we just assume CapEx is very back-end loaded in the course of this year or is there a kind of downside potential to that CapEx number?

A - Steven K. Young {BIO 7307044 <GO>}

I think our original capital plans for the years are still intact. I think it's just a shaping during the year.

A - Lynn J. Good {BIO 5982187 <GO>}

And Michael, if you look back even at 2015, we spent about 20% of capital last year. We're kind of in that range this year in the first quarter, and then it picks up over the course of the year. So the pattern looks similar to what we've experienced in previous years.

Q - Michael Lapidès {BIO 6317499 <GO>}

Got it. And then finally, can you just remind us what are your thoughts or plans around rate case timing across the various utilities or across your system?

A - Steven K. Young {BIO 7307044 <GO>}

Yes, Michael. As we had mentioned in the February call, we're looking at the majority of these cases to be back loaded in the five-year timeframe. But that's always subject to scrutiny of costs and events that are going on at the time. And in fact, we are looking at accelerating a rate case. We may file a notice this year for our filing for Duke Energy Progress South Carolina jurisdiction. So we're always looking at what's the appropriate time to go in, what's our cost structure look like and the investment timing related to that. I'd still say that the majority of the cases are in the back end of the five-year timeframe. But the South Carolina is an example of an opportunity we have that we need to move on perhaps earlier.

Q - Michael Lapidès {BIO 6317499 <GO>}

Got it. Yeah. I asked that question only because if I look at the quarterly demand rather than the rolling 12 months, while it's really strong in the Carolinas, Florida has been a little bit weaker and Indiana and Ohio especially in this quarter were significantly weak on a weather normalized basis.

A - Lynn J. Good {BIO 5982187 <GO>}

Michael, the rate case timing in Florida, you may recall, we have the GBRA's in place in connection with the building of the plants and that along with that, has a stay-out through 2018, I believe. And then in Indiana, we've been pursuing the T-disc, the grid investment, which will give us an ability to track and that will in hearing hopeful to get approval in Indiana, which will give us an opportunity to reset prices for those investments. And we'll continue to monitor whether load trends and other things would change our timing in Indiana, but we believe the tracker that we're pursuing is the highest priority rate activity in that jurisdiction.

Q - Michael Lapidès {BIO 6317499 <GO>}

Got it. Thank you, guys. Much appreciated.

A - Lynn J. Good {BIO 5982187 <GO>}

Thank you.

A - Steven K. Young {BIO 7307044 <GO>}

Thank you.

Operator

Our next question will come from Jim von Riesenmann with Mizuho. Please go ahead.

Q - James von Riesenmann

I am all set. Thank you.

A - Lynn J. Good {BIO 5982187 <GO>}

Thanks, Jim.

A - Steven K. Young {BIO 7307044 <GO>}

Thanks, Jim.

Operator

We'll move to our next caller then, Praful Mehta with Citi.

Q - Praful Mehta {BIO 19410175 <GO>}

Hi, guys.

A - Lynn J. Good {BIO 5982187 <GO>}

Hello.

A - Steven K. Young {BIO 7307044 <GO>}

Hello.

Q - Praful Mehta {BIO 19410175 <GO>}

So, my quick question was, you mentioned on growth on the gas side that you might look at other gas assets. So just to clarify, are you talking about building on your platform for gas with acquisitions or are you looking for organic growth to build on your gas platform?

A - Lynn J. Good {BIO 5982187 <GO>}

The first objective is to close the sale, or close the purchase of Piedmont Natural Gas. And we believe that we'll have organic growth opportunities within that platform not only for new customer additions but expansion of the interstate pipeline system in the Carolinas as we continue our strategic move from coal to gas. And then beyond that, for midstream or LDCs, there was a question earlier that address our interest in that. We will consider those types of additions to the portfolio that make sense, complement what we're trying to do. But our primary objective is closing the transaction, focusing our attention on integration, focusing our attention on growth organically as I outlined, and then other opportunities we'll evaluate as they arise.

Q - Praful Mehta {BIO 19410175 <GO>}

Got you. Thank you, guys. That's all I have.

A - Lynn J. Good {BIO 5982187 <GO>}

Thank you.

Operator

Our next question will come from Ali Agha with SunTrust. Please go ahead.

Q - Ali Agha {BIO 22785216 <GO>}

Thank you. Good morning.

A - Lynn J. Good {BIO 5982187 <GO>}

Hello. Good morning.

A - Steven K. Young {BIO 7307044 <GO>}

Hello Ali.

A - Bill Currens {BIO 18075897 <GO>}

Good morning.

Q - Ali Agha {BIO 22785216 <GO>}

Good morning. Can you remind us for this year, the commercial power earnings that you've budgeted, how much of that is essentially coming from recognition of tax credits? Is it almost all of it?

A - Lynn J. Good {BIO 5982187 <GO>}

If you look in the slide deck, Ali, on slide 13, it gives you the full year assumption for commercial, and that business is commercial wind and solar, which as you know have tax credits as an important part of their economics. So, that gives you a range or a perspective on the magnitude of that contribution.

Q - Ali Agha {BIO 22785216 <GO>}

And Lynn, what is the mix between ITC and PTC recognition there?

A - Lynn J. Good {BIO 5982187 <GO>}

More heavily PTC, just because of the nature of our portfolio, Ali.

Q - Ali Agha {BIO 22785216 <GO>}

Okay. And what's current the average life of contracts on the PTC side?

A - Steven K. Young {BIO 7307044 <GO>}

On the PTC side, we look at PPAs that are in the range of typically 15 to 25 years, in that type of range.

A - Lynn J. Good {BIO 5982187 <GO>}

And the PTC benefit, Ali, as you know is a 10-year benefit.

Q - Ali Agha {BIO 22785216 <GO>}

Yes.

A - Lynn J. Good {BIO 5982187 <GO>}

Yeah.

Q - Ali Agha {BIO 22785216 <GO>}

And you are relatively early in that recognition, right, for most of the portfolio?

A - Lynn J. Good {BIO 5982187 <GO>}

You know, certainly, we've been in the business, started modestly in 2007 and then you can look at our kind of capital contribution in growth 2012, 2013, 2014, so I would say early in that PTC period generally.

Q - Ali Agha {BIO 22785216 <GO>}

Yeah. And lastly, Lynn, I know when you provide us full-year guidance, you lay out what you're expecting adjusted ROEs to be across the portfolio as well. And in general, I mean would you say is there much in terms of, because looking at those numbers, it doesn't seem to be, but is there much in terms of regulatory lag that you would say exists in your portfolio that perhaps can be captured in future years or are you thinking generally speaking the ROEs will move when you file those rate cases in the back end of the five-year forecast?

A - Lynn J. Good {BIO 5982187 <GO>}

Let me make a comment and then Steve can continue. Steve commented a moment ago, Ali, that we see the potential for rate cases in South Carolina in 2016 that's consistent with capital spending and cost structure and earned returns. And so we do have rate case potential in South Carolina in the very near term. And then later in the five-year period in North Carolina, that will be the result of regulatory lag showing up on capital investment that is occurring now and will occur into the future. I commented on trackers in Indiana and Florida, but at some point, we'll address updating those rates as well. So, I think regulatory lag for any jurisdiction where we have historic test periods or the need to use base rate increases to achieve prices is going to

have some regulatory lag associated with it. And that's the careful analysis that we closely watch in determining the timing for filing.

A - Steven K. Young {BIO 7307044 <GO>}

And I would add, as we said in February, we had a slide on our five-year growth and we showed the lag was about 3% negative. And that's an average number over the five-year period. It will vary year per year. And it is as Lynn said related to the jurisdictions where you've got gaps between rate cases and you build up investments during those gap periods. So, we're working on that and planning around those events.

Q - Ali Agha {BIO 22785216 <GO>}

Thank you.

A - Lynn J. Good {BIO 5982187 <GO>}

Thanks, Ali.

Operator

We'll take our next question from Paul Patterson with Glenrock Associates. Please go ahead.

Q - Paul Patterson {BIO 1821718 <GO>}

Good morning.

A - Lynn J. Good {BIO 5982187 <GO>}

Good morning, Paul.

Q - Paul Patterson {BIO 1821718 <GO>}

Congratulations again, Bill.

A - Bill Currens {BIO 18075897 <GO>}

Thanks, Paul.

Q - Paul Patterson {BIO 1821718 <GO>}

I wanted to just sort of touch base on the storms. Is there a normal number for storm costs that we should be thinking about in this quarter?

A - Steven K. Young {BIO 7307044 <GO>}

It is hard to predict storms obviously. The past three years we've seen winter storms that have hit us in the range of \$50 million or \$60 million a year, but whether that's normal or not, I would hesitate to say. We try to impute an amount that we think about in our budgeting, but you'll have during the summer season the potentials for hurricanes in the Southeast and then in the winter storms across our jurisdictions other than Florida, typically there's the potential. there. Hard to predict, but we've seen winter storms the past three years in the neighborhood of \$50 million or \$60 million.

Q - Paul Patterson {BIO 1821718 <GO>}

Okay. On slide 19, it looks like you guys are indicating that for the utilities, only about \$0.01 was impacted by unfavorable weather. And I mean, is that solely because of it seems - it's a little surprisingly, it seems a little low. Does that take into account storm outages that might lower customer usage or, because when we look at slide eight, it looks like non-weather adjusted sales were down 4%, and I think that does not include leap year, correct?

A - Steven K. Young {BIO 7307044 <GO>}

That's correct. Yes. Let me give a little color on this. But typically, outages from storms do not affect volumes very significantly, as one point to make there, when you're looking at the whole breadth of things. I would say that the, I always want to say this, when you're looking at a quarter in particular, short periods of time, you have to be careful about weather normalized data. I think the first quarter of 2016 was mild, particularly March, and I don't know whether we pulled all of the weather impacts out appropriately in the first quarter of 2016. Correspondingly, the first quarter of 2015 was very, very cold. And I don't know whether all of the weather was pulled out of that quarter as well.

So you're comparing these two weather normalized periods, and it shows that the weather impact may not have been that significant. I suspect that it may have been more mild than what we showed in the first quarter here, but I don't try to guess at what that could be. So we just roll with the data. I like to look at the 12 months rolling more critically there. We did as we acknowledged it, it was a bit of a soft quarter, but I think the 12-month rolling numbers are in line with what we've been forecasting. And I would want to emphasize that in response to a relatively weak load, we have aggressively pursued our cost structure to offset that. That's part of our long-term plans.

Q - Paul Patterson {BIO 1821718 <GO>}

Okay. Great.

A - Lynn J. Good {BIO 5982187 <GO>}

You know Paul, the only thing I would add to it is, we have standard methods of identifying what is weather related and non-weather related. And what Steve is commenting on is those standard methods can be impacted in periods where there is extreme temperature. So extreme cold or extreme warm weather that we experienced in March. So that all leads us to look at longer time periods, so that we don't have those anomalies that could exist in any quarter. And that is really what has led us to this 12-month rolling average discussion on load because we

think that is more indicative of trends we're experiencing. And as you can imagine, we watch this really closely and manage the business for a low load growth environment.

Q - Paul Patterson {BIO 1821718 <GO>}

Excellent. Thanks a lot.

A - Lynn J. Good {BIO 5982187 <GO>}

Thank you.

Operator

And our final question will come from Andy Levi with Avon Capital. Please go ahead.

Q - Andrew Levi {BIO 17596378 <GO>}

Hi. Good morning.

A - Lynn J. Good {BIO 5982187 <GO>}

Hi, Andy.

A - Steven K. Young {BIO 7307044 <GO>}

Hey, Andy.

Q - Andrew Levi {BIO 17596378 <GO>}

How you guys doing?

A - Lynn J. Good {BIO 5982187 <GO>}

Good.

A - Steven K. Young {BIO 7307044 <GO>}

Well.

A - Bill Currens {BIO 18075897 <GO>}

Yes, sir.

Q - Andrew Levi {BIO 17596378 <GO>}

You're one of the best ever, even though you never won that award, okay. I just want to say that. I would have given you that award.

A - Bill Currens {BIO 18075897 <GO>}

You just gave it to us, so thank you.

Q - Andrew Levi {BIO 17596378 <GO>}

Okay. But maybe next year Michael will win it, so. Actually I think most of my questions have been answered, but just back on the sales. So leap year is what, about 30 basis points on an annual basis, is that?

A - Steven K. Young {BIO 7307044 <GO>}

That's roughly right, Andy.

Q - Andrew Levi {BIO 17596378 <GO>}

Right, so I guess for the quarter, you times up by four or something like that, or is that not the right math?

A - Steven K. Young {BIO 7307044 <GO>}

Yeah I think you could get in the ballpark there, and it's a little, that's a rough way to do it.

Q - Andrew Levi {BIO 17596378 <GO>}

Right.

A - Steven K. Young {BIO 7307044 <GO>}

But again, I think getting weather normalized data is as much art as science and when you get an extreme period like we had in March and comparing it to an extreme period like a prior year, I think you can get fluctuations that make that comparison a little distorted. We think our customer growth and volumes are in line with our broad prediction levels and we'll keep an eye on it.

Q - Andrew Levi {BIO 17596378 <GO>}

What do you guys think, I mean just in general, because it's not just you who are seeing like decent customer growth or weak sales trends and it's not just this quarter. Is it still energy efficiency or what else could it be?

A - Lynn J. Good {BIO 5982187 <GO>}

The other thing that we look at, Andy, is multifamily housing versus single family homes. We're starting to see some positive trends in the Carolinas where there are more single family home construction opportunities. But coming out of the economic downturn, a lot of the growth was in multifamily units, which by their footprint use less energy than a home. So, I think we're closely monitoring this and the call to the action for us is to ensure that our cost structure and the way we manage our investments and assets are consistent with the trends we're seeing at the top line. And we believe we have a demonstrated track record in managing our business that way.

Q - Andrew Levi {BIO 17596378 <GO>}

Yeah. And then, just in general I guess, international is doing better than expected. Part of that is the tax benefit; part of that is hydro and then I would assume for the second half of the year, you'll have some tailwind from currency if things kind of stay where they are. So that's a positive for this year. But it also seems that the utility itself, because of the sales trends and I guess lack of rate increases, seems to be towards the low end of your range at this point. Again, it's early in the year, but is that a fair statement?

A - Lynn J. Good {BIO 5982187 <GO>}

Andy, we're on target for the range of \$450 million to \$470 million that we talked to you about. This is the first quarter. I think to give you any more specifics on placement within the guidance range is just premature. As you know, the third quarter is our most significant quarter, and we're managing the business with identifying rate increase opportunities. Steve talked about South Carolina of course watching costs as part of that. And we'd like to see a longer trend on the sales growth to continue to monitor where that is progressing. So on track to achieve what we set out to achieve at the beginning of the year.

Q - Andrew Levi {BIO 17596378 <GO>}

Okay. Thank you very much, and Bill, again congratulations. I think you'll be a great Controller and keep everyone in the straight and narrow, because I guess that's what a Controller does, and I'm sure your kids will be happy to spend more time with you than they have for the last few years.

A - Bill Currens {BIO 18075897 <GO>}

All right.

A - Lynn J. Good {BIO 5982187 <GO>}

Thanks, Andy.

A - Bill Currens {BIO 18075897 <GO>}

Thank you, Andy.

Q - Andrew Levi {BIO 17596378 <GO>}

Yes.

A - Lynn J. Good {BIO 5982187 <GO>}

Okay.

Operator

With that being our last question, I'll turn the call back to Lynn Good for closing comments.

A - Lynn J. Good {BIO 5982187 <GO>}

Okay, Yolanda, thank you. And thanks everyone for hanging in with our fire alarm and our farewell to Bill Currens and welcome to Mike Callahan today. And most of all, thank you for your interest and investment in Duke. We look forward to meeting with many of you over the next several weeks and months and look forward to continue discussions. So, thanks again.

Operator

That will conclude today's conference. Thank you all once again for your participation.

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