

EDITED TRANSCRIPT

Q3 2017 Duke Energy Corporation Earnings Call

November 3, 2017 / 10:00AM

THIS TRANSCRIPT HAS BEEN EDITED FOR BREVITY AND CLARITY.

CORPORATE PARTICIPANTS

Michael Callahan *Duke Energy Corporation - VP of IR*

Lynn Good *Duke Energy Corporation - Chairman, President and CEO*

Steve Young *Duke Energy Corporation – EVP and CFO*

CONFERENCE CALL PARTICIPANTS

Shahriar Pourreza *Guggenheim Securities - Analyst*

Stephen Byrd *Morgan Stanley - Analyst*

Michael Weinstein *Crédit Suisse - Analyst*

Steve Fleishman *Wolfe Research - Analyst*

Michael Lapidés *Goldman Sachs - Analyst*

Greg Gordon *Evercore ISI - Analyst*

Julien Dumoulin-Smith *BofA Merrill Lynch – Analyst*

Ali Agha *SunTrust Robinson Humphrey - Analyst*

Chris Turnure *JP Morgan Chase & Co - Analyst*

Praful Mehta *Citigroup – Analyst*

PRESENTATION

Operator

Good day, and welcome to the Duke Energy Third Quarter Earnings Call. Today's conference is being recorded. At this time, I'd like to turn the conference over to Mr. Mike Callahan. Please go ahead.

Michael Callahan - Duke Energy Corporation - VP of IR

Thank you, Ryan. Good morning, everyone, and thank you for joining Duke Energy's Third Quarter 2017 Earnings Review and Business Update. Leading our call today is Lynn Good, Chairman, President and CEO; along with Steve Young, Executive Vice President and CFO.

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 the Investor Relations section of our website 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 briefly discuss our financial and operational highlights for the quarter. She will also provide an update on the key regulatory activity we have underway and the progress we have made as we continue to advance our strategic investment plan. Steve will then provide an overview of our third quarter financial results and insight about economic and load growth trends. He will also share key investor considerations.

Before turning the call over to Lynn, I would like to thank Chris Bauer for his contribution to our Investor Relations team over the last 2.5 years. This is Chris' last earnings call, as he will assume a new role in our Treasury Department. Many of you have worked closely with Chris, and I hope you will join me in congratulating him on his new responsibilities.

With that, let me turn the call over to Lynn.

Lynn J. Good - Duke Energy Corporation - Chairman, President and CEO

Thank you, Mike, and good morning, everyone.

Today, we announced adjusted earnings per share of \$1.59 for the third quarter, continuing to demonstrate growth in the fundamentals of our business. We advanced our long-term strategic investment plan while maintaining our focus on operational excellence. And our employees rose to the challenge of Hurricane Irma, one of the most powerful storms ever to hit the Atlantic.

Given our results through the third quarter, we are narrowing our 2017 guidance range to \$4.50 to \$4.60 per share. Even with \$0.15 of below normal weather year to date, including the lost revenues from Hurricane Irma, we'll deliver on our earnings commitment to our shareholders. This is a testament to the dedication of our employees and our focus on flexible cost management.

We are also confident in our ability to maintain our long-term growth rate of 4 to 6%, off of the \$4.60 midpoint of our original 2017 guidance range. We remain focused on achieving growth at the high end of our range over time as our investments build and recovery accumulates.

Turning to our operational performance in the quarter, I'm proud to begin with our response to Hurricane Irma. This storm caused widespread devastating damage across the Southeast region, leaving nearly 1.5 million of our Florida and Carolina customers without power. And even though many of our employees own homes and families were impacted by the storm, they put the needs of our customers first. Most of the damage was in our Florida territory, with 1.3 million customers experiencing outages. More than 12,000 line and fieldworkers rebuilt our system and restored power to over 75% of customers in just 3 days and 99% within 8 days. Our initial storm restoration cost estimate for our Florida service territory is almost \$500 million. The majority of this will be recovered through the existing commission storm rule or transmission tariffs. After netting our current storm reserve balance of \$60 million and storm-related capital replacements, we plan to defer approximately \$400 million for future recovery from customers. We can also request an additional \$132 million to replenish the storm reserve.

Under our current rate agreement, Duke Energy Florida is authorized to begin recovering both the storm impact and reserve replenishment 60 days after filing a petition with the commission. Based on our initial estimates, we believe the customers would see an approximate \$5 increase on a typical monthly residential bill, assuming a 3-year recovery period. We continue to refine our cost estimate as we prepare to file with the commission by year-end.

We also received 2 important recognitions in the quarter. Duke Energy was named to the Dow Jones Sustainability Index for the 12th consecutive year, acknowledging our commitment to a cleaner, sustainable energy future. And Site Selection Magazine named us as one of the top utilities in economic development for the 13th consecutive year, highlighting our work to attract businesses to our service areas. We also reached an important milestone with the 1-year anniversary of our acquisition of Piedmont Natural Gas. This merger has truly been a seamless, textbook integration, and we're happy to have our Piedmont teammates as part of Duke Energy. We look forward to investing in this business and expanding our natural gas infrastructure for years to come.

As you know, we have a busy regulatory calendar this year. Starting with Florida, we reached a constructive agreement with numerous parties in the state, and the settlement was unanimously approved by the commission last week. We worked closely with stakeholders to reach an agreement that paved the way to a smarter energy future for our Florida customers. The settlement provides rate clarity through 2021 and allows us to recover up to 700 megawatts of solar energy and our grid investments, which will improve reliability and enhance customer choice. The agreement also includes recovery of investments in electric vehicle charging stations and a battery storage pilot program. As part of this settlement, we will not move forward with building the Levy nuclear plant, and customers will not pay any further costs associated with this project.

Our success in reaching this settlement is another example of our ability to achieve favorable outcomes for our customers and our shareholders. We will continue to engage constructively with stakeholders as we advance our regulatory modernization agenda across all of our service areas.

Slide 6 summarizes our pending North Carolina rate cases. Our Duke Energy Progress case is advancing, and in mid-October, a number of intervenors filed written testimony advocating their positions on our request. This is a normal part of the process. As we've seen in past rate cases, the public staff and others typically recommend revenue adjustments. We remain confident in our positions and look forward to filing our rebuttal testimony this coming Monday, November 6, where we will respond to the arguments raised by intervenors. The hearings for the DEP case are scheduled to commence on November 20.

At Duke Energy Carolinas, our rate case is in the early stages. We recently received a scheduling order and intervenor testimony is due January 19, and hearings are scheduled for mid-February.

Slide 7 outlines our strategic priorities to transform the customer experience by modernizing the energy grid, generating cleaner energy and expanding natural gas infrastructure.

Let me share a few updates on our progress, starting with our grid investments. Today, we announced the expansion of our Power/Forward Carolinas initiative into South Carolina. We plan to invest \$3 billion in the state, consistent with our 10-year strategy to invest \$25 billion in the grid across our jurisdictions. We commissioned the University of South Carolina Research economists to study the potential impacts of this initiative.

According to the findings, our investments over the next 10 years will deliver significant benefits to the state, including an average of nearly 3,300 jobs supported per year, representing almost \$200 million in new salaries and wages annually, more than \$100 million in new tax revenue for the state and a total economic output of more than \$5 billion. We're looking forward to making these investments on behalf of our customers and to support economic development in South Carolina.

In North Carolina, we announced plans for 13 megawatts of batteries spread across 2 sites as part of our Western Carolinas modernization project. And in Indiana, we'll be installing a 5-megawatt battery as part of our micro grid at Camp Atterbury. We continued to look for opportunities to deploy utility scale battery storage as costs come down and performance improves.

Shifting to generation, our W.S. Lee, Citrus County and Western Carolinas combined cycle natural gas plants are progressing well, and these projects remain on time and on budget. We are also moving forward with a dual fuel project at our Belews Creek coal-fired plant in North Carolina, representing a combined investment of over \$150 million between Duke Energy Carolinas and Piedmont. This upgrade will enable 50% natural gas co-firing on 2 units at the site, increasing fuel flexibility and lowering carbon emissions. Piedmont has filed with the NCUC for permission to build gas infrastructure to supply the plant with natural gas. The project is expected to be completed in 2 phases in 2019 and 2020.

During the quarter, we also saw important developments in each of our pipeline investments, Atlantic Coast Pipeline, Sabal Trail and Constitution.

Atlantic Coast pipeline reached a significant milestone on October 13 when FERC issued the final certificate. This project will stimulate significant economic development in eastern North Carolina and support growth in the region. We are working with the relevant state agencies to secure remaining permits and expect to begin construction by the end of this year for an in-service date in late 2019. ACP also closed a revolving credit facility in October to fund approximately half of the pipeline construction costs. The project has borrowed \$570 million against the facility to cover costs incurred to date, with Duke's share at 47%.

Regarding the Sabal Trail pipeline, FERC issued a supplemental environmental impact statement on September 27. This addressed issues noted by the DC Circuit Court, which vacated the project certificate. FERC and other interested parties have filed with the court for a rehearing, and we expect a favorable outcome. The project remains operational as we await the court's decision.

And turning to Constitution, the project filed a petition for a declaratory order in early October, asking FERC to determine if New York failed to act within a reasonable time period on its water permit. We are hopeful FERC agrees with our position within the next several months, which would preserve an in-service date as early as the first half of 2019.

Before I close, let me say a few words about tax reform. Duke supports comprehensive tax reform. Like everyone, we are reviewing the legislation that came out yesterday. We were encouraged to see that the bill includes provisions to retain interest deductibility in lieu of the immediate

expensing of capital. We are taking a close look at these provisions and the bill as a whole. But let me say this is a positive first step and recognizes our industry and the importance of the impact to our customers, and we will remain engaged as the process continues to unfold.

As we near the close of 2017, our focus is unwavering as we execute our strategy and follow through on our commitments to customers, communities and investors. We are on track to deliver earnings within our original guidance range for 2017, as we achieved planned growth in our regulated businesses and maintain our focus on effective cost management. Our long-term earnings growth profile of 4 to 6% off our original midpoint of \$4.60 is unchanged, underpinned by the strength of our regulated investments and our attractive service areas. This demonstrates the resilience of our company and the employees to deliver exceptional safety results, operational excellence and financial performance every day.

Now let me turn it over to Steve.

Steve Young - Duke Energy Corporation – EVP and CFO

Thanks, Lynn. Today, I will walk you through the key earnings drivers from the third quarter, discuss current retail volume trends and update you on economic indicators. I'll close with a summary of our key investor considerations.

Let's start with quarterly results. I will cover the highlights on Slide 8 and discuss our adjusted earnings per share variances compared to the prior year quarter. For more detailed information on segment variances versus last year and a reconciliation of reported results to adjusted results, please refer to the supporting materials that occupied today's press release and presentation.

On a reported or GAAP basis, 2017 third quarter earnings per share were \$1.36 compared to \$1.70 last year. The most significant drivers of the difference between the reported and adjusted earnings in the quarter were charges related to the revised Florida settlement agreement and certain commercial renewables assets.

Third quarter adjusted diluted earnings per share were \$1.59 compared to \$1.68 in the prior year. Lower results in the quarter were principally due to significantly favorable weather last year and the absence of International Energy earnings.

Moving through our segments. Electric utilities and infrastructure results were down \$0.12 compared to the prior year. Weather was the primary driver with a \$0.14 decline quarter-over-quarter. This amount includes \$0.02 per share of lost revenues associated with Hurricane Irma. Depreciation and amortization was higher in the quarter due to increased investments across each of our jurisdictions. Partially offsetting these drivers were higher revenues from increases in regulatory pricing and riders. Price increases were primarily due to investment recovery through the generation base rate adjustment mechanism in Florida and new rates in Duke Energy Progress South Carolina. With respect to riders, the strength of our energy efficiency programs continues to generate incremental earnings, helping to offset lower energy usage from our customers. Our Indiana and Ohio grid investments are also contributing to incremental rider growth.

Let me also highlight that O&M was \$0.01 favorable, which includes \$0.03 of costs associated with Hurricane Irma. This strong result demonstrates our ongoing commitment to managing costs across our business, and we will work diligently to find additional efficiencies and demonstrate flexibility as we close out the year.

In our Gas Utilities & Infrastructure segment, results were up for the quarter, primarily driven by our ongoing investment in the Atlantic Coast Pipeline. As expected, the gas distribution results were flat during the warm summer months, and we anticipate these businesses will provide their remaining earnings contribution in the fourth quarter.

Moving to Commercial Renewables. We were down \$0.02 for the quarter. This was driven by lower solar ITCs in the current year and higher interest expense as a result of new solar project financings this quarter.

Finally, Other was up \$0.14 for the quarter based on a number of factors, including unfavorable tax adjustments in the prior year and ongoing tax planning activities. These accounted for \$0.07 and \$0.03, respectively.

For the full year, we now expect our effective tax rate to be in the range of 31% to 32%. We also had a favorable litigation settlement and lower claims at our captive insurer during the quarter. These favorable drivers were partially offset by higher interest expense at the holding company, primarily due to the Piedmont acquisition financing.

As Lynn mentioned, we are narrowing our full year adjusted earnings per share guidance range to \$4.50 to \$4.60 per share. This reflects our year-to-date results, including the approximate \$0.15 impact of significantly unfavorable weather and an additional \$0.03 impact from Hurricane Irma, which were offset, to a large extent, by the cost management reductions we initiated earlier this year.

Turning to Slide 9, I'll review our retail volume trends. On a rolling 12-month basis, weather normalized retail electric load growth was 0.2%. If you remove the impact of leap day in the prior year, our rolling 12-month volume growth is in line with our long-term expectation of 0.5%.

The residential sector is growing 0.5% on a rolling 12-month basis as population growth in the Southeast remains strong. This is particularly true in the Carolinas and Florida, where we are seeing residential customer additions of 1.4% and 1.5%, respectively.

In Florida, every major metro area is experiencing population growth with Orlando and Tampa being 2 of the fastest-growing metro areas in the country. Our combined gas utilities are also adding new customers at a healthy annual rate of 1.4% led by our Piedmont service territories, which are growing at 1.6%.

As we look ahead, positive trends in employment and wages and the continued recovery in the housing market are expected to drive ongoing residential growth. Single-family building permits remain strong and are outpacing multi-family home starts in our service areas. As of August, Florida, the Carolinas and Tennessee are in the top 7 states for a number of new single-family housing permits.

In our commercial customer class, sales across our jurisdictions were slightly down over the rolling 12 months. As we've experienced over the past few years, utility-sponsored energy efficiency programs, partially offset growth in this customer class. We are seeing growth in hotels and restaurants. However, the active hurricane season has caused some near-term interruptions for these businesses.

Turning to Industrials. On a rolling 12-month basis, the sector has grown 0.1%. Industries that support sales to consumers, such as construction and housing, continued to perform well. This strength is partially offset by the automotive sector and the recent slowdown in textiles. On a macro level, manufacturers have reported significant improvement over the past 12 months. According to a recent National Association of Manufacturers survey, this customer class is more positive in its outlook compared to last year, signaling future strength. Overall, based on our actual results over the past few years and our expectations looking ahead, we are confident in our long-term assumption of 0.5% retail load growth and feel good about the economic health of our service areas.

I'll close with our investor value proposition on Slide 10.

We offer an attractive 8 to 10% shareholder return that balances a strong growing dividend and earnings growth of 4 to 6%. Our growth is driven by very low-risk regulated investments that are supported by our strong balance sheet.

In short, our attractive yield and demonstrated ability to grow our regulated businesses positions Duke Energy as the leading infrastructure investment.

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

QUESTIONS AND ANSWERS

Operator

We'll go first to Shar Pourreza with Guggenheim Partners.

Shahriar Pourreza - Guggenheim Securities - Analyst

So just touching on the grid mod, the \$3 billion proposal in South Carolina. Is this kind of incremental to plan? Is there any status on the \$13 billion opportunity in North Carolina, maybe just from a legislative standpoint? And when you roll in the \$16 billion in potential opportunities, how does that sort of fit in with your 4 to 6%?

Lynn Good - Duke Energy Corporation - Chairman, President and CEO

We have included in the plan we shared with you in February grid investment that is generally consistent with these programs that we're talking about. We'll, of course, fine-tune those in February when we give you an update on the 5-year plan. And the approach that we have taken, both in North and South Carolina, is the complete economic impact studies for the benefits of these investments, also customer benefits that would be delivered directly. And we're in the process of discussions with stakeholders throughout those states and what that investment potential could mean. We have a couple of paths on recovery, which we've talked about. Of course, our ultimate goal is modernization of the regulatory framework in North Carolina to allow more timely recovery of these types of investments. But in parallel, we're also pursuing recovery of grid investment in our rate case for Duke Energy Carolinas. We'll pursue a similar path in South Carolina, probably approaching first through the regulatory process and determining whether anything further is required. So I think this represents just further underpinning of the growth that we've laid out for you and why we have confidence in our ability to deliver at 4 to 6%, reaching to the higher end of the range as these investments continue to grow and accumulate.

Shahriar Pourreza - Guggenheim Securities - Analyst

I think you've addressed this publicly in the past, but I'm going to put you on the spot anyway because I know it's been on investor's minds. Is there any interest in a South Carolina nuclear plant or even expanding your footprint in the state, especially since you're already very active there from an economic development standpoint? If you could just address this dead on, if you could.

Lynn J. Good - Duke Energy Corporation - Chairman, President and CEO

We have no interest in the new nuclear plant in South Carolina, and we've been clear about that. Given the risks and the uncertainties around completion of that plant, we don't think there is a fit either for customers or investors, and we've been very candid with the state about that. As you indicate, South Carolina is incredibly important to Duke Energy. We operate important businesses and important assets in the state. We're announcing today our willingness to invest another \$3 billion. So we are continuing to operate well within the state. We're engaged in supporting our businesses in a way you would expect, but no interest in pursuing new nuclear.

Operator

And we'll go next to Stephen Byrd with Morgan Stanley.

Stephen Byrd - Morgan Stanley - Analyst

I wanted to just touch base on coal ash spend. And I wonder if you could remind us in terms of the precedent with Dominion in the state and just your position on the treatment, just as a refresher in terms of where you stand and your point of view on recovery of coal ash spend.

Lynn J. Good - Duke Energy Corporation - Chairman, President and CEO

Let me take the Dominion question first. There is a precedent in the state of North Carolina for recovery of coal ash in the Dominion case with return of and on. And similarly, in South Carolina in our own case, we received recovery of coal ash with return of and on. As you know, this is an important topic in the North Carolina cases, and we are in the process of reviewing the arguments that were presented by public staff, the intervenors, and we'll be responding to those very comprehensively with our rebuttal testimony on Monday. We believe that these costs are squarely within the law. They represent environmental compliance costs. And we have pursued our approach around closure of basins and around the science and engineering necessary to support compliance with the federal and state law in a very appropriate, aggressive way, with science and engineering underpinning our decisions every step of the way. We believe we have a very strong case that we'll put forward on cost recovery for ash.

Stephen Byrd - Morgan Stanley - Analyst

That's helpful. And when you think about the period of time over which you do recover the costs, as you show in one of your charts, coal ash is a very significant portion of the revenue request. Is there a potential to think about a longer time period over which to have these significant cost spread just as we're sensitive to thinking about overall customer bill impacts? Or are there natural limits around thinking about duration?

Lynn Good - Duke Energy Corporation - Chairman, President and CEO

Stephen, I think there is an opportunity to look at methods of recovery. If you look at our filing position, we put forward a couple of ideas for consideration by the commission. There is a traditional deferral and amortization for costs incurred to date, and we proposed recovery of those over a 5-year period. And then we also proposed a run rate, which would include a certain amount in customer rates on a current basis kind of matching the spend, which results in a lower overall cost because it's without a return, it's as you spend it. We think that provides a fertile opportunity for discussion about what makes sense for customers, and that will be a part of this case, as you know. But flexibility around timing always is an opportunity.

Stephen Byrd - Morgan Stanley - Analyst

Understood. And then just shifting gears over to tax reform, I know we're all trying to very quickly absorb a lot of information in a short amount of time. I wondered if you might have any commentary on just the impact to holding company leverage in terms of your read of the proposal as it's laid out. I guess, on my mind, it's just thinking about whether or not that interest is also exempted under the utility exemption that was included or if it's not exempted, if you could include the EBITDA from the utility businesses themselves because they themselves are exempted. I'm just -- I'm a little confused honestly in terms of thinking through the holding company level impacts. I'm just curious if you had any sort of preliminary thoughts on that.

Lynn Good - Duke Energy Corporation - Chairman, President and CEO

Yes, Stephen, you're raising a question that we're looking very closely at. And we are evaluating and reading it closely, not only at Duke, but as an industry. I think it's important to recognize that this was a positive step, and I think there is clear recognition in the language of the capital we spend, the impact to customers, the importance of interest, foregoing capital expensing, normalization, excess deferred taxes are transitioned in an appropriate way. And so when we look at the holding company, the area that we're focused on is this allocation to a trade or business and a regulated utility, and we'll be looking very closely at that. And we will also be engaged in discussions around intent and clarification, and we'll be closely pursuing that over the next several days and coming weeks. But I think the important thing is, there's clear recognition of our industry in this framework, the importance to infrastructure economic development, and we believe there could be a path forward on this.

Operator

And we'll go next to Michael Weinstein with Crédit Suisse.

Michael Weinstein - *Crédit Suisse - Analyst*

Just to be clear. The \$3 billion grid modernization plan for South Carolina, that's incremental to the previously disclosed \$13 billion power forward plan? Or is that part of it?

Steve Young - *Duke Energy Corporation – EVP and CFO*

That's really part of the overall grid plan that we've got in our 5-year planning

Lynn Good - *Duke Energy Corporation - Chairman, President and CEO*

But it's incremental to the \$13 billion Michael, because \$13 billion was just North Carolina.

Steve Young - *Duke Energy Corporation – EVP and CFO*

Just North Carolina.

Michael Weinstein - *Crédit Suisse - Analyst*

That's just north Carolina?

Michael Weinstein - *Crédit Suisse - Analyst*

But it's not additive to the \$37 billion CapEx plan, that's what you're saying, right?

Steve Young - *Duke Energy Corporation – EVP and CFO*

That's correct. That's part of all of our total growth capital in our 5-year plan.

Michael Weinstein - *Crédit Suisse - Analyst*

And given that there has been no settlement in the DEP case at this point in the process, do you think it's more likely than not that the North Carolina cases are fully litigated rather than settled? And how would you characterize that?

Lynn Good - *Duke Energy Corporation - Chairman, President and CEO*

Michael, we can't comment at this point on whether we're engaged in settlement discussions or whether we will be engaged in settlement discussions. We're in a tight and important time period over the next couple of weeks. What we can talk about is rebuttal testimony on Monday, November 6. I think that will give you a very clear view of our response to the arguments that have been put forward. And then the hearing is scheduled for November 20.

Operator

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

Steve Fleishman - *Wolfe Research - Analyst*

Just to clarify. So I think you just answered, the \$3 billion South Carolina plan is in your capital plan and 4 to 6% growth rate?

Lynn Good - *Duke Energy Corporation - Chairman, President and CEO*

That's correct.

Lynn Good - *Duke Energy Corporation - Chairman, President and CEO*

The only modification that I would make to that, Steve, is to say, we always fine-tune these capital estimates as to timing, near term, longer term. But you'll recall back in February, we laid out grid investments as a key priority of ours. And what we've done is continue to put flesh on the bones and brand them and do the important work with stakeholders. So it is part of that strategy we laid out. We'll be fine-tuning where and how much as we go forward, but you should think about it as part of our strategic plan.

Steve Fleishman - *Wolfe Research - Analyst*

And then I think you also had a plan that you've at least talked about for North Carolina in terms of a grid modernization. And where does that stand? And is that in your capital plan, too? Or is it kind of same thing? It's a part of the mix of different options?

Lynn Good - *Duke Energy Corporation - Chairman, President and CEO*

It's in the plan, Steve, in the same way I just described for South Carolina, and we are pursuing it on a couple of courses, right, the legislative initiatives that we've talked about. It's also -- the DEC piece is also in our Duke Energy Carolinas case, which will proceed in early '18. So we'll continue to update as we go. We're obviously looking for ways that we can continue to accelerate that investment for the benefit of our customers and achieve the appropriate regulatory outcome.

Steve Fleishman - *Wolfe Research - Analyst*

One clarification. Also, what is the renewables impairments, the adjustment that you made? What assets did you impair there?

Steve Young - *Duke Energy Corporation – EVP and CFO*

The impairment was of some wind farms in West Texas. The Ocotillo wind farm that had been acquired quite a while ago, roughly 10 years ago. And as we look forward, we see a lot of expiration of the PTCs because these are older facilities. And those are uncontracted assets selling into the merchant market, and some of those prices are projected to be pretty low. So those factors led to the impairment of those assets. Most of our renewable facilities are contracted with third-party off-takers. This is one of our earlier ones that was not.

Operator

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

Michael Lapidès - *Goldman Sachs - Analyst*

Just curious how you're thinking about once the ACP comes online. So thinking 2 years from now in South Carolina, whether there is a need to have new gas midstream infrastructure in the state, especially since it seems that with new nuclear plants now not moving forward in that state, you're likely to see an uptick in gas-fired generation burn.

Lynn Good - *Duke Energy Corporation - Chairman, President and CEO*

I believe there is a keen interest on the part of South Carolina for expanded and continued investment in gas infrastructure for the reasons that you talked about. Our focus, obviously, is on the project as it's defined and constituted today, so it's been on -- we're pleased with the FERC approval. We're moving forward with state approvals. But as the construction progresses, we'll, of course, be looking for ways that we can continue deliver value to customers in the states in which we operate.

Michael Lapidès - *Goldman Sachs - Analyst*

I want to make sure I kind of understand what you're kind of saying there. You're not necessarily seeing an immediate need, meaning 2020 to 2025 time frame to have new midstream, sizable new midstream into South Carolina yet?

Lynn Good - *Duke Energy Corporation - Chairman, President and CEO*

I'm just not prepared to give you specific timing, Michael. So the timing that you talked about is certainly within our planning horizon. We want to get ACP in first, which is late '19. So we'll talk more specifically about expansion opportunities as time progresses here. So I wouldn't read anything into when or where it falls in that time frame, but we do believe that additional infrastructure could be important to our customers under the states in which we operate.

Michael Lapidès - *Goldman Sachs - Analyst*

Got it. And coming of the Carolinas on the electric grid modernization program, both in North Carolina and South Carolina. Do you need legislation to get trackers or kind of more real-time recovery? Or is that, in your view, something that each of the 2 commissions could do without actually having to get new legislation?

Lynn J. Good - *Duke Energy Corporation - Chairman, President and CEO*

Michael, I believe the commissions could provide tracking recovery in both states for this type of investment. And you see us making a request for that in the Duke Energy Carolinas case. I would also say that the commission will give us feedback on that. And if they believe additional clarification is required through the legislature, we could certainly pursue it there as well. So I think this is something that remains an ongoing topic of discussion for Duke as we think about modernizing our system and delivering value to customers. We're engaged with stakeholders. We're talking about the benefits that this brings, and we'll just continue to progress it. We see it as a terrific, not only opportunity for customers, but obviously investors as well.

Michael Lapidès - *Goldman Sachs - Analyst*

Got it. Last item, O&M management. In terms of thinking about any synergies that might have existed as part of the Piedmont acquisition or just in general about being able to manage to keep O&M either flat or even make it decline, where do you see the greatest opportunities within the organization over the next 2 to 3 years to manage O&M?

Steve Young - *Duke Energy Corporation – EVP and CFO*

We certainly have recognized some synergies with the Piedmont merger, in fact, in excess of what we'd originally projected. Most of those are in corporate-type functions. I think as we look forward over the next few years, there's a lot of opportunities for synergies, particularly in the distribution area as we roll out some of these grid investments that we've been talking about. Smart meters will displace the need for meter readers. Technology along the grid will allow us to know how equipment is performing and help us optimize around maintenance activities. Those are examples of things to come. We've already seen great success in the generation areas around fossil and nuclear efficiencies, but we've got a lot of good functions that will continue to drive efforts in the efficiency areas.

Operator

And we'll go next to Greg Gordon with Evercore ISI.

Greg Gordon - *Evercore ISI - Analyst*

Every single one of my questions was asked. But I just wanted to ask a clarifying question on the tax issue.

Lynn Good - *Duke Energy Corporation - Chairman, President and CEO*

Sure.

Greg Gordon - *Evercore ISI - Analyst*

Clearly, I'm not a congressman nor am I a legal expert on these issues. But in reading the House Ways and Means Committee summary of the initial plan, it indicated that the interest deduction would be limited to the equivalent of 30% of any company's pretax income at the filer level. And so from my perspective, it would seem that -- there aren't any utilities that I do research on that even come close to that hurdle, including you. So it would seem to me that just based on that interpretation, you would, in fact, have interest deductibility on your parent debt. Are you just close to disclosing an opinion on that? Or you don't think that I'm reading it clearly?

Lynn J. Good - *Duke Energy Corporation - Chairman, President and CEO*

Greg, I think the clarifying question there or clarifying point there is who is the filer? Is it the individual taxpayer? Or is it an affiliated group or consolidated group? And I think depending on that interpretation and the corporate structure of any utility, that will have a bearing. What we believe is that the combination of the allocation of interest to trades or businesses that are regulated, coupled with the 30% and the structure that we have in front of us, we believe we've got a framework here that we can work with. But as you know, it's 24 hours. Everyone's reading every word. Everyone's looking at all the interpretations. We're meeting with the industry. And I think the early read is, we see a lot of positive recognition of our industry, but we want to continue to make sure that we've got the appropriate interpretation and see if any clarification is necessary as this bill progresses.

Operator

And we'll go next to Julien Dumoulin-Smith with Bank of America Merrill Lynch.

Julien Dumoulin-Smith - *BofA Merrill Lynch - Analyst*

So perhaps just to follow a little bit up on the South Carolina program. Can you elaborate a little bit on the regulatory recovery thought process here, just in terms of the cadence perhaps of future rate cases? Should you pursue the full \$3 billion? Just how does that change versus what you've

previously articulated? If at all, just to be very clear about this.

Lynn Good - *Duke Energy Corporation - Chairman, President and CEO*

You may recall, we filed a South Carolina Duke Energy Progress case recently, so we will be evaluating capital investment to prepare that utility to go back in. And then we're evaluating timing on Duke Energy Carolina, South Carolina and also looking at our investment plan to catch that case at the right time. So we always are fine-tuning the regulatory calendar. It may move up. It may move back. But what we're trying to communicate today, as we see grid investment as an important part of growth in those utilities and we'll be pursuing timely recovery.

Julien Dumoulin-Smith - *BofA Merrill Lynch - Analyst*

Got it. So would you say that barring any novel trackers, whether approved by the commission -- or likely approved by the commission or legislature, would you expect to be filing cases on a semi regular basis in order to ensure kind of earned or near-earned ROEs?

Lynn Good - *Duke Energy Corporation - Chairman, President and CEO*

I think that's fair, yes.

Julien Dumoulin-Smith - *BofA Merrill Lynch - Analyst*

Okay, excellent. And then maybe just to follow a little bit up on the gas side. Obviously, I think at times you've kind of characterized the company as keen or more keen to look towards gas into the future than perhaps electric. I don't want to put words in your mouth. How are you thinking about that today in terms of your future in gas, including midstream utility, et cetera?

Lynn Good - *Duke Energy Corporation - Chairman, President and CEO*

Julien, we couldn't be more pleased with the integration of the Piedmont system, not only in terms of the business that they bring, but the expertise and the focus on natural gas. And with the position that Duke holds as a company, second largest consumer of natural gas, we see that as a growing opportunity for us. We're also pleased with the progress on Atlantic Coast Pipeline. I mean that's a \$2 billion investment for us, and we're anxious to get construction under way later this year. So we will continue to look for ways we can leverage our market position and expertise to bring investment into the gas business.

Operator

And we'll go next to Ali Agha with SunTrust.

Ali Agha - *SunTrust Robinson Humphrey - Analyst*

When you look at your full plan, the \$37 billion plan for CapEx, and as you mentioned, you've laid out the South Carolina proposal as part of that. As we sit here, could you -- how much of that plan is now visible out there versus stuff that will eventually come, but hasn't yet been put out there? Just to get some rough idea of that.

Steve Young - Duke Energy Corporation – EVP and CFO

I think the \$37 billion has been well vetted here. We have very good ideas on the grid spend in terms of targeted undergrounding, smart meters, storm hardened equipment. When you look at the piece of the \$37 billion that's related to generating cleaner energy, we have generation facilities, such as Citrus or Lee CCs. We've got our gas growth portion of the plan. \$6 billion is very well defined between ACP and the Piedmont distribution investments. So I think we have a very high percentage of plans that we can lay our hands on.

Lynn Good - Duke Energy Corporation - Chairman, President and CEO

The Florida settlement also, Ali, lays the path in Florida for both grid and renewables. And House Bill 589 in the Carolinas also provides a pathway on additional investment around renewables in North Carolina. So all of the steps you see us taking in '17 are underpinning confidence in those capital investment plans. They're transparent. They're clear and understandable, and they're projects that we have expertise to deliver.

Ali Agha - SunTrust Robinson Humphrey - Analyst

And then thinking about the 4 to 6% growth rate, you obviously have 2 big rate cases right now and we should get clarity on that fairly soon. So just given the timing of the rate cases, does that cause the earnings road to be lumpy, perhaps front-end loaded? Or are you thinking of it more straight line? How are you thinking about the '17 through '21 period?

Lynn Good - Duke Energy Corporation - Chairman, President and CEO

Ali, when we talked about the guidance this year, we were clear that the plan we've put in front of you gives us the ability to be within the range every year, and that is really a response to that question about, will you fall outside of the range because of general rate cases, et cetera. The plan we've put in front of you puts us squarely within the range every year, and so that's what we're executing to. And as you know, we'll give you a fuller update on the specifics around '18 and refinement of the capital in February.

Ali Agha - SunTrust Robinson Humphrey - Analyst

And last question. Steve, you mentioned the effective tax rate to think about is 31% to 32% for the year. Is that a good number to think about as we model future years? Or what should we think about future tax rate?

Steven Young - Duke Energy Corporation – EVP and CFO

We'll be rolling out our tax assumptions in February for upcoming 5-year plan, but we've got to think about tax reform that's going on right now and assimilate where that's at. Certainly, this year, we've done some good work around tax optimization to bring in some tax savings that have lowered the effective tax rate a bit for us. But too hard to predict in the future given what's going on right now. We'll be working on that and rolling that out in February.

Operator

And we'll go next to Chris Turnure with JPMorgan.

Chris Turnure - JP Morgan Chase & Co - Analyst

I just wanted to ask 2 quick questions. The first, on coal ash. Hypothetically speaking, let's say that you are unable to get the recovery that you guys feel you deserve there ultimately. What kind of leeway on spending do you have going forward, given the fact that you have kind of the lion's share to go and you have the law that you have to comply with?

Lynn Good - Duke Energy Corporation - Chairman, President and CEO

Well, Chris, we'll comply with the law. We have state and federal requirements, CAMA in North Carolina, CCR in the Carolinas and then throughout our service territories. So that's what we are -- we'll comply with all of those requirements, and we will aggressively pursue recovery. And we'll have more to say about that, of course, as we work through these rate cases. There are court appeals and other avenues we could pursue if we think that's appropriate. We believe we have a very strong case.

Chris Turnure - JP Morgan Chase & Co - Analyst

I know there's multiple categorizations of the ash ponds and timing associated with each one of those. But is there a leeway on timing in addition to what you just described?

Lynn Good - Duke Energy Corporation - Chairman, President and CEO

You're probably thinking about the risk rating in North Carolina, Chris. So we have certain sites that are due by 2019, 2024, 2029. There are also time frames within CCR. So you may have flexibility within a year or so depending on how you ramp up the activity. But when you look at the project overall, the team is doing an outstanding job of balancing the compliance requirements with the spending in a way that minimizes cost to the extent we can. But of course, complying with the law as we always will.

Chris Turnure - JP Morgan Chase & Co - Analyst

And then my second question is on the Renewables segment. I think the impairment this quarter was excluded from your adjusted EPS. So if we just look at the adjusted number year-to-date, it looks like maybe you're falling a little bit short of plan. I think that segment last year also was not quite where you had originally wanted it to be. Anything we should be aware of there versus your expectations?

Lynn Good - Duke Energy Corporation - Chairman, President and CEO

Chris, the other thing I'd point to is we've had weak wind resources in 2017, which has had an impact on results year-to-date. So we're continuing to operate the assets well. There will be weather variability and there will be some variability around timing of projects, particularly those impacted by ITC, but nothing additional that I'd share with you from a strategic point of view on that segment.

Operator

And we'll take our last question today from Praful Mehta with Citigroup.

Praful Mehta - Citigroup - Analyst

So if possible, can we go back to tax reform for one minute? I just wanted to understand on this holding company debt and the interest deductibility on that debt. Is it possible from the read that holding company would be treated as a separate tax filer relative to the utilities? In which case, obviously, the holding company has no income and purely just an interest expense if that were the scenario. Can that scenario play out? Or do you think that's not realistic?

Lynn Good - Duke Energy Corporation - Chairman, President and CEO

We do have certain of our utilities flowing up into the taxpayer called Duke Energy Corporation, just the way we are structured. And so I think there are a couple of avenues we're looking at. This allocation to a trade or business, regulated utility and then, of course, the 30% test. So we believe we see a path here, but it's 24 hours, we want to take the time to understand, get the clarification, but I think the progress that we've made on in this and the recognition of our industry is something that should not be overlooked.

Praful Mehta – *Citigroup – Analyst*

Fair enough. And then, secondly, on this Duke Energy Progress, the response from the staff obviously was quite conservative in terms of the rate increase versus what you've asked. You seem pretty confident that you should be able to get to a good position there. Just any more color on that would be helpful. And what if you don't hit -- let's say, you get 50% of the ash, what does this mean for growth and 4 to 6% growth as well?

Lynn Good - *Duke Energy Corporation - Chairman, President and CEO*

I would point again to this rebuttal testimony that we're filing on November 6. We disagree with the positions that were put forward on ash in particular as well as a number of other items that were highlighted in the testimony. We believe they're not supported by precedent or the law, and we'll make those positions very clear. We are open to settlement discussions. We cannot comment on whether we are engaged or will be engaged in those discussions, but the process needs to play out over the next couple of weeks. Hearings of course, on the 20th. And I think the potential implication to the financial results, we'll share with you when we have more information to share. And I think this is just a process that's going to need to unfold, not only over the next couple of weeks, but of course, the commission order is not expected until early '18.

Operator

And that concludes the question-and-answer session. I'd like to turn the conference back over to Miss Lynn Good for any additional or closing remarks.

Lynn Good - *Duke Energy Corporation - Chairman, President and CEO*

Thank you. And thank you for your interest and investment at Duke Energy. We look forward to seeing many of you next week at EEI and continuing discussions. So thanks again for your time this morning.