

EDITED TRANSCRIPT

Q3 2018 Duke Energy Corporation Earnings Call

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CORPORATE PARTICIPANTS

Michael Callahan *Duke Energy Corporation - VP Investor Relations*

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

Steve Young *Duke Energy Corporation - EVP and CFO*

CONFERENCE CALL PARTICIPANTS

Claire Zeng *BofA Merrill Lynch - Analyst*

Jonathan Arnold *Deutsche Bank - Analyst*

Michael Weinstein *Credit Suisse - Analyst*

Greg Gordon *Evercore ISI - Analyst*

Stephen Byrd *Morgan Stanley - Analyst*

Steve Fleishman *Wolfe Research - Analyst*

Praful Mehta *Citi - Analyst*

Shar Pourreza *Guggenheim - Analyst*

Ali Agha *SunTrust - Analyst*

Michael Lapidés *Goldman Sachs - 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, Vice President of Investor Relations. Please go ahead, sir.

Michael Callahan *Duke Energy Corporation - VP Investor Relations*

Thank you, Cody. Good morning, everyone, and thank you for joining Duke Energy's third quarter 2018 earnings review and business update. Leading our call today is Lynn Good, Chairman, President and CEO, along with Steve Young, Executive Vice President and Chief Financial Officer.

Today's discussion will include forward-looking information and the use of non-GAAP financial measures. Slide 2 presents the Safe Harbor statement, which accompanies our presentation materials. A reconciliation of non-GAAP financial measures can be found on duke-energy.com and in today's materials. Please note the appendix for today's presentation includes supplemental information and additional disclosures.

As summarized on slide 3, during today's call, Lynn will provide an update on recent activities, including our response to Hurricanes Florence and Michael. She will also discuss progress on our strategic initiatives. Steve will then provide an overview of our third quarter financial results and insight about economic and load growth trends. He will also discuss our growth drivers for 2019 before closing with key investor considerations.

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

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

Thank you, Mike, and good morning, everyone.

Let me begin on slide 4. Today, we announced strong results for the quarter with adjusted earnings per share of \$1.65 compared to \$1.59 in the prior year. We continue to execute on our strategic priorities, supported by the outstanding work of our employees, who restored outages in back-to-back hurricanes over the last two months.

As we look to the end of the year, we have narrowed our full year guidance to \$4.65 to \$4.85 per share, raising the midpoint into the upper half of our original range. We also reaffirmed our long-term earnings growth rate of 4% to 6% through 2022 off the midpoint of our 2017 guidance range. We continue to expect earnings growth at the low end of this range in 2019 and the mid-to-high end of the range in 2020 and beyond.

In addition to strong financial results, we're pleased to highlight several recent recognitions for the company. Let me emphasize two that I know are important to our ESG investors. Duke Energy was included in the Dow Jones Sustainability Index for the 13th consecutive year, demonstrating our commitment to sustainability and corporate responsibility. And Forbes named Duke Energy to their Global Best Employers list, which is based on rankings of publicly traded companies from 60 countries around the world. We're proud that our company and employees are being recognized for the work we do every day on behalf of our customers and communities.

Turning to slide 5, I want to give you an update on our response to Hurricanes Florence and Michael, and in a moment, Steve will share our thoughts on cost estimates and recovery. First, Hurricane Florence. This was a massive, slow-moving storm that made landfall on the North Carolina coast in early September, causing widespread devastation and record-setting rainfall. Ahead of the storm, we assembled our largest restoration force ever in the Carolinas, over 20,000 workers, to prepare and immediately begin restoring power when it was safe to do so. In addition, 2,000 employees outside of transmission and distribution volunteered to support our efforts, from managing logistics to providing extra help answering customer calls. We restored over 1.8 million outages in less than 10 days, with 93% restored in five days. Despite extensive flooding, the environment around our facilities, including ash basins, remained well-protected. This is a testament to our team's extensive preparation in advance of the storm and on-the-ground management throughout the heavy rainfall.

Only weeks later, Hurricane Michael made landfall in early October on the Florida Panhandle. Michael triggered over 70,000 power outages in our Florida service territory before moving north and causing over 1.1 million outages in the Carolinas. More than 15,000 workers contributed to the restoration efforts, with 90% of the outages restored within three days. All customers who could receive power were restored in five days in the Carolinas and eight days in Florida, but work continues in Florida as we rebuild our infrastructure in the most devastated areas.

Our successful storm response was driven in part by lessons learned from previous storms and our investments to improve the grid. For example, in our DEP service territory, self-healing grid technologies rerouted power from damaged lines to minimize outages. We estimate that we avoided 27 million outage minutes across the Carolinas from the use of this technology during Hurricane Florence. Our grid improvement plan includes expansion of this technology to 80% of our customers over the next decade, up from 16% currently. And in Florida, we made improvements on a transmission line at St. George Island a few years ago. This area was in the direct path of the hurricane and the structures withstood hurricane-force winds. During this hurricane season, we restored 3 million outages, thanks to the tireless work of our employees and utility partners. And I'm truly proud of this team.

The benefits of modernizing and hardening the grid were clear during the hurricanes and we continue to invest in the energy grid on behalf of our customers. We've highlighted several developments across our jurisdictions on slide 6.

In South Carolina, the Commission approved deferral accounting treatment for our grid improvement investments, such as smart meters, self-optimizing grid technology and additional hardening and resiliency mechanisms. Our grid improvement plan is a key

part of our strategy to meet customer expectations. These investments will deliver increased reliability, enable distributed resources and provide enhanced customer convenience and control.

In the Carolinas, we recently announced approximately \$500 million in battery storage investments over the next 15 years, as described in our Integrated Resource Plan filed this past September. This investment, equal to about 300 megawatts of capacity, will provide our Carolinas utilities with another tool to balance the energy system.

In Florida, consistent with our multi-year agreement, we announced an electric vehicle pilot program that will install up to 530 EV charging stations throughout our service territory in 2019. These stations will be connected in multi-unit dwellings, workplaces and other areas with broad public access.

Similarly, we have proposed an electric transportation pilot in South Carolina, which includes charging station programs throughout residential areas as well as school and transit bus systems. We look forward to rolling out similar programs in our other jurisdictions to promote greater use of electric vehicles for our customers.

Moving to slide 7, let me provide an update on some of our other strategic investments. We are nearing completion of our 1,600-megawatt Citrus County natural gas combined-cycle plant in Florida. The first unit came online in October. We have successfully achieved initial firing of Unit 2, which is on track to start serving customers in December. Recall that the Florida Commission approved our requested \$200 million revenue increase for the plant under the GBRA mechanism. Increases to customer rates for Unit 1 will begin in December and rates associated with Unit 2 are expected to be implemented in January.

Construction continues at our natural gas combined-cycle plant in Asheville as part of our Western Carolinas modernization project. The plant is 50% complete and remains on track for the expected late 2019 in-service date.

In July, we launched the first request for proposal for new renewable energy resources in North Carolina under House Bill 589. This 680-megawatt solicitation seeks projects that can be placed in service by the end of 2020. Bids were submitted October 9, including those from our North Carolina utilities and Commercial Renewables business. Over the next several months, the independent administrator will review the bids, and winning proposals are expected to be notified in the first quarter of 2019. New project construction is anticipated to begin in the second half of 2019 to meet the 2020 in-service dates.

In Commercial Renewables, we've started a process to find a minority partner in our existing 3,000-megawatt wind and solar portfolio as we seek to recycle and reinvest capital from these assets. We will continue to be the majority owner and operator of the portfolio and intend to retain nearly all of the tax benefits associated with the projects. It is still early in the process, but we are seeing strong interest.

Looking ahead to 2019, we have approximately 300 megawatts of wind and solar in late stages of development. And we will use tax equity to finance these projects.

Turning to our gas business on slide 8, let me provide an update on the Atlantic Coast Pipeline. We're working diligently to complete the project to bring low-cost gas supply and economic development opportunities to the region. Mainline construction continues in West Virginia and North Carolina. And we're making progress on constructing the compressor and metering-and-regulation stations in those states. The tree-felling window reopened in September, and we continue with felling activities where permitted in all three states along the pipeline route.

The Virginia DEQ approved our erosion and sediment control plan on October 19, making the water quality certificate effective for that state. We've requested permission from FERC to begin full-construction activities in Virginia and expect the approvals soon. This was the last major permit remaining for the pipeline, marking a significant milestone for the project. Throughout this process, the relevant permitting agencies have conducted extensive due diligence, ensuring the project will meet all necessary environmental rules and regulations. We appreciate the professionalism exhibited by these agencies as they worked with our

project team to complete these reviews.

Given permitting delays and the FERC's stop work order in August, the project partners have reexamined the construction schedule and cost estimates. We will now pursue with our customers putting the pipeline in service in phases with a late 2019 in-service for all station facilities and key portions of the pipeline in order to meet peak winter demand. We're also pursuing a mid-2020 in-service date for the remaining segments.

Based on these changes, we now estimate cost in the range of \$6.5 billion to \$7 billion, an increase of \$500 million over the previous range. Future factors such as abnormal weather, work delays due to judicial or regulatory action and other circumstances may result in additional costs or schedule changes.

In summary, our year-to-date results show that our company is performing well. We will continue executing on our strategy, investing in infrastructure our customers value and delivering sustainable growth for our investors. As we look to close out the year, our achievements once again reinforce our belief that Duke Energy is the leading energy infrastructure company.

And before I turn it over to Steve, I want to thank our employees once again for their remarkable work during Hurricanes Florence and Michael. They showed unwavering dedication to our customers.

Steve, let me turn it to you.

Steve Young *Duke Energy Corporation - EVP and CFO*

Thanks, Lynn. I'll start with quarterly results on slide 9, including our adjusted earnings per share variances for the prior year. For more detailed information on variance drivers and a reconciliation of reported to adjusted results, please refer to the supporting materials that accompany today's press release and presentation.

On a reported or GAAP basis, 2018 third quarter earnings per share were \$1.51 compared to \$1.36 last year. Third quarter 2018 adjusted earnings per share was \$1.65 compared to \$1.59 in the prior year. The difference between reported and adjusted earnings was primarily due to a charge resulting from annual goodwill testing in our Commercial Renewables business.

For the quarter, higher adjusted results compared to the prior year were primarily due to higher retail electric sales volumes and income tax benefits, partially offset by higher storm restoration costs and share dilution.

Within the segments, Electric Utilities and Infrastructure was up \$0.10 compared to the prior year. Results were supported by a few factors, including strong load growth and more favorable weather. We also saw growth from higher rider revenues and contributions from the DEP and DEC North Carolina rate cases. Finally, the Electric segment benefited from lower income tax expense, including impacts of the Tax Act. These favorable drivers were partially offset by three items: higher depreciation and amortization expense from a growing rate base; a charge related to the Edwardsport settlement in Indiana; and higher O&M, largely due to Hurricane Florence restoration costs.

We estimate total O&M costs for Hurricane Florence of approximately \$450 million, with the majority of the costs at our DEP utility. We will request permission to defer approximately \$370 million of incremental costs for recovery in the next DEP rate case. The remaining incremental costs impacted O&M expense in the quarter and exceeded the cost from Hurricane Irma in 2017, contributing to the year-over-year variance.

I'd also point out that our preliminary O&M cost estimate for Hurricane Michael is approximately \$200 million. The costs from this storm, which primarily impacted our DEC and DEF utilities, will be recorded in the fourth quarter. As with Florence, we will also request to defer the majority of these costs for future recovery. We will be making the appropriate filings with the state

commissions over the coming months.

Shifting to Gas Utilities and Infrastructure, results were flat in the quarter. Growth from our midstream investments was offset by higher O&M. We expect our LDC businesses to provide the bulk of their remaining earnings contribution in the fourth quarter.

In our Commercial Renewables segment, results were up \$0.03 for the quarter. The increase was primarily due to the Shoreham Solar project, which was placed in service in July.

Finally, Other was down \$0.04 for the quarter, largely due to a lower tax shield as a result of the Federal Tax Act and a favorable litigation settlement in the prior year. Higher tax optimization benefits partially offset these drivers. We continue to expect our full-year 2018 adjusted effective tax rate to be in the range of 15% to 16%.

As you know, we settled half of our March equity offering in June, which resulted in \$0.03 of share dilution for the quarter. Our equity financing plan remains on track, and we continue to expect to settle all outstanding equity forwards in the fourth quarter.

Our strong execution through the first three quarters gives us confidence in our full-year projection. And as Lynn mentioned, we narrowed our 2018 guidance range to \$4.65 to \$4.85 per share, raising the midpoint into the upper half of our original guidance range for the year. This reflects our results to date, including favorable weather, partially offset by costs associated with the two hurricanes. We're well positioned for the remainder of the year, and we'll manage our O&M and other business drivers in a way that keeps us on track to deliver on our commitments.

Turning to slide 10, our retail volumes were very strong in the quarter. Let me take a moment to walk you through the trends we're seeing across our service areas. On a rolling 12-month basis, weather-normalized retail electric load growth was 1%.

Our residential class continues to drive the growth with an overall increase of 1.8% on a rolling 12-month basis. Strong customer growth continues across our service territories and was amplified this quarter by positive usage per customer in certain jurisdictions. We will continue to monitor this trend, given we've seen this periodically over the course of the year.

We also saw strength in the commercial class, with sales up 1.1% over the rolling 12 months. Ongoing data center expansion and strength in hospitality and leisure segments helped to offset weakness in retail stores driven by competition from online shopping.

Finally, sales in our industrial class continued to improve, and we were pleased to see a 1.8% increase within this sector during the quarter, driven by robust manufacturing growth in several sectors such as metals, textiles and transportation. The Carolinas, in particular, saw strong industrial growth in the quarter.

These retail volume trends, along with a healthy economy and growth in our jurisdictions, further support our long-term planning assumption of 0.5% retail load growth for our Electric Utilities.

As we head into the close of the year, let me highlight on slide 11 some of the drivers for 2019. We expect to be back within our long-term earnings growth range in 2019, which represents 6% growth off of our original 2018 midpoint.

I'll start with growth in the Electric Utilities segment. In the Carolinas, earnings will be supported by a full year's contribution from this year's North Carolina rate cases, upcoming rate activity in South Carolina, as well as AFUDC on our Western Carolina's modernization project. In Florida, as Lynn discussed, we are adding the Citrus County combined-cycle plant to customer rates in the next few months. We will also begin to recover our ongoing grid investments through the first rate increase under our multi-year rate plan. Finally, we expect to initiate rate recovery under the solar base rate adjustment mechanism once our first solar project is in operation this December. In the Midwest, we will continue to invest in transmission and distribution upgrades that are recovered under our rider programs in Indiana and Ohio.

In the Gas segment, earnings will grow based on the continued construction on the Atlantic Coast Pipeline, coupled with continued integrity management investments and strong customer additions in our gas LDCs. The changes to the ACP schedule and cost estimate that Lynn described will not significantly impact earnings in 2019 and 2020, as the project will continue to accrue AFUDC and now on a higher cost base.

Additionally, we have a strong pipeline of projects in our Commercial Renewables business, including late-stage wind and solar projects with 2019 in-service dates.

Finally, we expect further load growth consistent with our long-term planning assumption. And we are aggressively managing costs across our businesses, including using digital capabilities to drive efficiencies. As you can see, we have a substantial set of investment opportunities that will provide growth into next year and beyond as we continue to execute on our strategy.

I'll close with slide 12. Our attractive investor value proposition is founded upon our growing dividend, which currently yields approximately 4.5%. Coupled with earnings growth of 4% to 6% from transparent low-risk investments, this provides a compelling risk-adjusted total shareholder return of 8% to 10%. Duke Energy's scale, constructive service areas and ability to execute position the company as the leading energy infrastructure investment.

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

QUESTIONS AND ANSWERS

Claire Zeng *BofA Merrill Lynch - Analyst*

This is actually Claire for Julien here. My first question is on ACP. What is your expectation on timing to fund that additional CapEx need, and how will it be funded? And what are you anticipating the returns on ACP now are?

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

I'll take returns first. We expect this return to be consistent with other regulated investments, so we're comfortable with where we are on return. And I would think about the financing of ACP as being managed through the overall financing of the company, and then we do intend to put project financing in place at the time the project goes in service.

Claire Zeng *BofA Merrill Lynch - Analyst*

Okay. It doesn't really have much of a bearing on your FFO to debt metrics. Just confirming that.

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

We're committed to our FFO to debt metrics, and I think we've shared those ranges with you in previous calls. The cost increase for ACP, our responsibility is about half of that amount. And we believe we have tools within our company to manage through that transition.

Claire Zeng *BofA Merrill Lynch - Analyst*

And just turning over to renewables, at this point, what would you estimate the market out there to be—potential expected proceeds? And how would your use of proceeds work?

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

We're very early in the process. What I will share is that there has been strong interest. We've been watching this market for some time and are very familiar with it. The use of proceeds, I think we're too early to talk specifically about that. We haven't earmarked proceeds for any specific purpose. And of course, we'll update you as the sale process continues and give you a closer look at a financing plan as we come to the Street in February.

Claire Zeng *BofA Merrill Lynch - Analyst*

Got it. Would it be fair to view it as offsetting incremental debt issuances or any kind of other funding internally?

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

I wouldn't be that specific at this point. We've just launched the process, so we need to work through it in order to have a sense of where the market is, the proceeds, the timing and all of those things. That's where we are at this point.

Jonathan Arnold *Deutsche Bank - Analyst*

It looks like – if I look at trailing 12-month numbers, the midpoint of the new 2018 range would suggest a slightly down fourth quarter. Can you remind us what type of things would support that?

Steve Young *Duke Energy Corporation - EVP and CFO*

I think as we go into the fourth quarter, you're looking at milder weather and that impact there will pick up the gas distribution business. I don't think there's anything unusual that we're looking at in the fourth quarter. Some of the variations per quarter are hard to predict. Tax optimization efforts, as an example, that came through in the third quarter. In certain years, they have come through in a fourth quarter. So, I wouldn't look to anything negative that's occurring necessarily in the fourth quarter.

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

The only special thing I'd point to is Michael is in the fourth quarter. The storm hit in October, so we'll be addressing Michael in the fourth quarter.

Jonathan Arnold *Deutsche Bank - Analyst*

And then just on industrial growth, you flagged last quarter that you expected some of the temporary effects to start working out of the numbers, and looks like that happened. But what do you feel is your underlying industrial sales growth number?

Steve Young *Duke Energy Corporation - EVP and CFO*

I think the underlying industrial sales growth number will continue to improve as we move out and lap, if you will, some of the unique perturbations there. We saw very strong industrial growth for this particular quarter, as I mentioned, across the entire enterprise of 1.8%. I don't know that we're going to see that as an ongoing mechanism – ongoing number going forward. But we do see strength in our residential customers, a good bit of diversity across the enterprise. I don't have a full-year number. I think the overall 0.5% is very solid, but that combines residential with it and commercial as well. So, no specific number yet on what I'd see industrial on a run rate, but it's improving on the 12-month carrying, and I think that'll continue for a few quarters.

Jonathan Arnold *Deutsche Bank - Analyst*

My question really was, is the growth—the improvement—just the lapping of the outages, or is it actually underlying growth as well?

Steve Young *Duke Energy Corporation - EVP and CFO*

I think we're seeing some underlying growth as well with it.

Jonathan Arnold *Deutsche Bank - Analyst*

And then, can you just remind us, what is the sales growth assumption overall that underpins your comments on guidance and getting to the high end of 4% to 6% in 2020 plus?

Steve Young *Duke Energy Corporation - EVP and CFO*

Again, we're looking at 0.5% sales growth weather normal across our footprint, and that's all customer classes. We continue to think that's a reasonable number to bake into our forecasting over our longer-term plans.

Michael Weinstein *Credit Suisse - Analyst*

Just to follow up on Jon's question. It looks like sales growth is actually continuing to improve, and we've seen that for several quarters now, and you're thinking that it might continue going forward. At what point do you think you might start considering increasing the projected growth that's embedded in guidance from 0.5% to something a little higher?

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

I think we'll continue to watch. We've been surprised to the upside, which is a good thing, but we believe a 0.5% assumption is good to really establish the parameters around our cost structure and the way we manage the business. For every positive piece of economic news, there's something on the horizon, whether it's tariffs or rising interest rates and other things. So, we're really comfortable with 0.5% now and hope to surprise to the upside.

Michael Weinstein *Credit Suisse - Analyst*

And for hurricane costs, for Hurricane Michael and also Hurricane Florence, is there anything else that's been going on? Those are being deferred right now? I mean, do you have a deferral order? Just remind me, sorry if I missed that earlier.

Steve Young *Duke Energy Corporation - EVP and CFO*

We will make application for the official deferral order in the near-term. In the third quarter, we incurred the costs associated with Hurricane Florence. And as I said, we've deferred \$370 million of the O&M costs related to that, and the deferral is based upon past history and practice. We'll make those official filings later this year.

Michael Weinstein *Credit Suisse - Analyst*

And as you get ready for next year's rate cases in North Carolina and also for talking to the state legislators about grid modernization, it seems to me like an increasing frequency of hurricanes in your territory and throughout the Southeast. Is that being factored into the discussions, or has that improved the climate for grid modernization going forward?

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

I would say those storms have been a significant issue here in the Carolinas, just the impact on the eastern part of the state. And there is a lot of interest to invest in infrastructure to support that region and to make smart investments to position the state for the future. So I think hardening and resiliency is something that makes a lot of sense. And we're, of course, developing projects that we believe would support the infrastructure in the state. Taking lessons learned from these storms, but also looking at other areas of our grid that we think modernization could benefit customers.

Greg Gordon *Evercore ISI - Analyst*

Going back to the line of questioning from earlier—you're doing well this year, the midpoint of guidance is \$4.75. And then, using a \$4.60 base, and I'm looking at slide 11, are you saying you expect the compound annual growth rate to be 4% through 2019? And then, the compound annual growth rate, not the incremental growth rate, but the compound annual growth rate to look more like 5% or 5.5% as you get into 2022? I just want to make sure that I'm looking at that correctly. You're using a compounding function not a year-over-year function, correct?

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

That's right. What we're talking about is 4% compound number for 2019. And then by 2020, we believe we'll be up in that 5%, mid-to-high end of the range.

Greg Gordon *Evercore ISI - Analyst*

Right, and that's my point. Because 5% compound from \$4.60 in 2017 through 2020 would put you \$0.10 above Street consensus, \$5.33 a share, and would put you \$0.15 above Street consensus in 2021. And the Street has been consistently, me included, to be frank with you, more cynical about your growth opportunities as it pertains to your guidance. So what gives you the confidence

that the compounding effect of the investments and the changes you're making in the business can get you there? And what do you think the dissidence is between Street expectations and your aspirations?

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

I would say that the capital plan that we've put in front of the Street as well as the recovery mechanisms that go with that give us the confidence to deliver the results. And of course, cost management, load growth are also a part of that picture. And we believe we've been consistently demonstrating the ability to grow the company. This is the second full year of the portfolio that we now operate. Historically, we had some noise with international and other things. They're now two years in the rearview mirror. And my expectation is as we continue to execute, there will be greater confidence that we will deliver what we've set out.

We're proud of the fact that we're delivering what we set out in terms of commitments this year. We delivered last year. We have adjusted with tax reform in a way that has been constructive not only to investors but to the balance sheet.

So our assignment is to keep executing in a way that grows the company and maintains that balance sheet for the future, and that is our focus.

Greg Gordon *Evercore ISI - Analyst*

And how necessary or important to the execution of your plan is the grid modernization capital plan rollout in North Carolina and getting recovery mechanisms either through legislative guidance to the Commission, or from the Commission, that are a more contemporaneous return framework?

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

Well, grid investment is an important part of the strategy and certainly, North Carolina is important to the overall results of Duke Energy because of the scale of those utilities, both DEC and DEP. As we've shared with you, we believe we have parallel paths to pursue, a legislative path or increased frequency of regulatory filings in order to achieve our financial results.

We do believe with the value proposition that grid investment represents, including the storm hardening that we just talked about, that a recovery mechanism that is certain over a two to three-year period with predictable investment and predictable impact to customers, with value that goes with those predictable increases, is a compelling business proposition. And we'll continue to pursue, as I said, in both the legislative and regulatory process.

Stephen Byrd *Morgan Stanley - Analyst*

Wanted to go back to the ACP process. Given that the cost has gone up, I wondered if you could just talk through the regulatory process for potentially adjusting the required revenue upward, or should we assume that it's relatively unlikely that revenue would be adjusted upward? I just wanted to circle back on that.

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

I think we are in discussions with customers in connection with this partial in-service trying to establish interim pricing. And our objective always is to find the right balance between meeting customer needs and delivering benefits and then returns to investors.

We have reset price once and received approval of those prices. We believe this investment still represents the most cost-effective solution for our customers, and we'll continue to be in dialogue with customers as we go forward. So our focus right now is on partial in-service and establishing interim prices, and we'll just continue to stay in touch with customers as the project continues.

Stephen Byrd *Morgan Stanley - Analyst*

And then just further on system hardening, I think you've given us some good color as to how you're thinking about that, but I'm trying to get a better sense for the path to getting approval. So let's just say that you go through your assessment and you determine that an additional amount of capital is needed. Could you talk a little bit more to the different paths that we should be thinking about in terms of getting approval for that spending? It seems like obviously there probably are needs for significant additional hardening. How do we think about translating that into regulatory or legislative outcomes?

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

I think it depends on the path that we take. I think in a legislative path, a stakeholder process will be important to have discussions around the type of investment, the timing, et cetera. You may recall, we reached a partial settlement with certain environmental stakeholders as part of the DEC case that set a term, a cap, pilots for targeted undergrounding and then specific investments around batteries, EV, self-optimizing technologies, et cetera. So I think as you think about a multi-year rate plan, or if you were to think about some other method to establish a multi-year investment program, there would be some degree of sharing those investments and agreement. We don't contemplate it would necessarily be required pre-approval on individual projects because we're talking about a number of small things that accumulate over time, but we, of course, are early in the process of making those changes.

Under a pure regulatory path, you make the investments and demonstrate benefits, and those become a part of your cost of service and you would think about those in a traditional way. Let me just close by saying, we are in discussion around these investments and the benefits they can deliver to customers, both with regulators and with stakeholders. And that process will continue. We think those investments are very important to the state and to our customer base, so those conversations will continue.

Steve Fleishman *Wolfe Research - Analyst*

A question first on the quarter. I think in a couple of the businesses you mentioned the impact of tax rate partially due to the tax law change. Could you maybe separate out tax law change versus other tax items just so we have an idea on that?

Steve Young *Duke Energy Corporation - EVP and CFO*

What I might mention here on tax law changes is we had some fixed price contracts in our wholesale business, gas and electric, whereby the pricing doesn't change necessarily due to tax changes. So that brings some benefits in. And then there's just tax optimization, we're working through the various structures that we have in place across our footprint that'll provide some benefits. I don't have a breakout right now between those, but those are the two factors that lead to it.

Steve Fleishman *Wolfe Research - Analyst*

And then on the renewables for North Carolina. My recollection is those were not necessarily in your capital plan if you end up winning some of those, but I'm not sure if anything else has kind of changed in the plan going back to really this year. So if we see you win a handful of projects there, should we think about that all being incremental, or in the context of the whole plan maybe some things

haven't gone away?

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

I would think about it more within the context of the plan. We did have renewable capital in our plan in February. And actually, the way we approached it is we put all of the capital in the Commercial business, recognizing that it could either be in the utility or the Commercial business depending on how we win, but we put the capital in the Commercial Renewables segment.

So given the timeline of House Bill 589 and the fact we'll know more after the first of the year, we'll continue to update capital and share that with you in February. But I would think about it at this point as part of the overall capital plan that we shared with you.

Praful Mehta *Citi - Analyst*

Maybe first touch on the storms. I know you're deferring some of the costs, but in terms of the cash flow, is there an ability to fund some of that cash with securitization? Or if there isn't, how do you fund, or does it put any kind of pressure on the credit metrics or different funding gap, given the storm costs that you're facing right now?

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

We are financing in the short-term with commercial paper, short-term financing methods, and we will convert to longer-term at the right time. We'll be filing, as Steve indicated, for a deferral at the end of the year and would like to match long-term financing with the recovery mechanisms that are in place. We're always mindful of the impact to customers, so we have tools like excess deferred taxes that have not yet been fully dealt with in the Carolinas. Securitization, as you mentioned, is always a tool. So our plans will continue to mature on this over the balance of this year into next.

Praful Mehta *Citi - Analyst*

And does Commercial Renewables and the sale of Commercial Renewables, will that fit neatly into it, or does it happen to fit neatly into it, or is there a plan to kind of use some of those proceeds for this?

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

We haven't earmarked proceeds from Commercial Renewables at this point. Early in the process, don't yet know what the value is going to be, timing, et cetera, but you can think about that as a tool, right, within the company at large, an inflow of cash. We'll consider all of these things and really be in a position to give more feedback on specific financing plans in February.

Praful Mehta *Citi - Analyst*

And then, finally, following up a little bit on Greg's question on long-term growth. Wanted to understand, you had mentioned earlier the impact of tariffs and other macro factors that could impact your growth as you think about it longer term. I guess to achieve your long-term target, what are the variables we should be thinking about or tracking on a more macro level that you think could impact your ability to execute on the 4% to 6%?

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

Those comments were within the context of why not raise 0.5%. We believe 0.5% is a very good planning assumption as we look at the profile of our business, where we're located geographically, the attractive nature of the service territories, et cetera. But large economic shocks, if we were to ever get to that point, would be something we'd need to check and adjust, but there's nothing unique to Duke Energy as I talk about that.

So as I think about long-term growth, 0.5% is the load growth assumption. Aggressive cost management will continue to be a part of the equation. And then the capital plan that we've put in front of you with rate increases or recovery mechanisms that are in place across our jurisdictions will be the other driver.

Shar Pourreza *Guggenheim - Analyst*

Can you just elaborate on House Bill 589 real quick and sort of what's embedded in your plan, because I thought prior communication really focused on having somewhat of a base assumption around what you could win. And I guess the way I'm trying to come up with this is, there's 2.7 gigawatts potentially in this state that can be procured. There's 30% that you guys could essentially win, but there's no cap on how much you guys can acquire from developers that are likely looking to recycle their capital, right? So, if you kind of look at the opportunity set, it could reach well over \$1 billion to \$2 billion of opportunity. So I guess my question is, how much of this is embedded in your plan? Is it sort of a very little base assumption? I'm just trying to figure out the scale here because I thought this was predominately incremental.

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

We did put an assumption in, but I think to use your terminology, it's going to be closer to a base assumption than it is to a we-buy-everything assumption. And as I said a moment ago, we're early in the process. The bids are in. The administrator will be reviewing bids. We'll begin to have some visibility to this process in the first quarter, and that would be the time for us to update. We see the nature of the projects, we see the returns that are implied, and I think they represent great opportunities for us, but we'd be evaluating those returns against the other investment opportunities we have and making good decisions about it.

To close, I would say that the capital that's in there is more of a base assumption.

Shar Pourreza *Guggenheim - Analyst*

And then just let me ask you, assuming that the ultimate outcome is better than your base assumption, do you see any need to put incremental equity, as far as looking at additional opportunities around solar. So, i.e., if you do better than your base assumption, you acquire developers that are looking to recycle, is there any instance where you think you may need to raise equity as a result?

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

At this point, we're comfortable with the plans we've put in front of you on equity: the equity raise we did this year, our ongoing assumptions around about \$350 million of equity a year. We think that positions the company really well, strikes the right balance between balance sheet and growth. So I would think about that incremental capital as being evaluated as part of our total investment plan. And we'll continue, as I said, to provide updates on what we think the future holds. But right now, I'm comfortable

with the equity plan we have in place and our ability to absorb upside on the renewables as we look at the total collection of capital that we're planning to spend as a company.

Steve Young *Duke Energy Corporation - EVP and CFO*

And I'd add that the use of tax equity financing and back leverage and so forth helps on minimizing the investment on Commercial Renewables.

Ali Agha *SunTrust - Analyst*

First question, I wanted to just clarify the raise in the 2018 midpoint of \$0.05—is that all primarily driven by better weather or was there something else in there?

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

I would say weather and volumes on the upside, really being offset by storm expense is the way I would look at it. So, we've had very strong weather and volumes, but we've also had the hurricanes to absorb.

Ali Agha *SunTrust - Analyst*

And then secondly, next year when you all update your plans, et cetera, is there a thought—would you move your base year to 2018 to build out your growth rate targets, or what are you thinking about there?

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

We haven't made a decision around base year. We've been working off of 2017. As you know, we've continued to emphasize that, as outlined on slide 11. So we'll make that evaluation as we go forward, but you should be comfortable that we're talking about a range that works off of the 2017 base.

Ali Agha *SunTrust - Analyst*

And then also, in terms of the longer-term growth outlook, just remind us again sort of embedded in your long term 4% to 6% CAGR, how much reduction, if any, in regulatory lag is assumed in there, or is it all sort of CapEx rate base driven with earned ROEs relatively constant. Can you just remind us what are the earned ROE trends?

Steve Young *Duke Energy Corporation - EVP and CFO*

A couple of things I'd point out. We've got a long history of earning well on our regulated rate bases, in the 10%, 10.5% range. Through periods of having rate cases, not having rate cases, we've been able to utilize cost efficiencies, expansion of wholesale sales, and rate cases to make that happen through various differing circumstances. There certainly is an element of lag as you build your investment base between rate cases. That's natural to occur. It'll vary depending upon the regulatory mechanisms in place and the timeframes between rate cases. But we're working to reconstruct the regulatory recovery mechanisms and minimize lag as

much as possible.

Ali Agha *SunTrust - Analyst*

Just to be clear, that ramp-up – the implied ramp-up in growth from 2020 onwards, that's all being driven by the way you're looking at your CapEx profile, you're not assuming a pickup in earned ROE helping you 2020 and beyond?

Steve Young *Duke Energy Corporation - EVP and CFO*

Well, it's looking at the investment base growing and our ability to convert that into revenues through the regulatory processes, in addition to organic load growth and a renewables business, all of that combined. But on the regulated side, it's the investments and the ability to efficiently incorporate that into revenues at typical allowed types of returns, as we have demonstrated our ability to do for many years.

Michael Lapidès *Goldman Sachs - Analyst*

I have an easy one. You filed in South Carolina. Can you talk to us a little bit about just your main request in South Carolina and whether you're actually trying to seek any kind of more structural change in rate making there, or is it just kind of a traditional rate case? And then, B, how should we think about where you're likely – the cadence of rate case filings between now and maybe the end of 2019 in terms of where you're likely to file?

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

I would think about the South Carolina cases as mirroring, in many ways, what we tried to accomplish in North Carolina. The same drivers and approach, trying to focus on grid investment, but also receiving recovery of historic investments, it'll be the same approach in South Carolina. We did point out on this call that we were successful in achieving a deferral of the grid investment, which we view as a positive step in South Carolina.

And then in terms of other rate cases, Florida will automatically reset with the Citrus, the solar and the grid investment. Midwest also will continue to reset. But you can expect us to file cases next year. Piedmont potentially, Indiana potentially, and then with the in-service date of Western Carolinas, that's a good date to watch for the Duke Energy Progress case.

Michael Lapidès *Goldman Sachs - Analyst*

Last one, how do you think about the cadence of O&M in 2018 relative to what you originally expected? And I'm trying to think about it excluding storm impact. And then, the opportunity set for being able to manage it down further in 2019.

Steve Young *Duke Energy Corporation - EVP and CFO*

In 2018, we're tracking to be right at our target for O&M, exclusive of the storm costs. And again, our broad target for O&M is to keep it flat throughout our planning horizon. And I think we have the capabilities to do that, hopefully do better than that, as we advance capabilities and data analytics and rolling out digital technology capabilities across our footprint with our scope and scale, I think we have great abilities to control O&M.

Operator

Thank you. And that does conclude today's question and answer session. Now, I'd like to turn the conference back over to Ms. Lynn Good for additional and closing remarks.

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

Great. Thank you. And thank you again for your interest and investment in Duke Energy. We look forward to seeing many of you in the upcoming EEI Conference next week, so thanks again.

Operator

Thank you. That does conclude today's conference. Thank you, all, for your participation.