

EDITED TRANSCRIPT

Q4 2017 Duke Energy Corporation Earnings Call

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PRESENTATION

Operator

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

Michael Callahan - *Duke Energy Corporation - VP Investor Relations*

Thank you, John. Good morning, everyone, and thank you for joining Duke Energy's Fourth 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 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.

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

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

Thanks, Mike, and good morning, everyone. Today, we announced adjusted earnings per share of \$4.57, closing out a very successful year for our company. We made progress on our strategic investments and delivered earnings at the high end of our narrowed guidance range, demonstrating flexibility in cost management and largely offsetting the impact of mild weather. Our workforce pushed forward on our long-term transformation and never lost sight of our responsibility to meet the everyday needs of our customers.

We also announced our 2018 adjusted EPS guidance range of \$4.55 to \$4.85, which includes the impacts of tax reform and planned equity issuances to maintain the strength of our balance sheet. We're reaffirming our 4% to 6% growth rate through 2021, off of the midpoint of our original guidance range in 2017, and extending the growth rate through 2022. Rate base growth from our investment plans, coupled with additional rate base from the impact of tax reform, will place us within the guidance range by 2019 and at the mid- to high end of the range in 2020 and beyond. Steve will provide more context about our financial results, discuss our capital growth plans and share how we are incorporating the impact of tax reform into our planning assumption.

But first let me spend a moment on slide 4. The investor proposition we introduced last year remains just as true today. The fundamentals of our business are strong and allow us to deliver growth in earnings and dividends in a lower-risk, predictable and transparent way. And given the capital-intensive nature of our business, the importance of balance sheet strength remains a continued focus for the company. Our attractive dividend yield and demonstrated ability to grow our regulated businesses provide an attractive shareholder return for our investors. This positions Duke as a strong long-term infrastructure investment.

Slide 5 underscores our established track record of delivering on our commitments. Overall, 2017 was an exceptional year for Duke Energy. We delivered results, advanced our long-term strategy and excelled in operations. We had solid growth in our electric and gas utilities including the addition of Piedmont Natural Gas. We also responded with great flexibility, offsetting weak weather with cost management, and these results enabled us to deliver strong earnings and increase the dividend by 4%.

Our commitment to safety and outstanding operational performance continued in 2017. Our employees delivered outstanding safety metrics with a total incident case rate of 0.36, a 10% improvement on our industry-leading performance in 2016. For the second consecutive year, the combined capacity factor of our nuclear fleet reached record setting levels above 95%. And in the wake of Hurricane Irma, our employees restored power to more than 1.5 million customers in just over a week. Last month, Fortune magazine named Duke Energy to its 2018 list of the World's Most Admired Companies, a true indication that our stakeholders understand the journey we're on at Duke and the progress we're making.

Finally, we demonstrated progress across our strategic investment program, and we worked collaboratively with stakeholders to advance our regulatory modernization initiatives, better aligning recovery with our investments. We've seen the benefits of this approach this past year in Florida with the approval of our multi-year rate settlement including recovery in grid and solar investments, and in North Carolina with the passage of HB 589 and the addition of rider recovery mechanisms for renewables.

Turning to slide 6, we've outlined our 10-year investment priorities consistent with the plan we shared with you in early 2017. Our investments will focus on strengthening our energy delivery system by investing \$25 billion to create a smarter energy grid, generating cleaner energy by investing \$11 billion in natural gas and renewable energy, and expanding our natural gas infrastructure, doubling the contribution of this segment. We will also continue to engage stakeholders on regulatory modernization and fundamentally change the way we operate to transform the customer experience and achieve top quartile customer satisfaction. And foundational to everything we do are our employees and their dedication to operational excellence. We will invest in infrastructure our customers value and deliver sustainable growth for our investors.

Let me walk you through how we plan to maintain our momentum and execute on our strategy in 2018. Slide 7 provides an update on our efforts to modernize the energy grid. Our objective is to improve system performance in all aspects – customer control and convenience, security, and service reliability. In 2017, we announced the Power/Forward Carolinas initiative, our 10-year \$16 billion plan to modernize our grid in both North and South Carolina. This investment will provide a strong economic stimulus to the Carolinas, creating more than 17,000 jobs and more than \$26 billion in economic output over the next decade.

To recover this investment, we've proposed a grid rider mechanism in our pending Duke Energy Carolinas-North Carolina rate case. We look forward to continuing this conversation at the evidentiary hearing scheduled to begin next week.

In Florida, our multi-year rate plan includes rate increases to recover our grid modernization investments in the state. Work is already underway, and in October, we completed work on our first self-optimizing grid network. This automation enables the grid to self-identify problems and reroute power to shorten or even eliminate outages for customers. As we expand this program, in 2018, we plan to deploy 100 self-optimizing networks in our service areas.

In Indiana and Ohio, we've been recovering \$600 million annually through our transmission and distribution riders, investing in hardening and resiliency and other grid improvement. Across our service territories, we are also deploying smart meters, providing increased convenience, choice and control for our customers. With installations of 1.2 million meters in 2017, 40% of our customer base now benefits from this technology. We plan to install an additional 1.4 million meters in 2018 and remain on track to fully deploy the program by 2021.

And we are leveraging emerging technologies to benefit our customers. We're deploying over 500 electric vehicle charging stations across our Florida footprint supporting increased demand for the service and a potential source of new load. We're also installing battery storage across many of our jurisdictions with 185 megawatts of projects installed or announced. Our grid improvement projects are essential to create the foundation for a smarter energy future. We will continue to engage with stakeholders to ensure the pace and scale of our investments align with customer needs in each of our jurisdictions and optimize value for our shareholders.

Slide 8 provides an update on the ongoing transformation of our generation fleet. We made significant strides to reduce our environmental footprint and have already lowered our carbon emissions by 31% from 2005. In 2017, we extended our commitment to reduce carbon emissions by 40% by 2030. With more than \$11 billion dedicated to building more efficient natural gas-fired plants and renewable generation, we will continue to diversify our generation portfolio while maintaining competitive rates for our customers. As part of our assessment of the long-term impact of our changing portfolio, we also announced that we will issue a new climate report in the first quarter of 2018. This report will outline our ongoing commitment to environmental stewardship and sustainable energy production.

Advancing our generation strategy, the W.S. Lee plant located in South Carolina is near final commissioning and will start serving our

Carolinas customers soon. Construction progresses on our Citrus County combined-cycle project in Florida and the Western Carolinas modernization project in North Carolina, which are expected to be in service in 2018 and 2019, respectively.

And we are expanding our investment in renewable energy. Our Florida multi-year rate plan allows us to build up to 700 megawatts of new solar generation in the state. Combined with the procurement of almost 2,700 megawatts of solar in North Carolina under HB 589, we are clearly making progress on our carbon reduction goal. Furthermore, these regulatory and legislative achievements in Florida and North Carolina reflect modern mechanisms to recover these investments, demonstrating the success of our stakeholder engagement efforts.

Finally, our nuclear units are fundamental to providing carbon-free generation to our more than 4 million Carolinas customers. These units represent the largest regulated nuclear fleet in the country and are essential to our long-term carbon reduction goal. As we look ahead, we are evaluating license extensions for these facilities for an additional 20 years to continue serving customers with the reliable service they expect.

Moving to slide 9, let me update you on our natural gas business. October marks the one-year anniversary of the Piedmont Natural Gas acquisition, and we're seeing the positive results of this transaction. Natural gas will play a major role in cleaner energy future, and we are leveraging the overlap between our electric and gas businesses to better serve our customers. We have added Marshall Steam Station to our list of dual-fuel projects in North Carolina. Our three dual-fuel projects, announced in the last year, represent a \$500 million investment for both Duke Energy Carolinas and Piedmont and demonstrate the complementary nature of our franchises and advantages of joint planning. We will use co-firing of coal and natural gas at Rogers, Belews Creek and Marshall to reduce our carbon emissions and increase our flexibility to manage costs, providing savings to customers.

We've reached important milestones for our midstream gas business. The recently completed Sabal Trail pipeline and the Atlantic Coast Pipeline are critical infrastructure investments that will bring much needed gas supplies to the Southeast as well as economic growth in rural areas of the region. During the record cold weather in early January, heavy demand to heat homes, hospitals and industrial buildings caused natural gas prices to soar due to gas transportation constraints in North Carolina. This provides a clear reminder that ACP will serve as an important source of natural gas for our region and will help provide significant savings for customers.

We're pleased to see work has started on ACP under limited notices to proceed from FERC, beginning construction activities in permitted areas. After more than three years of comprehensive studies, North Carolina's Department of Environmental Quality issued key permits for the pipeline in late January. These approvals along with permits received from the Army Corps of Engineers bring us several steps closer to beginning the full construction of this pipeline, and we await receipt of the final permits from Virginia.

It has been a rigorous and transparent permitting process for the 600-mile pipeline, and we continue to target an in-service date of late 2019. Due to delays and more stringent conditions in the permitting process, ACP now estimates total project costs between \$6 billion and \$6.5 billion. As a reminder, Duke's share of these costs is 47%.

I want to close by saying that we have a clear view of the path ahead for Duke Energy. With our customers at the center of everything we do, we're transforming our company while providing reliable, safe and affordable energy. Stakeholders depend on us to deliver on our commitments, and we did just that in 2017. From financial results to operational excellence, we created value for our customers and shareholders, and this focus will continue into 2018 and beyond.

Now, I'll turn the call over to Steve.

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

Thanks, Lynn. As mentioned, we had a solid year and delivered on our financial commitments. As you can see on slide 10, we achieved adjusted earnings per share of \$4.57, which was near the high end of our narrowed guidance range. We are already seeing the benefits of our portfolio transition with a focus on stable, predictable, and regulated businesses. We grew our electric utilities through higher pricing and riders, organic load growth and ongoing investments across our jurisdictions.

Our gas segment also demonstrated growth, driven by Piedmont's contribution and additional earnings from our midstream pipelines. Additionally, we achieved our cost management targets which offset the majority of the below-normal weather we experienced during the year. Overall, we're pleased with the growth across our businesses.

Turning to slide 11, let me walk you through key implications of the new federal tax law. As you know, tax reform has been a key focus for the utility industry. We were successful in advocating for industry-specific provisions that will benefit both customers and shareholders. At the holding company, the lower income tax rate will reduce the tax shield on interest expense, resulting in lower earnings beginning in 2018. At the utilities, tax reform will result in lower accrued tax expense, which provides opportunities for lowering

rates to customers. However, because Duke Energy is not a significant cash tax payer, any reduction to customer rates will place downward pressure on our consolidated cash flows. Recall we have been in a net operating loss position for tax purposes for the last few years due to bonus depreciation. We currently estimate we will be out of the NOL in 2019 and begin using our accumulated tax credits through the balance of the five-year plan.

In response to these issues, state regulators have initiated dockets in our jurisdictions. In general, we are recommending to use the lower tax rate to reduce customer rates in the near term as well as help offset future rate increases. We have made several proposals including accelerated depreciation, recovering investments more quickly or amortizing regulatory assets. This would allow us to recover certain costs and maintain utility credit quality while avoiding volatility in customer rates. In Florida, the Commission has already approved using the benefits from tax reform to offset the increase in customer rates for Hurricane Irma restoration and to accelerate depreciation of certain coal units. Overall, we expect customers to see savings over time, which will vary based on the regulatory outcomes in each state.

Tax reform also provides some benefits to cash flow due to the treatment of our alternative minimum tax credits. The new law provides for a full refund of AMT credits over the 2018 to 2021 tax years. As of December 31, we had approximately \$1.2 billion of credits subject to this refund.

Another major impact of tax reform is to increase the utility rate base. This occurs as the lower tax rate and elimination of bonus depreciation results in lower deferred taxes, which in turn increases rate base. As a result, we will see higher rate base growth for the same level of capital spend, resulting in an increase in the company's earnings power.

Given that the positive drivers will take some time to manifest, we are taking steps to further strengthen our balance sheet and fund our capital program. In 2018, we intend to issue \$2 billion of equity including our original expectation or \$350 million of equity via the DRIP. We also have reduced our five-year capital plan by approximately \$1 billion. I'll share more details about the capital and financing plans in a moment.

On slide 12, we have outlined more detail about the earnings impacts of tax reform. This morning, we announced our 2018 adjusted EPS guidance range of \$4.55 to \$4.85 per share. Earnings for 2018 will be driven by ongoing investment programs across our jurisdictions, load growth expectations, and the continuation of our regulatory recovery activities. The effects of the lower corporate tax rate including the dilution from planned equity issuances will partially offset this organic growth. With this in mind, the midpoint of our 2018 guidance range is slightly below the 4% to 6% earnings per share growth rate we introduced last year. However, we expect to be within the range by 2019 and at the mid- to high end of the range in 2020 and beyond, given that the rate base will now grow at a faster pace.

Turning to slide 13, our growth will be supported by our five-year, \$37 billion growth capital plan. Our investments align with our strategy to modernize the energy grid, generate cleaner energy and expand natural gas infrastructure.

In light of tax reform, we have lowered our total capital over the five-year plan by about \$1 billion. We've expanded our cost management capability and applied this to capital spend. Furthermore, we are optimizing our operational capital around regulatory activity to minimize lag. We have modestly increased our level of investment in commercial renewables and we'll look to utilize tax equity partners to continue investing in solar and wind projects.

Though the total capital plan is lower than originally outlined in 2017, tax reform adds approximately \$3.5 billion to rate base by 2021. Earnings base now grows at the 7% CAGR through this timeframe, representing a 1% increase compared to what we presented last year. The new tax law will also provide additional headroom in customer bills allowing us to continue making smart investments while also keeping rates as low as possible. Overall, we are taking a balanced approach, and we're confident we will continue to meet the needs of customers and investors.

Moving to slide 14, let me walk you through our 2018 financing plan. We are committed to maintaining the strength of the balance sheet, as we look to finance our extensive capital plan over the forecast period. As I mentioned earlier, in 2018, we plan to issue \$2 billion in equity including the \$350 million we already expected to issue through the DRIP. We plan to raise this equity through a discrete transaction within the next few months and by selling shares under our recently filed ATM program.

We may utilize a forward structure to better align proceeds from the equity offerings with the timing of our actual cash needs. This will help to avoid unnecessary share dilution in 2018. We will be opportunistic in completing our incremental equity needs with the goal of completing it by the end of the year. Going forward, we still expect to issue \$350 million of equity per year through a combination of our DRIP and ATM programs. We continue to be disciplined with our approach to capital, reducing the level of investment versus a year ago. Additionally, we will maintain our focus on cost control, which I will discuss in more detail in a moment.

All of these actions will improve our credit metrics over the five-year plan. Our balance sheet will be supported by the equity issuances and planned regulatory activity, which will turn our investments into cash returns more quickly. By 2020, we expect our FFO to debt ratio

to be in the range of 15% to 16% and our HoldCo debt percentage to be in the low-30s, both aligning with our targets. We believe the combination of the 2018 and the ongoing annual equity issuances satisfies all of our equity needs and provides the balance sheet strength to execute on our business plan.

Turning to slide 15, our attractive service territories with constructive regulatory frameworks and our cost management efforts have allowed us to earn at or near our allowed ROEs. We're seeing strength in customer growth across our jurisdictions, particularly in the Southeast, and expect this to continue. This trend supports growth in our electric and gas utilities. We continue to plan for 0.5% annual retail load growth in our electric utilities.

In 2017, weather-normalized retail load growth was 0.4%, equivalent to 0.7% when excluding the impact of the leap day in the prior year. This tracks with our planning assumptions. Several macroeconomic indicators support our load growth projection. Overall, the U.S. economy is strengthening, and leading indicators point to continued expansion for the commercial and industrial sectors. In addition, the U.S. dollar continues to support domestic manufacturing, and optimism for retail and small businesses is near an all-time high. Furthermore, key objectives of the new tax law are to stimulate business investment, create jobs and grow the economy. At this time, we have not incorporated effects from tax reform in our volume growth planning assumption, but expect it could be an upside to our forecast.

We're also managing our cost structure using new technology and rolling out data analytics to extend our commitment to keep non-recoverable O&M flat through 2022. The use of mobile applications is bolstering productivity and we are keenly focused on identifying efficiencies throughout operational and corporate functions. As we look to the future, we're developing our digital capabilities to foster a connected culture. Through the modernization of core customer systems and grid infrastructure, we will see tangible benefits and savings.

2017 was a busy regulatory year for us, and slide 16 outlines our projected activity over the planning horizon to achieve timely recovery of our investments. We have a robust capital plan that involves substantial investment in electric and gas infrastructure over the next five years, and we have modern regulatory recovery mechanisms in place for many of these investments. In Florida, we have the multi-year rate agreement through 2021. In Ohio and Indiana, we have riders to recover transmission and distribution investments and are requesting extension of the distribution rider in Ohio. In North Carolina, we now have renewables riders established through HB 589. And at Piedmont, we have distribution infrastructure riders. We will continue to pursue these types of recovery mechanisms to enhance our investment returns.

Let me take a moment to discuss our pending base rate cases in North Carolina. We expect an order on the Duke Energy Progress case any day and no later than March 1. New rates will be effective soon after the order is issued. Our Duke Energy Carolinas rate case is progressing with the evidentiary hearing scheduled to begin on February 27. We have requested rates to be effective May 1 in that case, if approved by the Commission.

Shifting to slide 17, we understand the value of the dividend to our shareholders and are dedicated to growing it responsibly. 2018 marks the 92nd consecutive year of paying a quarterly cash dividend, demonstrating this steadfast commitment to our investors. We expect to maintain our annual dividend growth rate at approximately 4% to 6% through 2022, consistent with our long-term earnings growth as we target a payout ratio in the 70% to 75% range. Given the near-term impacts of tax reform, we expect the payout ratio will be higher than the target range initially. Therefore, dividend growth will be closer to the low end of the guidance range the next couple of years as we work the payout ratio back down. The growth rate will increase as we are more solidly positioned in the payout ratio range.

Before we open it up for questions, let me turn to slide 18. Our history of operational excellence, coupled with a strategic plan that is already producing compelling results, gives us confidence as we continue to offer a solid long-term investment opportunity. Our attractive dividend yield combined with earnings growth from investments in our regulated utilities provides a strong risk-adjusted return for our shareholders. We are positioned to deliver results for both customers and shareholders and are confident in the plan we have for 2018 and beyond.

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

QUESTIONS AND ANSWERS

Operator: Thank you. We'll take our first question from Shar Pourreza with Guggenheim Partners.

Shahriar Pourreza - *Guggenheim Securities - Analyst*

Just a quick modeling question. Can you elaborate on the growth drivers from 2018 to 2019, Steve? To get you back within that previous 4% to 6% range by 2019 you would need a lot of growth year-over-year, almost 8% just using the midpoint of the 2018 guidance. I know it's not linear, but are we thinking about this step-up in earnings correctly? Should we think more bottom-end in 2019? Just remind us how are you closing that gap?

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

Let me discuss some of the drivers for 2019. They are pretty similar to the drivers that we have in our businesses each year. We have rate riders and rate cases that kick into play. We have our normal volumes growth, which has been pretty strong, as well. And then there is AFUDC on various investments. When you look at 2019, you'll have the full-year impact of the Carolinas rate cases. And in 2019, we expect to see accelerated spending in Atlantic Coast Pipeline. Those will be a couple of big drivers towards earnings in that particular year.

Shahriar Pourreza - *Guggenheim Securities - Analyst*

And on ACP, at what point in the construction cycle should we think about incremental growth opportunities? Is it post the state approvals, or the latter part of the construction phase? How are you thinking about the next leg of growth with ACP 2 and ACP 3?

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

We're proud of the progress that we've made over the last several months with state and federal permits, and our focus is ramping up construction to hit a late 2019 service date. I think about additional investment opportunities in two ways. There is expansion of ACP which would occur in the form of compression, a very cost-effective way to add capacity, and then extension would be another opportunity. I think at this point our focus is on building the initial project as it's established. We'll then turn our attention to expansion – compression expansion driven by the needs of our customers. And then following that, we'll look at opportunities to extend.

Shahriar Pourreza - *Guggenheim Securities - Analyst*

One strategic question. Duke falls in and out of M&A chatter, especially recently with some of the jurisdictions you've been active in, like Indiana and the Carolinas. Can you refresh our thoughts on how you're thinking about additional growth through inorganic opportunities in light of what you're seeing as far as tax reform and maybe even the stress on the balance sheet?

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

Our focus is on organic growth at this point. We feel like we have a very robust set of investments within our jurisdictions, and very attractive jurisdictions that give us an opportunity to deliver benefits to customers and investors with the steps we've taken around the balance sheet, with the equity issuance that also positions us to support that organic growth. So M&A is not a part of our strategic plan to achieve what we've laid out before you. We look at that as opportunistic, but are really comfortable with the organic plan we have set forth.

Operator: We'll take our next question from Stephen Byrd with Morgan Stanley.

Stephen Byrd - *Morgan Stanley - Analyst*

I want to touch on what you've mentioned in terms of further growth in renewables and the commercial segment. At a high level, I'm curious on your thoughts on the competitive environments for renewables, the degree of growth potential there, what are you seeing out there on the competitive playing field for that business?

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

I think the business is a competitive business. I think there is some adjusting as a result of the tariffs that have recently been imposed. We will have to see how that landscape plays out. We also are facing the lower tax rate. We'll have to determine how tax equity markets perform, although we still expect them to be there. So we believe we have a very solid business, a business at scale. We believe we are capable of competing, but we have also been appropriately conservative with our assumptions around returns and are not going to chase this unless it's delivering a return above our cost of capital, and that will be our approach as we go forward. I would point to regulated renewables, as well. We have 700 megawatts from building within Florida. HB 589 in North Carolina represents an opportunity for either our commercial or regulated business, so we'll be looking closely at those opportunities, as well.

Stephen Byrd - Morgan Stanley - Analyst

Thinking high level around Amazon and the potential for them to put HQ #2 in your service territory. Without getting too specific, I'm just curious you're thinking at a high level as to what will be required to accommodate that, what kind of incremental capital or operational changes will you need to make to accommodate that?

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

I think we're capable of serving Amazon today with a really robust system in the Carolinas. We have the pleasure to serve an expanding facility in Northern Kentucky that we're working closely with them on. The Triangle area around Raleigh has been an important growth area for the company for some time. So we'll be anxious to put infrastructure in place if additional infrastructure is needed. And I think about our approach to economic development in general, we've been very aggressive in our service territories, making investments to attract businesses, and that will be our approach here as well if we have that opportunity for the Carolinas.

Stephen Byrd - Morgan Stanley - Analyst

One more on changes to the grid. You've spent a lot of time and effort thinking about grid modernization in a number of ways. As you see it now, do you see incremental investment opportunities in grid modernization over and above what you've already laid out, or is that likely to be a relatively long evolution in terms of changes you'll be making there?

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

I believe we have a robust plan where we have been disciplined in establishing business cases for each of these investments to deliver benefits to customers, whether it's greater customer experience, whether it's reliability metrics. We do have the ability to change the timing, accelerate or slow down depending upon the needs of customers in each of the jurisdictions. And I would expect as the system continues to grow— which we would see it doing over the next 10 years, the Southeast is attracting an incredible number of new citizens, people migrating to this area—that we'll find continued opportunities to expand our system. We have a team of people focusing on modernization. It's a full-time assignment to ensure that we're building the infrastructure that our states count on. Same for Indiana, same for Florida, same for Ohio.

Operator: And we'll take our next question from Michael Weinstein with Credit Suisse.

Michael Weinstein - Credit Suisse - Analyst

To what extent do you see the increase in earnings growth into the 2019-2020 period as driven by the rate base increases coming from deferred tax amortization? Does that give you increased confidence in the ability to get back up to the mid to high range because this portion of the rate base growth is a certainty, right?

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

Yes. You can see the front-end impact of the loss of interest shield and the dilution. But as you flip back into our slide deck, looking at rate base growth, you can see \$2.5 growing to \$3.5 billion of rate base over that period. And that's without spending a dollar of capital. It's that rate base growth in the fundamental business that we operate, low-risk, high-quality jurisdictions that give us confidence that we can maintain a 4% to 6% growth rate, after we've adapted to tax reform in 2018, get back within the range in 2019, mid- to high in 2020 and

beyond. So the point you're making around the strength of the rate base growth is exactly right.

Michael Weinstein - *Credit Suisse - Analyst*

Could you comment a bit about the tax equity market around renewables after the BEAT provisions in the tax reform package?

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

We believe we'll be successful in that market given our company's scale and credit profile. I think all of this is something we'll continue to monitor. We are actually in the tax equity market right now with a project and are seeing success in putting that together. So we're optimistic.

Michael Weinstein - *Credit Suisse - Analyst*

Are you seeing any additional opportunities coming your way as a result of smaller players maybe having a harder time gaining access to that market now?

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

There's a lot of opportunity flow that comes through, and compliments to the team as they approach it in a disciplined fashion to identify projects that make sense for us, but we do see good opportunity flow.

Operator: And we'll take our next question from Jonathan Arnold with Deutsche Bank.

Jonathan Arnold - *Deutsche Bank - Analyst*

Steve, when you talked about what you've assumed for the cash treatment of tax reform with regard to customer rates, it sounded like you were saying you've assumed you'll flow it back reasonably quickly, but then you talked about several things you're doing, which would do the opposite. So can you give us a high level of what's assumed in this FFO target versus the range of potential outcomes?

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

We've looked at a number of outcomes and they may vary per jurisdiction. We certainly got a constructive outcome in Florida. In general, what we're thinking about here is that the impact of the rate decrease from 35% to 21%, we'll work back through prospective rates and give that aspect to customers. We're looking at the excess deferred tax piece. The protected piece will go back slowly, and we're looking at utilizing the other excess deferred taxes to be used as a mitigant against the rate base increases that are coming, as well, to help reduce the volatility. That's a general way to think about the way we incorporated this into our plans.

Jonathan Arnold - *Deutsche Bank - Analyst*

So for example where you have rate cases pending, at that point the 35% to 21% would be part of that case, and in other jurisdictions it would be later. Is that right?

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

I'll start with the Carolinas. We are not expecting that tax reform will be a part of the DEP case, which we are expecting an order on any time. There's a separate docket that the Commission has established. Testimony will be presented in the DEC case around tax reform, and it is really an open question on whether or not it's dealt with in this case or in a separate docket. But I think in all events, there's an opportunity here to use tax reform to lessen the impact of rising prices or investments from the state.

For the other states, some of them will go automatically into place where there are riders. In Indiana and in Ohio, where there is a rider tracking mechanism, those tax reform impacts will go in immediately. Piedmont would be another example of that. And then we'll tailor other jurisdictions based on general rate case timing or separate dockets that are established. As Steve said, it will be customized

jurisdiction-by-jurisdiction.

Jonathan Arnold - *Deutsche Bank - Analyst*

And can you touch on ACP in that context?

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

The ACP project is benefited by tax reform. Again, we have several rates with our customers on ACP, and it's not a formula-type rate there. That will be one of the things that benefits us with tax reform is the application to ACP.

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

And you may remember that ACP was a competitive process early on with negotiated rates that came out of the competitive bidding process, and ACP was selected as the most cost-effective solution and continues to be the most cost-effective solution for customers.

Jonathan Arnold - *Deutsche Bank - Analyst*

So you don't anticipate an adjustment there.

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

That's correct.

Jonathan Arnold - *Deutsche Bank - Analyst*

And then on the FFO to debt slide, you show 2018, then you show the 2020 to 2022. Should we assume 2019 as part of a bridge to that new number or does it go down a little, then improve, what's the 2019 profile as you fill in that gap?

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

We'll be improving on our metrics throughout the plan. I don't want to give year-by-year guidance, but we do see improvement throughout the plan.

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

It trends up from 2018.

Jonathan Arnold - *Deutsche Bank - Analyst*

And have you had the opportunity to download with the agencies on how the plan looks, now that you've framed out your equity piece?

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

Yes, we visited with all three of the agencies, in advance, sharing with them our perspective, the actions we've taken, not only the equity, but the reduction in capital, our focus on cost management, the demonstrating track record and pursuing regulatory recovery. We had a very comprehensive discussion. We believe we put forward a credible plan to the agencies that supports our ratings. Of course, they'll deliberate and look at that over the coming months, but we feel like we had a good discussion of a very credible plan.

Jonathan Arnold - *Deutsche Bank - Analyst*

And then in 2018, you have 15% to 16% targeted effective tax rate. Is that the right ballpark going beyond 2018, or is that lower than you

think it will be?

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

I think that's certainly what we see for 2018. We typically don't project beyond that. I don't know that it's going to vary a lot from that as we go forward, though.

Operator: We'll take our next question from Julien Dumoulin-Smith from Bank of America Merrill Lynch.

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

First on the growth into 2019 and then 2020 and beyond, with mid- to high end in 2020 and beyond. Just to make sure I heard you right, mid to high end in 2020 and beyond, is the right way to think about this that basically you're targeting a 7% rate base growth off of 2018 such that that gets you to close-ish to 2019, the midpoint of that range as, I think, Shar initially asked? And then again as you roll forward, take 7%, net out a small amount of equity dilution and then again that's how you outperform the 4% to 6% from 2019 into 2020. Just want to make sure we're hearing the puts and takes appropriately here.

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

I would think about 2019 as being within the range – within the guidance range. I think the lower end of the guidance range would be the way to think about 2019 as we're still getting into to get that recovery of the increased rate base investment because you think about 2019 earnings, it's going to have to be rate cases prosecuted in 2018 for certain of those jurisdictions. We will see the rider impact and other things, but within guidance it's the way I think about 2019 and then by 2020 mid to high because we have an opportunity for another year of securing that revenue stream, building on that rate base growth. And so \$3.5 billion of additional rate base for us without spending an additional dollar of capital in these jurisdictions, we believe, underpins our ability to get in that range by 2020, mid to high.

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

On the commercial side of the business, specifically renewables, can you elaborate a bit on what's driving your thinking? I think in the commentary you suggested you would actually be increasing the size of investment. But then in some of the Q&A, if I hear you right, a bit more cautionary on tariffs, et cetera. Are you looking to expand this, or is this really a statement around HB 589 and the opportunities there, or is there something beyond the Carolinas you guys are seeing out there?

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

There is about \$1 billion of investment in commercial renewables last year. It is modestly higher than that this year. We have introduced tax equity for the first time. You may recall before tax reform, we thought we would be a tax payer and someone who could use credits sooner than what's going to happen. So we have looked at that business through the lens of tax equity. We do see opportunities from HB 589, and as we planned the implications of HB 589, we put that capital in the commercial business for a planning assumption. I think our message here has been consistent. We like the business, we have scale in the business, we believe we can invest in a manner that's profitable for our investors. And the modest increase in capital is HB 589 and other market opportunities.

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

Lastly, on the FFO to debt question, the 2018 number you show, is that inclusive of the equity? Or should we be thinking about the ratable improvement from 14% up to the 15% to 16% range, the equity being a big chunk of that improvement?

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

The equity is in the FFO, you're right.

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

It is reflected in that 14% already.

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

Yes. And as you know, an equity issuance impacts the denominator, right? So it's going to have an impact on FFO to debt, but it has a more dramatic impact on our holding company debt, which of course will be declining over the five-year period to roughly 31%, more aggressively than what we shared with you last year. The engine for production of FFO is our regulated businesses, and that has not changed from tax reform. We will go after investment and delivering returns in the way we historically have, by delivering returns from the regulated process, and that's the engine that drives the FFO growth over the period.

Steve Young - Duke Energy Corporation - EVP and CFO

That's right. And our ability to execute in our cost management has helped us exceed the original estimates we had for 2017 in our credit metrics.

Operator: We'll take our next question from David Paz with Wolfe Research.

David Paz - Wolfe Research - Analyst

Going back to the growth question, looking on slide 12, when you say mid- to high end of the growth target in 2020, is that the growth over 2019 earnings or is that a compounded average annual rate off the midpoint of your 2017 guidance?

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

It's off of 2017.

Operator: We'll take our next question from Michael Lapidés with Goldman Sachs.

Michael Lapidés - Goldman Sachs - Analyst

More of a longer term question. How are you thinking about the jurisdictions where you have the most lag? What you can do to structurally change that – to reduce that lag outside of continuing to file cases on a pretty frequent basis?

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

I appreciate that question because we have drawn our attention to what we're calling regulatory modernization, which is trying to look at the regulatory mechanisms and match those mechanisms to the way investment occurs. Indiana, Ohio, multi-year rate plans in Florida, all of those are very well-seasoned to work with the type of investments that we're making in the grid and renewables, clean energy, et cetera.

The Carolinas is where we have a little bit of work to do. We're pleased with the result of HB 589, which puts trackers in place for renewable and for PURPA contracts, both of which were important. And we have also filed for a tracker around grid investment in our DEC case. Our intent is to follow on a dual-path, as we did with HB 589: ask the Commission how far they believe they can go, and then pursue legislation if need be to finalize that work. I believe it's a win-win. The type of investments that we're making will deliver immediate customer benefits. It minimizes the impact on price to customers. And with tax reform as another tool, we should be able to find our way to something that works for customers and for the investments we're trying to put into play. The focus of modernization is throughout all the jurisdictions, but we have some specific objectives we're trying to achieve in the Carolinas.

Michael Lapidés - Goldman Sachs - Analyst

And when you're looking at the Carolinas, what's been the feedback in the rate cases regarding the grid modernization tracker?

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

Public Staff produced some testimony. They have some questions about what is modernization, really questioning the types of investments. They like some of them better than others. We believe that there is a strong case throughout the program around modernization, but they also introduced the notion of a cap if the Commission were to approve the tracker. So there was a good start to the conversation that will continue as part of this case.

Operator: We'll go next to Praful Mehta with Citi.

Praful Mehta – *Citigroup - Analyst*

Bringing together both the growth trajectory that you've talked about here and the credit that you've laid out, wanted to understand how tax reform and this discussion with the regulators fits in. You've highlighted discussion around regulatory asset recovery, accelerated depreciation. If any of those variables change, and the discussion with regulators are better or worse than expected, which variable should we look at that can impact either your earnings trajectory or your credit putting more pressure on the balance sheet? How should we track that?

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

I'll get a start and turn over to Steve. He and his team have worked extensively on the implications of tax reform really dating back into 2017. But you can appreciate any time you put a five-year plan together, you're putting it together with a range of assumptions, and that's the case here, as well. We won't have complete certainty on the way that commissions are going to address tax reform until later into 2018. But as Steve indicated, we're assuming pretty current return or reduction in rates around the tax rate of 35% to 21%.

I think that's a reasonable assumption that should play out in 2018 and beyond in each jurisdiction. And then on the accumulated deferred taxes, the protected ones go back over life, consistent with normalization rules, and we are proposing that the unprotected deferreds go back over a reasonable period of time. In some of our jurisdictions, those deferred taxes are actually related to property, so a longer period of time makes sense to us. That, of course, will be subject to negotiations. And we will check and adjust as we always do depending on how that plays out, but believe we have reasonable planning assumptions. So, Steve?

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

Right. I think Lynn covered it very clearly there. This is an opportunity to reduce customer rates pretty quickly. But we also have an opportunity here to utilize some of this to offset some of the rate base increases that are coming, and we'll be looking at the excess deferreds as a tool for that. That's what was done in Florida, a very constructive settlement there. So we'll see how it plays out in the other jurisdictions.

Praful Mehta – *Citigroup - Analyst*

How big is the unprotected piece that needs to be refunded, and what assumption is being made on the timing of that refund?

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

Unprotected deferred taxes are for the total corporation about \$1.8 billion, protected are about \$4.5 billion.

Praful Mehta – *Citigroup - Analyst*

And the assumption on the return of the unprotected, I'm assuming, is quicker because it's not average life of assets? You have some unprotected apparently that are connected with PP&E, but for the rest, is it like a five-year period, to get a sense for what kind of timeframe that refund would have to take place in?

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

I would just say a reasonable timeframe at this point. We're early in the process of this discussion with our jurisdictions, and it's going to be jurisdiction-by-jurisdiction. As I said a moment ago, some of the rider mechanisms will be treated differently in the general base rate case. As

we learn more in these dockets that are open in front of the jurisdictions, we will be prepared to share more specifics on that, but believe that we've put together a plan here with a reasonable set of outcomes.

Praful Mehta – *Citigroup - Analyst*

On the holding company debt, it's going to 31% to 32% in the 2020 - 2022 timeframe. Is that percentage being achieved because the underlying denominator that is the total debt of the company is growing, or is that being achieved because the holding company debt is being paid down during that timeframe?

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

It's really reflecting the benefit of the equity issuance. We are de-levering the holding company with the equity issuance.

Praful Mehta – *Citigroup - Analyst*

So apart from the initial pay-down, there isn't anything incremental happening post the 2018 timeframe in terms of de-levering at the HoldCo?

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

There's a modest trending up, ACP and other things, and then down again, so that the starting point in 2018 and the ending point are flat.

Praful Mehta – *Citigroup - Analyst*

So I'm just trying to confirm post 2019, is there any assumption of debt pay-down at the HoldCo or no?

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

Relatively flat end to end. We can probably take you through financing schedules after the call if there's more detail we can help you with.

Operator: At this time, I'd like to turn the conference back over to Lynn Good for additional or closing remarks.

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

Great. Thank you. Thanks, everyone, for joining us today. We'll be available by phone and have an opportunity to meet with many of you over the next couple of weeks. I want to extend my thanks to the teams who have put all of this together with tax reform coming late in the year. It's been an all-out effort, and we're really delighted to put it forward today. And thank you for your investment in Duke Energy.

Operator: And that concludes today's call. Thank you for your participation. You may now disconnect.