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Duke Energy Corporation (DUK) CEO Lynn Good on Q3 2019 Results - Earnings Call Transcript

Nov. 8, 2019 4:42 PM ET | 2 Likes
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Q3: 11-08-19 Earnings Summary

Press Release *Slides*

EPS of $1.79 beats by $0.12 | Revenue of $6.94B (4.71% Y/Y) misses by $-296.84M

Earning Call Audio

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Duke Energy Corporation (NYSE:DUK) Q3 2019 Earnings Conference Call November 8, 2019 10:00 AM ET

Company Participants

Bryan Buckler - VP of IR

Lynn Good - President and CEO

Steven Young - EVP and CFO

Conference Call Participants

Shahriar Pourreza - Guggenheim Partners

Michael Weinstein - Credit Suisse

Greg Gordon - Evercore ISI

Christopher Turnure - JPMorgan

Steve Fleishman - Wolfe Research

Praful Mehta - Citigroup

Julien Dumoulin-Smith - Bank of America

Michael Lapides - Goldman Sachs

Operator

Good day and welcome to the Duke Energy Third Quarter Earnings Call. Today's conference is being recorded. And at this time, I would like to turn the conference over to Mr. Bryan Buckler, Vice President of Investor Relations. Please go ahead, sir.

Bryan Buckler

Thank you, Derek. Good morning everyone, and thank you for joining Duke Energy's third quarter 2019 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 2 presents the safe harbor statement, which accompanies our presentation materials. A reconciliation of non-GAAP financial measures can be found on duke-energy.com and in today's materials. Please note, the appendix for today's presentation includes supplemental information and additional disclosures.

As summarized on Slide 3, during today's call, Lynn will provide an update on the quarter and progress on our strategic initiatives. Steve will then provide an overview of third quarter financial results and insight about economic and load growth trends.

He will also provide an update on our regulatory and financing activities this year before closing with key investor considerations. With that, let me turn the call over to Lynn.

Lynn Good

Bryan, thank you and good morning everyone. Today we announced strong results for the quarter with adjusted earnings per share of $1.79 compared to $1.65 in the prior-year. This represents 7% growth through the first three quarters, giving us confidence that we will look to the rest of the year. We have narrowed our 2019 EPS guidance range to $4.95 to $5.15 raising the midpoint into the upper half of our original range.

We also reaffirmed our long-term earnings growth rate of 4% to 6% through 2023 of the midpoint of our original 2019 guidance range. 2019 is proven to be a solid year of growth for Duke Energy as we transform the customer experience and deliver value for our shareholders. We continue executing our strategy, making significant investments in the energy grid, cleaner generation and natural gas infrastructure and the fundamentals of our business remain strong. Let me highlight several operational accomplishments in the quarter on Slide 4.

First in early September, Hurricane Dorian, a historic Category 5 storm with an unpredictable path devastated the Bahamas before sweeping across the East Coast. Our thoughts remain with the people of the Bahamas as they continue the long journey to rebuild their communities and the days leading up to Dorian’s potential landfall are weather forecasts and models projected significant outages to our Florida and Carolinas service territories. In response, we mobilized nearly 8,000 resources in Florida and over 10,000 resources in the Carolinas as we braced for the storm.

While Dorian’s track shifted, it caused nearly 300,000 outages in our service territories, our teams preparation, commitment to our customers and focus on our operational excellence enabled us to restore more than 95% of the outages within 24 hours. Also, our systems and employees performed well in the face of some of the hottest days on record in September and early October. Despite these temperatures, our fleet performed well and serves customers with the energy they demand. In the quarter, Duke Energy was named one of the top sustainable companies in North America by Dow Jones for the 14th consecutive year. This is a testament to our climate strategy, sustainable practices and ongoing investments and cleaner generation.

In addition, Duke Energy received the U.S. Transparency award, which recognizes the quality and transparency of information the U.S. companies make available to investors. Duke Energy was awarded Best Corporate Disclosure for the utility industry. I'm proud of our employees and our operational execution during the quarter from storm preparation to industry recognitions, we continue to demonstrate the strength of our business and excel in our operations, which is fundamental to achieving our long-term strategy.

Turning to Slide 5 in September, we announced a more aggressive comprehensive strategy to reduce carbon emissions. By 2030, we will cut carbon emissions by at least 50% from 2005 levels, and aspire to attain net zero carbon emissions by 2050. Our commitment for 2030 includes plant retirement, operating our existing carbon free resources, and investing in natural gas infrastructure, renewables and our energy delivery system.

Our recent rate case filings in Indiana and the Carolinas are consistent with this accelerated approach. As we look beyond 2030, we will need additional tools to continue our progress. We will work actively to advocate for research and development of carbon-free dispatchable resources that includes longer-term energy storage, advanced nuclear technologies, carbon capture, and zero carbon fuels. We will also pursue second license renewal for all of our nuclear assets to maintain this low cost, carbon-free source of generation.

The journey and timeline for achieving our targets will be different in each state. And we're committed to working with our regulators and other stakeholders to design the right path for our customers and communities. Making our energy system cleaner and more sustainable means, we must transform the way we operate. And we're facing that challenge head on. We've made great progress and our acceleration in this area will position the company to provide customers with a cleaner, smarter energy future. The investments shown on Slide 6 are also consistent with our climate strategy. Our Ashville combined cycle plan is on track to be completed by the end of the year. This plant is part of our $1.1 billion Western Carolinas modernization project that supports this growing region.

Also in North Carolina the second renewable energy RFP under House Bill 589 launched in mid-October. The RFP seeks another 680 megawatts of solar projects, which would bring the total renewables under the program to almost 1,200 megawatts. We look forward to participating in this next phase of the process.

As a reminder, in Florida, we will be installing 700 megawatts of solar by 2022 as part of our multi-year settlement agreement. Today, the Commission has improved the recovery of 344 megawatts under the solar base rate adjustment mechanisms.

Focusing on our commercial renewables business, we had another impressive quarter. So far this year, we've announced over 1,500 megawatts of new wind and solar projects, including nearly 400 megawatts announced in the third quarter. Given our pipeline of investments, we have line of sight nearly all of our growth prospects for 2019 and 2020 and 70% over the five-year plan.

Shifting to our gas business on Slide 7, let me update you on the status of the Atlantic Coast Pipeline. In early October, the U.S. Supreme Court accepted our petition to review the Fourth Circuit Court of Appeals Appalachian Trail crossing decision. This is a very encouraging sign and provides the path forward to resolve this important issue. We expect the Supreme Court will schedule arguments for early next year, with a final decision no later than mid-2020.

As a reminder, the Solicitor General has joined our appeal, and we are supported by a broad coalition of stakeholders including 16 State Attorneys General, we believe the law in fact are on our side and look forward to moving toward a final resolution. We also continue to work with project partners and the Fish and Wildlife Service on the biological opinion, an incidental take statement to resolve the issues identified by the Fourth Circuit.

Based on early discussions, we now expect the permits to be issued in the first half of 2020. While this is later than previously anticipated, all parties are keenly focused on delivering reissue permits that are robust enough to minimize the potential for further appeal. This timing also aligns more closely with the expected Supreme Court decision providing more clarity before we pursue full construction activities.

Given this timeline for the resolution of the Appalachian Trail Crossing and the biological opinion, we are no longer pursuing a phased approach, but are now planning for mechanical completion of the project in late 2021 with full-in service in the first half of 2022.

On the customer front, the ACP project partners have advanced discussions on the project status and costs and we expect to reach an agreement in principle by the end of this year balancing price and project returns. We believe this pipeline remains the best option to meet our customers needs.

We remain committed to the Atlantic Coast Pipeline and the significant benefits that will bring to our customers and our region. It will provide much needed natural gas to an underserved area of the Southeast and will allow us to retire coal units and replace them with cleaner burning natural gas fired plants to help meet our carbon reduction targets. In addition, it supports critical resiliency need for some of the country's most important military outposts.

At the same time, as we execute on our $37 billion growth capital plan that underlies our 4% to 6% earnings growth rate, we have consistently stated our commitment to a strong balance sheet. Given ACP progress and clarity on important milestones, which includes the delay in project revenues until early to mid-2022, we are increasing the amount of equity in our plan.

We plan to monitor market conditions and issue approximately $2.5 billion opportunistically by the end of 2020. This additional equity allows us to absorb a wide range of outcomes associated with ACP, while also offering greater financial flexibility to the company. For instance, after ACP comes online, we will have the ability to moderate our current assumptions of $500 million per year in DRIP and ATM issuances. Additionally, we see emerging infrastructure needs for our expansive energy delivery system, which may require incremental investments in which would drive additional growth beyond our existing $37 billion growth capital plan.

We believe this issuance keeps us moving forward as we deliver value to our customers and results for our shareholders. We remain confident in our ability to achieve 4% to 6% earnings growth through 2023 given our healthy franchises and strong investment growth profile. Steve will discuss more details about our growth drivers in a moment.

Circling back to ACP, I'm pleased with the progress we've made to advance this important infrastructure project. While this is a lengthy process we're committed to the project and its completion and we will continue to share details as we learn more.

Moving to Slide 8, let me share a few updates about recent legislative developments. Earlier this week, Senate Bill 559 was enacted into law in North Carolina, enabling the Utilities Commission to approve storm costs securitization. This important mechanism will save customers 15% to 20% on storm costs and support our balance sheet. We're pleased with the General Assembly's unanimous vote on securitization, and also the bipartisan support for other costs recovery mechanisms that we advocated for, such as multi-year rate plans and ROE band.

While the final bill does not include these other provisions, Governor Cooper's Clean Energy Plan speaks to the potential for modernized recovery mechanisms for the State, we are encouraged that these important reforms are part of the broader energy policy dialog, and we will actively participate in the 2020 stakeholder engagement process related to the Clean Energy Plan.

Changes to the regulatory construct are a vital part of achieving North Carolina's energy objectives in the long-term. We are focused on advancing modern mechanisms and the customer benefits they provide. In the near-term, our attention will be on the execution of frequent rate cases and pursuing solutions to reduce regulatory lag. Both are important to delivering customer benefits and meeting our earnings objectives.

We have operated in North Carolina for more than a century providing our customers with safe and reliable power. The state is thriving with a strong economy and increasing demand for new energy infrastructure. As we look ahead, we share many of the state's objectives and will partner with stakeholders to develop innovative solutions and thoughtful energy policy.

Energy policy discussions are also advancing in many of our other states and stakeholders are embracing the value of improving the grid. In Ohio, Health Bill 247 is progressing through the legislature. This bill would further grid modernization distributed generation and other investments to benefit customers.

And in Florida, recently enacted legislation promotes grid hardening investment that will improve the resiliency of the grid against extreme weather events, while establishing rider recovery for the investments. The Florida Public Service Commission is finalizing rulemaking and we expect to file our storm protection plan in 2020. With over 300,000 line miles across our utilities, our transmission and distribution network is the largest in the nation, and the demands in our energy delivery system have never been greater. This requires significant capital investment to ensure our communities keep pace with the energy transformation occurring across the nation. We’re excited to work with stakeholders across all of our electric and gas service territories to ensure the pace and scale of our investments align with customer needs.

Before turning it over to Steve, I want to reiterate our strong confidence in our long-term strategy and our continued ability to deliver on our commitments. We're taking necessary steps to maintain the strength of our balance sheet advocating for solutions across our jurisdictions and making progress as we advance our investment priorities to benefit our customers and shareholders. As we move into the fourth quarter, we look forward to closing out a very strong year. With that, I'll turn it over to Steve.

Steven Young

Thanks, Lynn and good morning, everyone. I'll start with quarterly results on Slide 9, including our adjusted earnings per share variances to the prior-year. For detailed information on variance drivers and a reconciliation of reported to adjusted results, please refer to the supporting materials that accompany today's press release and presentation. On a reported basis, 2019 third quarter earnings per share were $1.82 compared to a $1.51 last year. Third quarter 2019 adjusted earnings per share were $1.79 compared to $1.65 last year.

The difference between 2019 reported and adjusted earnings was due to a reduction in an open impairment charge originally recorded in 2018. This benefit has been reflected as a special item and excluded from adjusted earnings. For the quarter, higher adjusted results compared to the prior-year were primarily due to growth from investments at the electric and gas utilities, favorable weather and lower O&M expenses.

These items were partially offset by higher financing costs. Within the segments, electric utilities and infrastructure was up $0.25 compared to the prior-year. Higher results were driven by base rate increases across multiple utilities, more favorable weather and higher rider revenues, including recovery of our Midwest grid investments. O&M was also favorable in the quarter. During September, Hurricane Dorian impacted our Florida and Carolinas utilities.

We estimate total cost for Hurricane Dorian as approximately $400 million, including $150 million in Florida. We deferred the majority of these costs and we request recovery through regulatory proceedings at DEP and DEF in the coming months. Similar to previous hurricane costs, such as Florence, a portion of the Dorian costs are not eligible for recovery. While Hurricane Dorian restoration costs impacted our quarterly results, we incurred higher costs in the third quarter of 2018 for a net favorable effect this quarter.

We also continue to excel at controlling traditional O&M costs, exceeding our own targeted savings for the quarter. While we expect some of the O&M favorability to turn in the fourth quarter due to timing, it is clear our digital and efficiency efforts are producing real savings. I will speak more about our capabilities in this area in a moment. These positive drivers were partially offset by higher depreciation from a growing asset base and slightly lower retail volumes.

Shifting to gas utilities and infrastructure, results were up $0.01 in the quarter, largely due to growth from our Midstream investments. While we did see growth in our LDC businesses from an increase in customers, we expect these businesses to have a strong earnings contribution in the fourth quarter due to seasonality.

In commercial renewable, results were up $0.02 driven by favorable wind resource and growth from our new projects. The other segment was down $0.11 for the quarter, largely due to higher financing costs and timing of income tax expense recognition in the current year.

We continue to expect our full-year 2019 adjusted effective tax rate to be between 12% and 14%. Finally, share dilution drove a $0.03 decline given we issued shares in December to settle last year's equity forward agreements. We are very pleased with our results so far this year delivering 7% growth on a year-to-date basis. This execution gives us confidence that we will achieve full-year results within our narrowed 2019 earnings per share guidance range of $4.95 to $5.15.

Turning into Slide 10, we operate in jurisdictions with strong customer and business growth fueled by steady population migration. In the third quarter, we saw a pause in the volume growth we experienced in recent quarters, driven primarily by the industrial sector.

On a rolling 12-month basis, weather normalized retail electric load growth was negative 0.5%. Within the residential class, we continue to experience outstanding customer growth in each of our territories with an overall increase of 1.6% in 2019. Company sponsored energy efficiency programs for which we are compensated have contributed to the decline in recent residential usage per customer.

Residential results in the quarter were also likely impacted by Hurricane Dorian. These factors together resulted in relatively flat residential volumes for the rolling 12-month period. In the commercial class, sales were down 0.6% over the rolling 12-months. Results were impacted by greater adoption of our energy efficiency programs and Big Box retail closures. These were partially offset by an uptick in data center expansions and strength in the medical services segment.

Finally, sales in our industrial class declined 1.3% on a rolling 12-month basis. Lower industrial volumes were driven by manufacturing contractions and the weakening global economy. A few singular industrial closings and manufacturing outages further influenced the rolling 12-month average. We believe these specific outliers will improve as we move forward.

Overall, our strong customer growth attractive jurisdictions and business diversity up to mitigate broader macroeconomic headwinds. We expect to end the year flat to last year and recall this follows growth in 2018 of almost 1%, we'll continue to monitor economic trends and impacts on our sales volumes and will provide updates on our February call.

Turning to Slide 11, let me update you on our active regulatory calendar. We filed rate cases for DEC and DEP in North Carolina in September and October respectively. We are seeking recovery for investments in cleaner generation infrastructure, grid modernization projects and accelerated depreciation of certain coal units. We request also include recovery of coal ash remediation spend and deferred storm costs. Now that the storm securitization bill is law, we will seek to securitize the North Carolina portion of these costs, which will reduce the rate impact to our customers.

Both cases proposed a 10.3% ROE and 53% equity component of the capital structure. Evidentiary hearings for the DEC case are set to begin in March 2020. We expect revised rates for both DEC and DEP to be effective in the third quarter 2020.

Moving to Piedmont Natural Gas, we're pleased with the outcome of the settlement in the North Carolina rate case which was approved on October 31. Under the agreement, Piedmont is allowed a 9.7% ROE and 52% equity capital structure. Piedmont also received approval of a 9.9% ROE and 55% equity capital structure in their recent South Carolina annual regulatory filing.

Turning to our other utilities, we continue to work through rate case proceedings at Duke Energy Indiana and Duke Energy Kentucky with hearings expected in the first quarter of 2020 in both cases, we have a robust regulatory strategy that has enabled us to consistently secure recovery of investments we make on behalf of our customers.

Our regulators understand the importance of the work we do to serve our communities while also maintaining healthy utilities in their regions. We will continue this important work as we close out 2019 and move into 2020. Shifting to Slide 12, our strategy is focused on delivering value to customers through investments, in clean energy, natural gas and grid infrastructure underscored by a $37 billion growth capital plan through 2023.

As Lynn mentioned, and as we have previously emphasized, we are committed to maintaining the strength of our balance sheet and are taking proactive steps to ensure our credit metrics remain strong. With ACP's projected revenues delayed until 2022, we intend to issue approximately $2.5 billion of equity by the end of 2020. This will align proceeds with the timing of ACP construction activities and help avoid unnecessary dilution in 2020. In 2021 and 2022, dilution will be offset by increased ACP earnings given we are no longer pursuing a phase-in approach, AFUDC will accrue on the entire balance until full commissioning occurs, providing an earnings uplift during construction. This additional equity strengthens the company's credit profile, provide sufficient balance sheet strength to absorb a wide range of outcomes associated with ACP.

We continue to expect equity issuances of $500 million per year through 2022 via the DRIP and ATM programs for a total of approximately $4 billion of equity issuances over this three-year period, compared to our previous plans of $1.5 billion during this time period. However, after ACP comes on law, this additional equity will provide us the balance sheet flexibility to moderate or eliminate annual equity issuances, or deploy additional capital towards regulated investments.

Let's turn to Slide 13 where I'd like to highlight approximately 5.5% growth we've seen in our core electric and gas segments this year, which includes financing costs at the holding company. This is on top of the adjusted 5.5%

growth we saw for these businesses in 2018 versus 2017. These results have been driven by execution on our $37 billion growth capital plan and top notch O&M cost control efforts, highlighting the outstanding electric and gas service territories in which we operate and giving us great confidence as we look to 2020 and beyond.

With that, let's move to Slide 14 to discuss primary growth drivers for next year. I'll start with 2020 drivers in the Electric Utilities segment. In Florida, we will continue to recover our grid investments through the second base rate increase in our multi-year rate plan. We also expect growth from additional solar projects we covered under the solar base rate adjustment mechanism. In the Carolinas, we have a full-year of benefit of the South Carolina rate increases that went into effect in June, we'll have partial years contribution from the North Carolina rate cases filed this year as well as increased wholesale earnings due to improved pricing.

In the Midwest, we'll see the impacts of our Indiana and Kentucky rate cases and will continue to invest in transmission and distribution upgrades that are recovered under our rider programs.

Shifting to the gas segment, we will see higher AFUDC earnings from ACP given we expect construction activities to resume in 2020, once key permits are reissued. The LDC business will see growth from Piedmont's rate cases, customer additions and continued investments in integrity management and power generation infrastructure.

Our commercial renewable segment will be largely flat to 2019. But as Lynn mentioned, we have line of sight substantially all our growth prospects for 2020 and 70% over the five-year plan. In addition to a long utility driven runway for investment, our demonstrated cost control capabilities will remain an important tool to achieve our growth objectives. Our track record of cost management has been outstanding. Since 2015, we have actually lowered non-recoverable O&M from $4.9 billion to $4.8 billion.

This includes absorbing $300 million of O&M from the Piedmont acquisition in 2016 in addition to offsetting wage and salary increases in general inflation. In 2019, we continue to take advantage of our scope and scale by investing in digital capabilities and data analytics, which are creating sustainable cost savings. For example, we established an IDEA Lab earlier this year, we have nearly 400 people at this facility who are dedicated to developing digital applications and other solutions to benefit operations every day. In less than a year, they have put more than 20 applications into the field. We know these capabilities will serve us well over our long-term planning horizon.

Beyond 2020, we expect dilution from the $2.5 billion equity issuance to occur beginning in 2021. This will be offset by increased eight ACP earnings. We are no longer pursuing a phase-in approach and therefore AFUDC will improve on the entire balance throughout the construction period, providing an earnings uplift in 2021 and 2022.

Many of the drivers, I just described will also support earnings growth in 2021, such as the Florida multi-year rate plan and SOBRA investments. Full-year rate case impacts in North Carolina, Indiana and Kentucky, as well as continued grid investments in the Midwest utilities. Longer-term, we expect significant investment opportunity from storm hardening legislation and solar demand in Florida, the growing need for cleaner generation and energy delivery infrastructure in the Carolinas and new gas distribution infrastructure across our footprint.

These drivers give us confidence in our 4% to 6% earnings per share growth rate through 2023. Consistent with our historical practice, we will provide 2020 earnings guidance and our growth prospects for future years during our February financial update.

I'll close with Slide 15, we are having a fantastic 2019 is illustrated by another strong quarter. The fundamentals of our business remain strong as those are attractive investor value proposition that is founded upon our growing dividend which currently yields 4%. Coupled with earnings growth of 4% to 6% from transparent, low risk investments, we offer a compelling risk adjusted total shareholder return of 8% to 10%. Our scale constructive service areas and ability to execute make Duke Energy a solid long-term investment opportunity.

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

Question-and-Answer Session

Operator

Thank you. [Operator Instructions] Our first question comes from the line of Shar Pourreza with Guggenheim Partners. Please go ahead.

Shahriar Pourreza

Okay, good morning guys.

Lynn Good

Hi, Shar.

Steven Young

Good morning.

Shahriar Pourreza

Just on the - couple questions here. On the equity that was just announced, curious on your thoughts on the timing, especially without knowing the viability of ACP. So can you run into a situation where you issue or commit to the equity and SCOTUS to further appeal somehow deal a blow to the project. Do you sort of need the equity if ACP is ultimately cancelled? And then I'm just curious on how Steve you're thinking about the method on the equity hybrid,

convertible, forwards?

Lynn Good

And Shar, I will take that. I think this has been a journey on this project, as you know. And we really looked at the progress made in this quarter that provided us some clarity on a couple of important milestones. So certainly SCOTUS taking the case was important for us to have greater confidence and getting over the trail.

And then the fact that we've continued discussions on the biological opinion, discussions with our customers and contractors, all of that taken together, we concluded that targeting a single in-service date at the end of 2021 with completion, mechanical completion in 2021, full-completion in 2022 was the right approach, balancing customer benefits, construction efficiencies and all of those things and so as we reach those milestones, we thought looking at financing was also appropriate. And as we looked at financing, we did consider a range of outcomes on this project.

We’re committed to completing the project. But I think the fact that we have had challenges along the way makes us clear eyed about evaluating the range of outcomes. We also believe this approach supports the $37 billion capital we're funding in the rest of our regulated business. And with getting the equity out there, we do have flexibility with our DRIP and ATM in the future, if circumstances indicate that we could moderate that and we have additional investments that we could put forward.

So we thought it was appropriate in light of the events that occurred this quarter, Shar to de-risk our plan, get the balance sheet in good shape, move forward, as we have said on Atlantic Coast pipeline, and really feel like the plan itself is a solid one that represents good growth for investors.

Shahriar Pourreza

Got it. So with or without -- sorry, sorry, please go ahead.

Steven Young

I was just going to say regarding the mechanism, we've got plenty of time to do this equity. So there are as you mentioned, a number of tools out there we will be looking at that and seeing what makes the most sense for us, but nothing further beyond that at this point.

Shahriar Pourreza

So with our without ACP, the capital program, you have necessitates the needs for equity, with or without ACP, I think?

Lynn Good

Shar, what I would say is we have already invested almost $2 billion in ACP. And we are continuing to advance the project in light of the developments that have occurred. And so this equity is really to strengthen the balance sheet through that construction period, also supporting the capital growth. And we do have ability to the DRIP, DRIP and ATM to moderate if we think that makes sense in the future. But we were -- we thought it was appropriate to look at financing and de-risk the balance Sheet at this stage in light of the progress that we've made.

Shahriar Pourreza

Got it. And then just lastly on Senate Bill 559, obviously as you highlighted, it’s signed into law but it was obviously missing the key piece of the proposal around multi-year planning, ROE band, et cetera. Curious on why this was removed, especially given the Governor's kind of Clean Energy Plan, which was submitted earlier this year and included the possibilities of these mechanisms.

So he obviously understands the importance. So I'm curious why that ultimately was removed. And I have to envision the stakeholder process in the Governor's Clean Energy Plan is going to be much more involved. So if you can give us a little bit of a sense on timing, that would be great.

Lynn Good

Appreciate that, Shar. And I think the fact that the Clean Energy Plan gives recognition to regulatory modernization is a good thing. But the clean energy plan also includes carbon reductions of up to 70%, of greenhouse gas emission reductions up to 70% also talks about retirement of uneconomic coal plant, grid support for clean energy. So it does bring in a number of other topics. And I think the spirit of the stakeholder process will be to address not only the modernized regulatory construct, but some of these other items. And as we look at the plan, in light of our climate strategy, we see a great deal of alignment on how we would like to go forward and believe will be an important part of delivering the solutions that the Governor lays out in the clean energy plan.

Shahriar Pourreza

Got it. Thanks guys. I'll jump back in. Thank you so much.

Lynn Good

Thank you, Shar.

Operator

Thank you. Our next question comes from the line of Michael Weinstein with Credit Suisse. Please go ahead.

Michael Weinstein

Hi Lynn and Steve.

Lynn Good

Hi Michael.

Michael Weinstein

Okay. Hey can you eliminate further on reasons for delays at U.S. Fish and Wildlife into the first half of 2020, do this and does the move away from a phase-in approach simply mean that there's just no appetite among off takers for that Phase 1 alternative that had been discussed previously?

Lynn Good

Let me take that in two parts, Michael. So the discussions are underway with Fish and Wildlife. We are taking a look at all of the feedback from the Fourth Circuit evaluating next step. There's been extensive work done as you know, additional surveys of the Bumblebee and the Clubshell Mussel and the intent of all of the parties is to address those concerns in a way that reduces any additional risks associated with remand from that permit.

So we believe it could be issued ss early as wintertime, we keep our eye on that tree-clearing window as you know, to try to get trees cleared if we can before the 1st of March. But given our timeline with the Appalachian Trail, we can also accommodate slipping a little further in 2020.

I think in terms of the phased-in approach, we have continued discussion throughout this project with customers and also monitoring all of the developments that have occurred, including these permit challenges, et cetera and the greatest value for our customers is the complete project because they're trying to get to that supply basin, and also infrastructure diversity and to the Eastern part of the state. And so that single project is where our customers see the greatest value.

And I also believe with our timing that the construction efficiencies of building it in a single phase also make a great deal of sense. So we've got some alignment, and with that movement to revenue in 2022, that was a driver as well as we thought about our financing plan.

Michael Weinstein

Got you. And one last one, has there been any change to the approximate 2% dividend growth expectation? I know you have a commitment to dividend growth. But just wondering if this equity issuance makes any change to that?

Lynn Good

Michael, we will reevaluate in connection with guidance in February. But I think that's a reasonable planning assumption for now. We see that as an opportunity and a way for us to moderate our payout ratio to be more in line with our industry peers. And the combination of all these things puts us in a very strong position to execute our growth plans.

Michael Weinstein

Okay, thank you very much.

Lynn Good

Thank you.

Operator

Thank you. We'll next go to the line of Greg Gordon with Evercore ISI.

Greg Gordon

Thanks. Good morning.

Steven Young

Good morning.

Lynn Good

Good morning.

Greg Gordon

Congrats on having a really strong year this year.

Lynn Good

Thank you, Greg.

Greg Gordon

As it pertains to ACP, with the phased-in, with the lack of a phased-in approach, you would be booking the full AFUDC rate until the project goes into service, so I can see how that has an accretive effect to earnings in 2021 and sort of as an offset to the increased share count. But when it goes into service and you start collecting the actual cash revenues based on the current contract rate, given that the project is coming in at $7.5 billion when the initial service costs was estimated to be in the mid-5s, not that you're alone, there's lots of pipes that are having this issue, shouldn't the return on the pipe unless you're able to negotiate some pass-through of those cost overruns go, that the cash earnings will be lower than the AFUDC rate unless you were able to get contract relief. Is that the right assumption?

Lynn Good

Greg, I think it's important to recognize that we had been in conversations with customers all along the way on the status of the project and also the cost. And we do expect to reach an agreement in principle by the end of this year that provides the right balance between customer price and returns. So we have said a number of times that the actual executed return on this project will be a regulated like return and we believe that continues to be a fair planning assumption. I think the AFUDC rate is higher about 14%. But we believe the in-service rate will be a very good regulated return.

Greg Gordon

Okay, so you believe you'll be able to negotiate a balanced outcome where the aftertax ROE on the pipe on the current, on the new construction cost will look like a good regulated return?

Lynn Good

I think it's -- it'll be a balanced outcome. And Greg, the business case for this pipe has remained unchanged. If I look at it from the perspective of Duke Energy, the need for additional firm transport into the Carolinas is unchanged and increasing as time continues. And so this pipe in its entirety represents an extraordinary opportunity for us to position the Southeast for decades to come and our customers recognize that and the same as the case in Virginia and that Eastern part of Virginia. So I think what often gets overlooked is that there's a fundamental need for this pipe because of the demand in the region.

Greg Gordon

No doubt about that. Thank you, Lynn.

Lynn Good

Thank you.

Operator

Thank you. And we will next go to Christopher Turnure with JPMorgan.

Christopher Turnure

Good morning, Lynn and Steve.

Lynn Good

Good morning.

Steven Young

Good morning, Chris.

Christopher Turnure

Obviously, the markets are doing well and utilities are doing well in terms of stock price performance. I'm wondering if part of your plans included evaluating asset sales in lieu of doing equity. And then, I guess, tied to that question, is part of your decision to do this size of equity tied to the strong market performance?

Lynn Good

Yes, Chris, it's a good question. And from our history, we have monetized assets over time, including as recently as a joint venture partner into our commercial renewables business. So we have evaluated that. We believe that our portfolio, we like our portfolio, it's delivering value, it's growing, we have great investment opportunities. So our intent is to pursue this equity need through a security through the markets as opposed to an asset disposition. And so we'll evaluate the timing opportunistically as Steve mentioned, and believe that’s going to position the company well for growth in the future.

Christopher Turnure

Okay. And then is it fair on the equity issuance to assume that the full amount of the $2-plus billion would hit your share count by the end of next year through cost infrastructure or others?

Steven Young

Yes, that’s correct.

Lynn Good

Yes, that’s fair planning assumption.

Christopher Turnure

Okay. And then, Lynn, you started to address this in a prior question, but just the Governor's plan in North Carolina, kind of what it means for the future, seems like it's a good thing for you guys and your ability to invest in the state and further the goals there. But is there any more detail that you can provide us on next steps and your efforts to get lower regulatory lag and more visibility into your regulatory recovery?

Lynn Good

Sure. And I guess I’ll take that in two ways. Chris, on regulatory lag, we have that assignment regardless of what happens to the clean energy plan and we’ll accomplish through deferrals, through capital optimization, through timing our rate case as well and you can expect us to continue to focus on that very keenly. But as it pertains to the clean energy plan, early discussions are already underway. The Department of Environmental Quality in the state is overseeing this process, we would expect stakeholder workshop to kick-off even as early as the end of this year, but continuing into 2020.

And there were probably a half dozen stakeholder processes during the course of 2019 in preparation for the issuance of the plan. So it's already building some momentum. And as you noted, and as I said, we see a lot of alignment between our climate strategy and what the Governor is trying to accomplish. And I've looked at where we are in North Carolina with over 30% reduction in carbon emissions already close to 35%. Our IRP plan puts us between 50% and 55% already by 2030.

North Carolina is second in the nation in installed solar capacity, over 50% of the energy comes from carbon free sources. We're looking to second license renewal on nuclear. So there are a number of strategic things that I think line up well with us and so we'll be very interested in continuing that discussion in 2020 with the clean energy plan stakeholder process.

Christopher Turnure

Okay. Is there a point in time at which those stakeholder discussions move to the Utility Commission? Or is that kind of too far out to tell?

Lynn Good

I think it's too far out to tell. Chris, I do think just getting back to part of it. So we have in front of the commission right now accelerated retirements of coal in connection with our rate case. So we'll have an opportunity to advance that discussion. It's consistent with the clean energy plan over the course of our rate case, and you can expect to see testimony along those lines. So there will be advances consistent with that plan during 2020. I will of course keep you informed about the stakeholder process as it unfolds.

Christopher Turnure

Okay, great. Thanks Lynn.

Lynn Good

Thank you.

Operator

Thank you. Our next question comes from Steve Fleishman with Wolfe Research. Please go ahead.

Steve Fleishman

Yes, hey good morning, Lynn.

Lynn Good

Hi Steve.

Steve Fleishman

Hi, so just could you just remind us the commercial renewables business, just given the increase projects you've had there, how much you're going to end-up investing in that business, roughly this year and maybe next year?

Lynn Good

Steve will take that.

StevenYoung

Yes, Steve. I think will be in the range of $1 billion this year. It'll be lesser amounts as we go forward, still in line with the five-year plan of roughly $2.5 billion investments or about $1 billion this year.

Steve Fleishman

Okay, okay and then switching back to kind of the news today on the equity and the like, so just maybe trying to ignore the exact timing by year but just overall if we still have ACP coming on, which was in the before. But there is now $2.5 billion of additional equity. Can you just maybe better explain how that still keep you in the same growth like what else is an offset? Is it just better performance in some of the other businesses?

Lynn Good

Steve, I think we should take that kind of break that down a little bit. So let's talk about the construction period of ACP. We have moved away from the phased-in approach with a plan now for the project to go into mechanical completion in 2021, full-in service in 2022. So with this change, we will be accruing allowance for funds for a longer period of time on the full project than what we had previously considered, where we were putting part of the 60% or so of the project in service at the end of 2020 and then the rest in service at the end of 2021.

So that gives us additional earnings during the construction period, that will offset dilution from the equity. And then as we go post in-service, we are working actively with customers, as I said a moment ago to reach agreement, we believe in principle by the end of the year to find a balance between construction costs and returns on the project that would be consistent with revenues that would come into service in 2022.

And then I think Steve, kind of outlined on Slide 14 of the deck, a very comprehensive set of drivers that are driving growth in the regulated businesses and I believe we have consistently delivered within our growth range on the regulated businesses and we see even more potential with the Florida legislation, with the Ohio legislation, with the clean energy plan being outlined in the Carolinas. And so as we come to the Street in February, we'll be giving you some more visibility and where we see additional growth. And we think the combination of all of these things give us confidence that we can remain within the range of 4% to 6% of our planning period.

Steve Fleishman

Okay, I think I got it, thank you.

Lynn Good

Thank you.

Operator

Thank you. We'll next go to Praful Mehta with Citigroup. Please go ahead.

Praful Mehta

Thanks so much, hi guys.

Lynn Good

Good morning.

Praful Mehta

Good morning. So maybe coming back to the equity but looking at it more from the credit side, it seems like there's a little bit of surprise around the need of equity. And it seems to be stemming more from a credit pressure that you're seeing potentially from the agencies, you had a sale earlier in the year. Now you're doing more equity, even despite sounds like where ACP goes from a timing perspective. So just wanted to understand, so we have a better kind of framework. What is the credit situation right now? What are the rating agencies saying? I mean, is there like a minimum threshold you're trying to hit, just so we get, what's driving the fundamental equity need?

Lynn Good

And Praful, I'll try to do it and Steve can chime in as well. I think it's important to focus on cash flow and when we move in-service date, a full-year, that means we're foregoing cash flow in 2021, and part of 2022 in Atlantic Coast Pipeline and that is substantial cash flow driver.

We're committed, as we said to our metrics, we're targeting FFO to debt of 15% to 16%. We think that is appropriate and consistent with the way the agencies look at us. You know that Moody's has us on stable, S&P has us on negative outlook, really looking not only ACP, but a number of other developments in our regulated business. And so I would look at this is us being responsive to developments that have occurred around an important project and consistent with our commitment to the balance sheet, which we have been clear about all along.

So combination together is the way I would think about this equity issuance. And I'll look to Steve to see if he would add?

Steven Young

Yes, I would echo that entirely and we certainly want to have a solid balance sheet and the measure you think about there is a 50% FFO. And so we want to make sure that we can attain that. And as Lynn said, a delay of a project of this magnitude has a lot of cash flow implications. And so we want to be mindful of that and be proactive. And I think this will give us flexibility on the back-end of things as well.

Praful Mehta

Got you. That's very helpful context. Appreciate that. And then maybe just quickly on coal ash and the DQE order. Just what is the current status of the appeal on that? Is there anything that you can share on the process there, I know you're expecting it to go well into 2020 as you reference on your slides, but just wanted to see how to think about that, that process?

Lynn Good

Praful, it is still moving forward. We’re pursuing appeal through the OAH and also the North Carolina Superior Court. Our appeals are focused, or our claims are focused not only on the process that led to the decision, but also the substance of the decision. And so that process continues and as we reach milestones, we will of course update on that. But that's where I would leave it at this point.

Praful Mehta

Got you. Finally, just on Florida, clearly positive in terms of the Senate Bill 796 and the authority around good investment, any color on opportunities to further increase your CapEx associated with this? I know you said you're evaluating everything that comes out of it. But how should we think about that and timing around what this could result in terms of incremental CapEx?

Lynn Good

Sure. And Praful the Florida has been an environment that is recognized the need for grid investments. And we have been investing in hardening of our grid for some time. Right now, as part of our multi-year rate plan, we have over a $1 billion of investment underway. And that plan runs through 2021, so we would see the potential to take advantage of this additional storm hardening as we look at resetting our multi-year rate plan for 2022 and forward, which gives us an opportunity to really put additional investment to work in Florida.

Praful Mehta

Got you. Well, thanks so much guys.

Lynn Good

Thank you.

Steven Young

Thank you.

Operator

Thank you. We will next go to Julien Dumoulin-Smith with Bank of America.

Julien Dumoulin-Smith

Hey good morning, Lynn and team.

Steven Young

Good morning.

Lynn Good

Hi Julien.

Julien Dumoulin-Smith

Hey, so I'm going to try to follow-up on some of the prior questions here a little bit more specifically, I believe in your prepared remarks, you talked a little bit more about additional distribution and infrastructure spend resulting from the equity raise as well as dealing with ACP. And I understand that ACP is to a large extent at least at present, a timing-related issue. Can you elaborate on potential opportunities on that side in tandem with this capital raise to kind of think about and I know, we're a little bit ahead of the 4Q cycle to discuss that, but I just wanted to kind of dig in a little further on sort of the twin purposes at least disclosed for the capital raise and understand also maybe at the same time, relative to that 15% FFO to debt, where do you stand and how much latitude do you have in your metrics to see some of that cash flow degradation at the outset that you described from the delay in ACP?

Lynn Good

So let me talk about grid investment first and then we can get to metrics Julien, what I would say on grid investment is we see an increasing interest in investment in the grid throughout our service territory. Florida, we talked about a moment ago Praful had questions around the Florida legislation.

We also referenced Ohio, there's a Health Bill 247 that's moving through in Ohio. We've got TDSIC in Indiana, that has been an important investment opportunity and then the Clean Energy Plan that will progress in the Carolinas in 2020 also has a specific focus on modernizing the grid to support clean energy resilience, and other initiatives.

So we feel like there's just a lot of policy discussion around the grid that will give us an opportunity to continue to add capital in a way that delivers benefits to customers and also benefits to shareholders. I think the timing of how that rolls out will be jurisdiction by jurisdiction, I would think about Florida's being 2022.

Ohio, I think we have to get the bill passed yet to see where that's going to lie. And then we'll progress on the Clean Energy Plan during 2020 in the Carolinas, and have a better sense of where that capital will be deployed. Within our $37 million, we already have a fair amount of capital that's underway and we'll of course continue to execute that.

On metrics, we should close 2019 at 15% and Steve, why don't you talk about what you see in 2020 and 2021?

Steven Young

Right, we should be at 15% and as we move forward, we'll be in the 15% range and the equity issuance and advancements of other efforts in rate cases should start to drive us north of 15% as we move into 2020, 2021 and beyond. And that's our goal is to be in the 15% to 16% range. That would give us sufficient headroom to deal with the types of things that pop-up, such as hurricanes or other issues.

And we think that'll give us sufficient flexibility in our financial plan with this equity. And as we said earlier, if things can work out with Atlantic Coast Pipeline coming on, we have the opportunity to ramp-back on the ATM or to invest in the type of infrastructure that Lynn alluded to. There's a lot of opportunities out there.

So that's basically the plan to get north of 15% in the 15% to 16% range, and we'll be doing that as we move through 2021 and beyond.

Julien Dumoulin-Smith

Got it. Can you quickly elaborate just in terms of the 2020 dynamics, specifically you alluded to a flat clean infrastructure renewable contribution next year, and I think if I understand it, right, the equity capital should have a minimal impact next year as well just based on timing, but I don't want to put words in your mouth on that. And then maybe…

Lynn Good

Yes, the minimal dilution in 2020, commercial renewables will be flat and the drivers that Steve outlined, I think it's Slide 14, Julien are very comprehensive. So I think you can track through those in a way that gives you a lot of confidence on 2020.

Julien Dumoulin-Smith

Okay, confidence as in the current trajectory?

Lynn Good

Yes.

Steven Young

Yes.

Julien Dumoulin-Smith

Yes, all right, great. Thank you.

Lynn Good

Thank you.

Operator

And next, we'll go to Michael Lapides with Goldman Sachs.

Michael Lapides

Hey guys, couple of questions. First of all, on the commercial renewable side, how are you thinking about investment going forward, meaning in 2021, I get you'd love to do more at the utilities. I'm just curious, trying to get my arms around your plans when you're thinking about the next couple of years?

Steven Young

Well, we'll roll out and update our capital plan in February, as you know, Michael. But we had laid out last February about $2.5 billion of capital through 2023. As I mentioned earlier, we're doing about a $1 billion this year, it'll be lesser amounts going forward, I think we'll be deploying an amount of capital that will keep the earnings profile, relatively flat in the $200 million range is what we're looking at.

I'd mentioned earlier that to keep that profile going forward, we need to land to 300 megawatts a year of projects, given the earnings profile, and so forth. So I don't see the capital proportionally growing in this particular segment as we go forward, but there will be capital as we land a few new projects each year.

Lynn Good

And then, Michael, like, Florida solar is directly in the regulated capital plan. So the 700 megawatts that we're building there. And to the extent we build any of the CPRE and the regulated utility in the Carolinas, that capital would be in the regulated capital plan.

Michael Lapides

Thank you for that. Just one follow-up though, can you how much of a benefit occurred in 2019 earnings so far that are impacting tax that are related to ITC benefits you took for projects that came online this year?

Steven Young

Well, a lot of the growth that we saw and targeted for commercial renewables was from solar projects and those that profitability is driven by the tax benefits. And when we close tax partnership arrangements there, you recognize a lot of the tax benefits. So we've got $139 million of net income so far this year. We've got a combination of some wind and solar projects, the solar projects in particular hit the earnings early.

Lynn Good

Michael, I think it's important to recognize that these projects are locked in for 2019 and 2020. And we are committed to a flat trajectory, around $200 million of net income over the five-year period and 70% of that is already committed in our pipeline. So it's an important part of this business. But I think in terms of the volatility, or any volatility, you could expect, this is an area that we feel like we have very well developed and managed.

Steven Young

And I would also add that the projects that will be landing prospectively starting in 2020, will utilize a structure that we believe will have a more of the spread of earnings recognition over a three to five year time periods.

Michael Lapides

Thank you. No, I appreciate that. I was just trying to think about is there, I don't know like an EPS not cliff, but an EPS draft, if you do fewer projects in the next couple of years than you're doing this year in 2019. And therefore you have less kind of one-time tax benefits in those future years?

Lynn Good

I think you should include in your model roughly $200 million to $220 million of net income for the next five years, because that's what we have in ours, that we're committed to deliver.

Michael Lapides

Okay, and then one final, final item. Just curious, given this new kind of financing need, how you're thinking about M&A? I mean, obviously, there's some situations that are very public out there, municipals or cooperatives being sold in both Florida and South Carolina. But does the -- the balance sheet constraint in the credit metrics requiring the new equity does that change your view at all on kind of broader sector M&A, or asset M&A?

Lynn Good

No, we think about what we talked about today, Michael is within the construct of a very robust organic growth plan, that includes strong regulated investment, $37 billion of growth capital. I think you're talking about Santee Cooper or perhaps JEA. We are involved in those processes. We know both of those assets well, and we would evaluate those on whether or not it makes sense to be a part of that process going forward and whether we believe we can deliver value to shareholders. So we think about that as a separate and distinct analysis that we will accomplish in a way that makes sense.

Michael Lapides

Got it. Thank you, Lynn, thanks Steve. Much appreciate you all.

Lynn Good

Thank you.

Steven Young

Thank you.

Operator

Thank you. And ladies and gentlemen, that does conclude our time for questions today. I'd like to pass the conference back over to Ms. Lynn Good for any additional or closing remarks.

Lynn Good

Great, well thank you everyone for your questions and your interest and investment in Duke. We look forward to seeing many of you at EEI in the next few days. So thanks again.

Operator

Thank you. And that does conclude today's call. Again we thank you for your participation. You may now disconnect.