

EDITED TRANSCRIPT

Q4 2019 Duke Energy Corporation Earnings Call

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CORPORATE PARTICIPANTS

Bryan Buckler – Duke Energy Corporation, Vice President Investor Relations

Lynn Good – Duke Energy Corporation, Chairman, President & CEO

Steve Young – Duke Energy Corporation, Executive Vice President & CFO

CONFERENCE CALL PARTICIPANTS

Shar Pourreza – Guggenheim, Analyst

Julien Dumoulin-Smith – BAML, Analyst

Steve Fleishman – Wolfe Research, Analyst

Stephen Byrd – Morgan Stanley, Analyst

Michael Weinstein – Credit Suisse, Analyst

Andrew Weisel – Scotiabank, Analyst

PRESENTATION

Operator

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

Bryan Buckler – Duke Energy Corporation, Vice President Investor Relations

Great. Thank you, Derek. Good morning, everyone, and welcome to Duke Energy's fourth quarter 2019 Earnings Review and Business Update. Leading our call today is Lynn Good, Chairman, President and Chief Executive Officer; along with Steve Young, Executive Vice President and CFO.

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

Lynn Good – Duke Energy Corporation, Chairman, President & CEO

Bryan, thank you, and good morning, everyone. Today, we announced 2019 adjusted earnings per share of \$5.06, representing 7% growth over last year and solidly within the 4% to 6% earnings guidance range from the 2017 base year. 2019 also marked our 93rd consecutive year of paying a quarterly dividend to our shareholders. We recognize that consistent growth in earnings and dividends are important to our investors, and we are delivering. I'm very proud of our employees' commitment and hard work throughout the year.

We achieved these financial results while maintaining our focus on the customer. Our reliability statistics improved by 15% and our internal customer satisfaction metrics improved 25%, a clear indication that we are enhancing the customer experience. The foundation of outstanding service territories and ample low-risk investment opportunities to benefit our customers gives us great confidence in the strength of our business into 2020 and beyond. We have introduced a guidance range at \$5.05 to \$5.45, with the midpoint of \$5.25 reflecting solid 5% growth into 2020. We have also extended our EPS growth target of 4% to 6% through 2024 built on an expanded capital program.

Slide 4 outlines the drivers and opportunities for expanding infrastructure in our jurisdictions. Our service territories are thriving. The Carolinas and Florida lead the East Coast in population growth, driving strong economies and energy infrastructure needs. GDP growth projections for those areas as well as Nashville, Tennessee also exceed the national average. To meet the needs of our customers in these regions, we have a \$56 billion capital plan over the next five

years, 90% of which will be deployed in our regulated electric and gas LDC businesses and drive earnings base growth from transparent low-risk investments.

Compared to our previous plan, the new plan represents a 12% increase and a projected \$6 billion increase in our earnings base by 2024. These capital investments represent an excellent foundation to extend our 4% to 6% growth rate through 2024. Steve will provide more detail on the five-year capital plan in a moment. We are proud of the work we do to power the lives of our customers. We support the health and prosperity of the communities we serve not only through investments in our infrastructure, but also through our work in economic development, community leadership and foundation giving.

We also recognize the importance of maintaining competitive electric and gas rates and are pleased that our rates are well below the national average, driven by top-quartile O&M performance and a diverse generation mix. The strong and growing jurisdictions we serve at Duke Energy set us apart and we will continue investing in our grid and cleaner generation, bringing our customers the affordable and reliable service they expect from us.

Moving to slide 5, our focus remains unchanged and is grounded in our vision to lead the way to cleaner, smarter energy solutions that our customers value. We place our customers at the center of everything we do, and our vision guides our actions and our investments. We believe a customer-focused strategy will also deliver superior returns to our investors over time. The strategy is rightfully underpinned by two foundational elements. First, excellence in operations which we demand of ourselves and our communities require, and secondly, excellence in stakeholder engagement.

2019 marked another year of strong results in our operations and important progress in stakeholder engagement. I wanted to share a few examples of our important work with stakeholders in 2019. We reached an important settlement with the North Carolina Department of Environmental Quality and key community groups on closure plans for our remaining coal ash sites in the state. This milestone agreement clarifies the methodology and timeframe to address all ash in the basins and enables us to move forward as we transition to cleaner generation.

We believe it is a reasonable and constructive approach that protects communities and the environment, while saving our customers over \$1 billion in costs. In addition, in North Carolina, we successfully advocated for storm securitization legislation, which became law in November, and reached constructive outcomes in our Piedmont rate cases in both North and South Carolina.

We also announced our comprehensive plan to reduce carbon emissions, targeting at least a 50% reduction by 2030 and net-zero emissions by 2050. Our updated goals are supported by our announced plans to extend the operating licenses for all of our nuclear units. These units, which will be vital to meeting our carbon goals, achieved a capacity factor above 90% for the 21st consecutive year. We understand the importance of accelerating the path to zero carbon and look forward to working with stakeholders in each of our states to turn these goals into reality.

As we turn to slide 6, delivering superior returns to our investors drives us and is a commitment of our team at Duke Energy. Increasingly, our investors are also looking at our results on environment, social responsibility and governance matters. We are very proud of our track record here, and consistent with our vision, are committed to lead. From establishing industry-leading carbon reduction goals to announcing more than 1,500 megawatts of new wind and solar projects in 2019, we are making significant progress.

Last year alone, we further reduced carbon emissions an additional 8% from 2005 levels, bringing our total decrease to 39%. Additionally, our broad array of energy efficiency programs in the Carolinas have created significant savings for our customers well ahead of national averages for these types of programs, while further reducing our carbon footprint. Duke Energy is also committed to social responsibility, sound governance and transparent disclosures.

We issued our first climate report analyzing the 2-degree scenario in 2018 and plan to issue an updated report this year. Our ESG ratings reflect our work over more than a decade on sustainability initiatives, and our ratings continue to increase. Many of our investors have an interest in these ESG topics, and we understand the importance of achieving excellence in these areas as we move into the next decade. We will be hosting an ESG Investor Day in May, and I'm excited to update all of you on the impressive work we're doing at Duke Energy.

Let me close on slide 7 looking beyond our five-year plan to the strength of our business and our future investment opportunities. We see great potential in the three investment priorities we've shared with you over the last few years, modernizing the energy grid, generating cleaner energy and expanding natural gas infrastructure. Duke Energy's T&D grid across our regulated footprint represents the largest system in the nation with more than 300,000 line miles of infrastructure. In support of our long-term strategy, we will continue to advance modernization and improvement projects to enable renewables, protect against storms and security threats, and third, the rapidly growing population in our service areas.

The transition to cleaner generation also provides a multi-decade investment opportunity. Our 2030 commitment to reduce carbon emissions by at least 50% includes operating our existing carbon-free resources, retiring certain less-efficient plants, and investing in renewables and natural gas infrastructure. As an example, the appetite for utility-scale solar in Florida continues to rise, and we expect to bring more than 1,750 megawatts online through 2030. In the Carolinas and the Midwest, significant investments will be needed as we transition those fleets away from coal-fired generation.

Our LDC business will also continue to produce opportunities for investment in natural gas infrastructure. We see tremendous value creation from our Piedmont and Midwest gas utilities, which are expected to grow net income at a 12% CAGR through 2024. Population and economic growth in the Southeast, coupled with the important role of natural gas in transforming our generation mix, will drive incremental investment opportunities for years to come.

The Atlantic Coast Pipeline also represents important infrastructure for our customers in the Carolinas. We have included slide 17 in the appendix to provide an update on the permit status and financial considerations around the pipeline. We continue to work towards securing the required permits for the project, as we await the Supreme Court's decision on the Appalachian Trail crossing. We also continue to advance discussions with customers on the project status, timeline and costs, and are working toward updated customer agreements, balancing value to customers and a fair return for the project owners.

Our expectation is that we will have a more comprehensive update on ACP mid-year. Investing in the grid, generating cleaner energy and expanding natural gas infrastructure are critical to the customers and communities we serve and will create meaningful shareholder value for the next decade and beyond. As I look ahead, I am more confident than ever that we will deliver strong long-term returns for our shareholders and provide industry-leading service to our customers.

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

Steve Young – Duke Energy Corporation, Executive Vice President & CFO

Thanks, Lynn, and good morning, everyone. 2019 was an outstanding year of execution for the company. As shown on slide 8, our full-year reported and adjusted earnings per share of \$5.06 was above the midpoint of our original and revised 2019 guidance range. This represents a 5% CAGR since our portfolio transition in 2017 and 7% earnings growth over 2018. During the third and fourth quarters, we recognized our exceptional year-to-date financial results and took the opportunity to reinvest in our business, deploying additional O&M dollars into customer service and funding charitable contributions to the Duke Energy Foundation. This agility positions the company well to deliver on our financial targets of 2020 and 2021, just as we did in 2017, 2018 and 2019.

Our strong results were driven by clear growth across each of our operating segments. Electric Utilities and Infrastructure growth was approximately \$0.25 per share and was anchored by our Florida operations, which benefited from the first year of the multi-year rate plan and solar investments. We also saw solid growth in our Carolinas operations with strong rider revenues from our best-in-class energy efficiency programs and rate cases. These favorable drivers for the segment were partially offset by regulatory lag, primarily in the Carolinas.

Shifting to Gas Utilities and Infrastructure, we saw higher results in both our LDC businesses and the Atlantic Coast Pipeline. The gas LDCs continue to provide strong earnings, driven by customer additions, investments in integrity

management and power generation infrastructure, as well as a constructive outcome in the Piedmont North Carolina rate case in the fourth quarter.

Our Commercial Renewables business delivered approximately \$200 million of income in 2019. Going forward, we expect this segment to continue delivering between \$200 million and \$250 million of net income per year over the five-year plan. Overall, Duke Energy delivered outstanding results in 2019, marking another year of achieving our financial commitments. The Duke portfolio, in place since late 2016, has consistently performed well and is positioned for 2020 and beyond.

Turning to slide 9, as we look to 2020, we've announced our adjusted earnings per share guidance range of \$5.05 to \$5.45 with a \$5.25 midpoint. This represents 5% growth over the midpoint of our original 2019 earnings per share guidance range of \$5.00. We've put together a strong financial plan for 2020, and our core utilities will continue to drive upwards earnings trajectory. For Electric Utilities and Infrastructure, growth will come from our critical investment programs. In Florida, similar to 2019, we expect very strong earnings contributions as we move into the second year of our multi-year rate plan.

Results in Florida will be further supported by the rapid deployment of solar generation. In the Carolinas, we will see full-year contributions from the 2019 South Carolina rate cases and expect new retail rates to become effective in North Carolina in the third quarter of 2020. Finally, in addition to the steady income growth that comes from our Midwest T&D infrastructure investments, we expect new rates for Duke Energy Indiana by mid-year. We forecast long-term annual load growth in the 0.5% range and expect 2020 to be even stronger given the recent encouraging signs with our industrial customers and the benefit of the leap year.

The most significant 2020 growth driver for Gas Utilities and Infrastructure will be the full-year earnings impact of the Piedmont North Carolina rate case, given new rates were effective in November 2019. Our LDC businesses continue to experience increasing customer growth driving year-over-year margin improvement. We're also heavily investing in integrity management programs across our footprint, recovering these important investments through annual rider mechanisms.

In our gas midstream business, we expect higher AFUDC on Atlantic Coast Pipeline, with full construction activities beginning in the second half of the year. However, 2020's overall ACP results will be relatively flat, given 2019 benefited from a tax true up. In Commercial Renewables, we expect a slight uptick in results this year, as wind production returns to normal and as our 60 megawatt Palmer Solar project will now go into commercial operation in 2020. Otherwise, this segment's results will remain relatively consistent over the five-year plan.

Slide 10 provides a view of our primary EPS growth drivers for 2021, many of which were similar to the 2020 drivers. Florida continues to be a major contributor of 2021 net income, bolstered by the third year of the multi-year rate plan and our 700 megawatt solar investment program. We expect solid contributions from other core operations in the Carolinas and Midwest as we invest in needed infrastructure. Our LDC businesses will experience rapid growth, as we deploy capital to serve new customers and increase the integrity of the existing system. And as I discussed during our November call, higher Atlantic Coast Pipeline earnings in 2021 will fully offset the dilution from the \$2.5 billion equity forward that will be settled later this year.

Lastly, I'd like to point you to our appendix slides, which highlight Duke Energy's top-quartile leadership in O&M cost per customer. But we are still early in our journey. Our industry-leading Innovation Center is hitting its stride by scaling digital capabilities such as mobile tools for field workers, artificial intelligence usage, drones and automation to transform our operations and back-office processes. We will continue to leverage these capabilities to drive efficiencies and productivity across the enterprise.

Turning to slide 11, I'd like to reiterate some of the points Lynn shared earlier regarding the rapidly expanding infrastructure needs of our operations and communities. We have responded by increasing our five-year capital plan by over \$6 billion to benefit our customers and deliver value for shareholders. The vitality of our communities translates into long-term growth opportunities, as we make significant investments and position our cities and communities to remain competitive for jobs and business development.

In turn, our communities rely more than ever on our ability to attract low-cost capital to make these investments. Our unique investor growth proposition, coupled with a long history of constructive regulatory outcomes, provide the right balance to lead Duke Energy and its communities into the next chapter of our energy future. The Florida capital plan is underscored by solar investments and grid improvements, including targeted undergrounding. Storm Protection Plan legislation supports the deployment and recovery of these grid investments, driving our increased capital. We expect to file our SPP plans in the first half of this year with the program taking effect in late 2021 or early 2022.

In the Carolinas, we see significant needs for T&D capacity and improvement projects to support the expansion of renewables, as well as rapid population and economic growth. Turning to our gas LDCs, strong economic growth drives tremendous need for infrastructure investments, including our integrity management programs. Further, as we transition to cleaner energy sources, we have dual-fuel capital projects at existing coal plants, which move us closer to achieving our carbon reduction targets. This highlights the complementary nature of our electric and gas businesses.

Turning to slide 12, our ability to execute on our robust capital program is underpinned by our strength in balance sheet and solid credit ratings, which are stable at both S&P and Moody's. We continue to expect to issue \$500 million of equity per year through 2022 via the DRIP and ATM programs. And as we discussed last quarter, once ACP comes online, we will have the balance sheet flexibility to moderate or eliminate annual equity issuances. As a reminder, we plan to settle the \$2.5 billion equity forward related to last year's issuance in December 2020, resulting in minimal dilution this year.

Shifting to slide 13, we understand the value of the dividend to our investors, 40% of whom are retail shareholders. 2020 will mark the 94th consecutive year of paying a quarterly cash dividend, and we remain a top tier dividend yield investment. We're committed to continue growing the dividend in the future and finished 2019 with a dividend payout ratio of 74%. As we've said previously, our objective is to reduce that payout ratio over time well in line with peers, particularly given our robust capital plan.

Over the near-term, we will set our dividend growth to better position ourselves within a payout ratio range of 65% to 75%, trending to the lower end of this range over the five-year period. Before we open it up for questions, let me turn to slide 14. Our attractive dividend yield, coupled with earnings growth from investments in our regulated utilities, provide a compelling risk-adjusted return for shareholders. We are positioned to deliver results for both customers and shareholders and are confident in the plan we have for 2020 and beyond.

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

QUESTIONS & ANSWERS

Shar Pourreza – Guggenheim, Analyst

So, a big jump in CapEx and the rate base is obviously up \$6 billion in 2023. Could we talk a bit more on sort of the higher numbers? And maybe even focusing on 2023, especially in Florida, where I think you're expecting to file the formal GRCs later this year, are the base assumptions in the upcoming GRC versus the plan you presented today? And could we see some further upside if the outcome is a little bit more constructive, especially if you got support from sort of your healthy macro backdrop that you highlighted?

Lynn Good – Duke Energy Corporation, Chairman, President & CEO

Yeah, sure. Thank you for the question. We did lay out in the slide deck the underlying investments around the \$6 billion. \$1.5 billion of it is in Florida, \$4 billion in the Carolinas, and then we say incremental investment in our gas LDCs of \$1 billion. But I think to your point, the recent legislation in Florida represents a longer-term opportunity, and we see up to \$5 billion over a decade or so of investment in that infrastructure. And as we move through the process of finalizing our existing multi-year plan and resetting that into the future, I do believe there will be ongoing potential for investment in Florida in a way that adds a lot of value to customers and investors.

Shar Pourreza – Guggenheim, Analyst

Got it. And then just, Lynn, lastly on North Carolina coal ash, it's obviously kind of a fluid situation still. Is there any read-throughs to Dominion's recent Notice of Decision, which essentially extended the recovery period for their ash spend, but with no return on that spend prospectively? Assuming this is kind of applicable to you, can you kind of break this outcome down relative to your \$8.5 billion total CCR cost, if we sort of apply that same methodology as we did with Dominion?

Lynn Good – Duke Energy Corporation, Chairman, President & CEO

Sure. The first point I would make on this, which I think is really important, is the Dominion order did provide recovery of the costs, and that is a significant outcome, which we of course believe makes sense given its decommissioning of coal plants that have provided great value to our customers over generations. We have read the Notice of Decision. But I also think it's important to recognize that we have not yet seen the order. So, we don't understand all of the elements. We don't understand the rationale. I think it's fair to say that this order will be specific to the facts and circumstances in this case, and although we'll learn from it, I'm not prepared to say how it will impact us directly. But we will be presenting our case in the DEC case in March and DEP in May, and hopefully have the opportunity to learn more from the order as we prepare to enter into those proceedings.

Shar Pourreza – Guggenheim, Analyst

Got it. But just to follow up, given sort of your CapEx outlook and sort of how healthy it is, is it fair to assume that you can absorb whatever outcome that does come about in that case, assuming return on that spend?

Lynn Good – Duke Energy Corporation, Chairman, President & CEO

Shar, when we put together a five-year plan, we do so assuming a range of outcomes, and so that would include amortization, that would include various assumptions around cost recovery. But I also want to emphasize that we believe a lack of a return over an extended amortization period is detrimental to our balance sheet and the customers over the long-term, and therefore, we believe these costs ought to earn a return. There is a cost of financing associated with anything that's of this nature and that cost of financing should be considered as part of cost of service. So, we will be making this point as part of the case.

Shar Pourreza – Guggenheim, Analyst

Got it. Congrats, Lynn and Steve, phenomenal execution. Thanks.

Julien Dumoulin-Smith – BAML, Analyst

Thank you for the time. Perhaps, just to again follow up on the Carolinas here, if you don't mind. First, the possibilities here on rate case settlement and just the prospects on the timeline, if you will? And then related to that, obviously, you've laid out a pretty impressive updated outlook. How do you think about this tying into some of the updates moving in flight, in parallel at the state level on sort of the grid mod side of the equation?

Lynn Good – Duke Energy Corporation, Chairman, President & CEO

So, on the first question, Julien, on settlements, we always explore opportunities for settlement in every case. I think when you think about the number of issues in any rate case, if we can get the resolution of any of them in advance, we'll certainly look to do that. We did that in the Carolinas case, as you may recall, the last time around, at least as it pertained to ROE and cap structure. So, I can't forecast with certainty how that will occur or if it will occur, but we'll certainly explore those opportunities. On your second question around how it relates to each of the jurisdictions and capital, I'll take a shot at it and maybe if – some clarity of the question would be helpful. We believe we've made the case...

Julien Dumoulin-Smith – BAML, Analyst

The Carolinas specifically.

Lynn Good – Duke Energy Corporation, Chairman, President & CEO

Sure. So, we believe we've made the case soundly in all of our jurisdictions about the importance of the energy delivery system to be the backbone of the transition of renewable generation, storm hardening and resiliency. We've had hurricane exposure in all of our Southeastern jurisdictions over the last four years, and then cyber and physical security threats are something that are not unique to Duke Energy, but certainly important for our industry. So, we feel like we've laid the groundwork for that.

I think you know, Julien, we'll be involved in stakeholder meetings throughout 2020 in the Carolinas to further discussions around the Clean Energy Plan. And as part of that, it will be not only advancement of how to achieve further carbon reduction, but also are the methods to modernize regulation, performance-based rate-making and other things that would fit quite nicely with our strategy around clean generation and grid investment. So, as those stakeholder processes progress in 2020 and into 2021, we'll look for opportunities to continue to pursue regulatory modernization that fits with these investments.

Julien Dumoulin-Smith – BAML, Analyst

Got it. And then separately, if I could just follow up on the higher level of rate base, how do you think about the financing? Just I know you guys did the equity last year. You have a projected FFO to debt metric here, but I just want to try to tie that all back together.

Lynn Good – Duke Energy Corporation, Chairman, President & CEO

Sure. Steve, do you want to take this?

Steve Young – Duke Energy Corporation, Executive Vice President & CFO

Sure. As I alluded to, we priced out the \$2.5 billion of equity. We will settle that in late 2020. That, plus the DRIP/ATM equity through 2022 or the equity needs that we see will finance the rest of our needs and refundings through a combination of holding company and operating company debt issuances. And we feel comfortable about that financing plan and maintaining the credit ratings.

Julien Dumoulin-Smith – BAML, Analyst

Got it. Maybe just if I can rephrase that slightly if I'm not saying it right. The equity forward effectively pays for the incremental CapEx such that your metrics are largely unchanged. And then, I know that there was previously a conversation around ACP and providing some buffer. Do you want to just reconcile the ACP conversation versus the CapEx plan prospectively? It sounds like you've effectively used that incremental equity now to pay for the new plan this year. But I just want to also make sure we've addressed the prior commentary about ACP outcomes.

Steve Young – Duke Energy Corporation, Executive Vice President & CFO

Right. Let me give some clarity here. The incremental equity dealt with Atlantic Coast Pipeline and delays associated with that and the cash flows that therefore delayed when we determined the project needed to go in one phase in 2022 as opposed to having cash flows coming in 2021, and that equity dealt with a number of ranges of outcomes with ACP and it still does. The incremental CapEx spend that we've got in the plan, we can deal with under that same amount of equity. We've got other tools that we've utilized. We issued \$1 billion of equity content securities in 2019 at very attractive rates. We have continued to find operational efficiencies through O&M that we described earlier that helps the balance sheet as well. We executed on the John Hancock transaction and we could envision dropping other assets into mechanisms like that to provide some liquidity. So, the equity – the \$2.5 billion equity has not been used up for the

incremental CapEx. We can deal with the equity I described.

Steve Fleishman – Wolfe Research, Analyst

Hi, Lynn. So, a couple of questions. First, just a technical one on the 2019 – it looks like a lot of the beat versus your segment guidance came in the Gas Utilities and Infrastructure segment. Can you just explain what drove that?

Lynn Good – Duke Energy Corporation, Chairman, President & CEO

So, we had a couple of things there, Steve. Of course, strong results from capital deployment, rate case outcomes, et cetera. Atlantic Coast Pipeline is in there, and we also had a tax adjustment on recognition of the way allowance for funds have been recorded on the pipeline that drove the LDC businesses as well. Steve, would you add to that?

Steve Young – Duke Energy Corporation, Executive Vice President & CFO

Yeah. I would say, looking at 2019, we had strong growth across all of our segments. You look at the Electric Utilities, we had a full-year of the 2018 North Carolina rate cases. We had a partial year of the 2019 South Carolina rate cases. We saw Midwest grid continue to roll through. We had the Ohio rate case that added a few cents. Our energy efficiency rider, particularly in the Carolinas, added several cents. So, we saw good solid growth on the Electric side as planned. So, I would add that.

Steve Fleishman – Wolfe Research, Analyst

Okay. I'm just looking at slide 21, where it just shows actual versus original assumptions, and it looks like Gas Utilities beat by a lot. So, that's why I'm curious.

Steve Young – Duke Energy Corporation, Executive Vice President & CFO

We saw growth in Electric a bit and Gas a bit more that pushed us above our target.

Lynn Good – Duke Energy Corporation, Chairman, President & CEO

Steve, there's three things in Gas, LDC, ACP and the tax adjustment around allowance for funds. Those are the three drivers.

Steve Fleishman – Wolfe Research, Analyst

Okay. And then just on ACP, at a high level, in the unfortunate event that it somehow doesn't get done, how would you think about your 4% to 6% growth?

Lynn Good – Duke Energy Corporation, Chairman, President & CEO

Steve, I would characterize the five-year period as having great flexibility, and by that, I mean the robust capital plan that we have outlined for the utilities positions the utilities very solidly within a 4% to 6% guidance range. And that gives us confidence that those utilities are going to continue to grow and grow well. And we have demonstrated the growth in those utilities over several years, and hopefully that gives you confidence as well in our ability to deliver. I think on Atlantic Coast Pipeline, we will work our way through it. As we spoke about a moment ago, we've taken the step of strengthening the balance sheet to absorb a range of options. We have flexibility with our capital plans to make adjustments, to put in a Plan B, if one is required, to build gas infrastructure to meet the needs that ACP would have met. We also have the opportunity to expand or accelerate grid investment in a number of our jurisdictions. And then, the ongoing productivity and flexibility around O&M represents another lever that we have in addressing returns over a five-year period. We have demonstrated the ability to achieve reductions and flexibility in O&M across our diverse businesses, and we see further opportunities over the five-year period. So, we're committed to driving low-risk regulated growth in earnings and dividends, and we believe that we have the capability of doing that. But we will work our way through ACP, and I think 2020 is an important year to hit some of these milestones, and we'll update all along

the way.

Steve Young – Duke Energy Corporation, Executive Vice President & CFO

Steve, I just want to also let you know for 2019, we had a beat of our original target by \$0.06. But I'd also want to highlight that we accelerated \$0.04 of O&M from some future years for foundation contributions. We also accelerated several cents for veg management from future years in this particular calendar year. So, we had a lot of optimization around 2019 as well. Absent those things, the beat would have been larger. But I just want to make sure you get that.

Steve Fleishman – Wolfe Research, Analyst

No, that's great. And then, one other just quick thing, the \$4 billion of incremental spending in the Carolinas, is that – it sounds like it's mainly T&D spending. Just is there any coal ash related spend over the new plan in there or is that kind of past that period?

Steve Young – Duke Energy Corporation, Executive Vice President & CFO

No, there's no incremental coal ash spend in that number at all. It's a comparable level to what we've had in the past.

Stephen Byrd – Morgan Stanley, Analyst

Congrats on a constructive update. I wanted to talk about Florida a little bit. Solar economics continue to trend favorably, and you've highlighted Florida as one area of incremental growth. Over time, I guess longer term, if we continue to see solar costs drop, is there a fairly significant opportunity to make even bigger changes to your generation mix in the state or are there other reasons why that wouldn't be the case if solar costs drop further?

Lynn Good – Duke Energy Corporation, Chairman, President & CEO

Stephen, I believe there are increasing opportunities, and we will watch those economics all along the way. And as I think back over even the last two to three years, every time we set a forward forecast, it has increased and improved. And I think that will be the case into the 2020s.

Stephen Byrd – Morgan Stanley, Analyst

Understood. The number that you've laid out is essentially sort of – I know you haven't specifically laid out the amount of solar you've sort of put in Florida together, but we'll be seeing a resource plan that you all lay out in – I believe in April in Florida, which could show further progress in terms of moving towards renewables. Is that fair to say?

Lynn Good – Duke Energy Corporation, Chairman, President & CEO

Yeah. And at this point, we're forecasting 1,750 megawatts of solar, Stephen, and we'll continue to update that as we go. But I think to your point, as you think out over a decade, the bias is that number is going to go up.

Stephen Byrd – Morgan Stanley, Analyst

That's helpful. And then just lastly, going to – sorry to hit on the financing needs. I just wanted to kind of think through the scenarios. In the unfortunate outcome, if it ends up that the Atlantic Coast Pipeline project is not able to move forward either because of the Supreme Court ruling or other biological opinions, how would that – sort of that single impact your overall equity needs? In other words, is the financing plan fairly flexible and you wouldn't envision incremental equity in that scenario or how do you think about that sort of outcome?

Lynn Good – Duke Energy Corporation, Chairman, President & CEO

Stephen, I believe we've taken care of the range of outcomes on ACP with the \$2.5 billion. The one thing in the financing plan that we would evaluate is we have the DRIP and ATM on through, I believe, 2022.

Steve Young – Duke Energy Corporation, Executive Vice President & CFO

2022.

Lynn Good – Duke Energy Corporation, Chairman, President & CEO

With an idea that we potentially could moderate in 2023 and 2024 if ACP is on. We will evaluate whether or not the DRIP and ATM should be a part of the financing plan in all of them for 2023 and 2024 depending on outcome. But I think that's the only thing I would point to as something that'll – that we'll have ongoing evaluation. But we feel like what we've put in front of you with the equity we've issued and maintaining the DRIP through 2022, with this additional capital is a solid plan that will meet our credit metrics, our earnings guidance and absorb outcomes around ACP.

Michael Weinstein – Credit Suisse, Analyst

Hey, can we talk a little bit about Commercial Renewables and what the growth plan is for that going forward? And you've had some projects that pushed out to 2020, so you have a \$240 million assumption for that year. And I think it's up \$0.06, so it implies about \$0.19 for 2020. Is that sort of the new level going forward or is that going to grow beyond that? And how many megawatts is required to keep it up anyway?

Steve Young – Duke Energy Corporation, Executive Vice President & CFO

Sure, Mike. We're looking at having Commercial Renewables contribute between \$200 million and \$250 million a year during the plan. It will depend on the timing of projects. But that's keeping pretty level – pretty flat with the level that they got to in 2019. So, we're not showing a lot of growth there. We did shift the Palmer Solar project to 2020. That was another optimization move as we got late in the year. That will help the 2020 earnings. But they'll be between \$200 million and \$250 million a year through our plan. We've got all of 2020 lined up and locked up, and we've got 60% of the net income over the five-year period in hand as well. So, a rough number that you think about is roughly landing 300 megawatts a year of projects to keep that going. And between the markets that we're in and the programs in North Carolina and so forth, we think that's very attainable.

Michael Weinstein – Credit Suisse, Analyst

Got it. And ACP, you've said that you don't expect any dilution from the prior forward as a result of earnings after the pipeline goes in-service. And I'm just wondering, is that as a result of higher rates on the pipeline going forward or is it – are you paying higher volumes through compression? Is there a lag period between the in-service period and the lack of dilution? Or is there like maybe a divot period in between there?

Lynn Good – Duke Energy Corporation, Chairman, President & CEO

So, Mike, we have given these financial considerations on slide 17 on allowance for funds in 2020 and then full-year in-service in 2022 and beyond, what you can expect in terms of the contribution of ACP. The dilution that we will experience in 2021 will be absorbed by incremental allowance for funds in that year while the project is still under construction. And so, I would think about putting that equity into the plan in 2021, and then the combination of the utility results we've shared with you today, as well as what we're sharing on ACP is the earnings platform with financing that you can expect over the five-year period.

Michael Weinstein – Credit Suisse, Analyst

One last question, just to confirm, how much is – or how much financing have you already committed to the project at this point? I think it's around \$2 billion including AFUDC at this point?

Steve Young – Duke Energy Corporation, Executive Vice President & CFO

Yeah. The gross project costs are about \$2 billion on our books now. We've got about \$800 million or \$900 million of construction financing against that.

Michael Weinstein – Credit Suisse, Analyst

And would you expect that to tick up, I guess, once the Supreme Court rules or is it maybe before that?

Lynn Good – Duke Energy Corporation, Chairman, President & CEO

I'm sorry, Mike. I couldn't hear the question.

Michael Weinstein – Credit Suisse, Analyst

At what point would additional spending start to roll in significantly? Is it going to be after the Supreme Court rules?

Lynn Good – Duke Energy Corporation, Chairman, President & CEO

So, the gating item on construction is the biological opinion and the restoration of the environmental impact studies. So, if you look again at slide 17, we're forecasting the issuance of the permit in the middle part of 2020. So, you should think about construction as being in the latter – restart of construction being in the latter half of 2020.

Andrew Weisel – Scotiabank, Analyst

So, first question, very impressive CapEx update. For 2019 through 2023, it looks like your spending is up roughly 15% or so. But when I look at the earnings base outlook, the increase is more modest at around 5% depending on the year. Will you please help me reconcile those and what are some of the offsets?

Steve Young – Duke Energy Corporation, Executive Vice President & CFO

Yeah. I think our rate base growth is at the 6% level over the period of time there. And CapEx may vary in terms of how it's loaded through, the type of CapEx, but I'd have to look in more detail on that. And the IR team can help you with that.

Lynn Good – Duke Energy Corporation, Chairman, President & CEO

And Andrew, if you look at the capital that will give you a sense of the growth in each of the utilities. So, on average, every utility is growing within the 4% to 6% range. Some are higher than that. And Gas, of course, is higher than that. But the combination – the average of all of the utilities together are at the 6% CAGR.

Andrew Weisel – Scotiabank, Analyst

Right. I understand that. I'm not talking about year-over-year growth. I'm talking about your new guidance versus the prior guidance. I should have been more clear.

Lynn Good – Duke Energy Corporation, Chairman, President & CEO

So, we have laid out on slide 11 kind of how this comes in, and I think we could spend some time with the IR team to give you some specifics on what it looks like in 2021 and 2022. I think the combination of that chart and the detail in the appendix, we'd be happy to walk you through.

Andrew Weisel – Scotiabank, Analyst

Okay. I'll follow up offline. My next question is, can you talk a bit about the industrial demand? Obviously, you're not the only one seeing this, but it's been pretty soft last year, fourth quarter in particular. And then, I think you mentioned the uplift in 2020 from the leap day, but maybe if you could just talk about adjusted expectations over the next few quarters.

Steve Young – Duke Energy Corporation, Executive Vice President & CFO

Sure. 2019 was a rough year for the economy as a whole. That translated to our industry in lower kilowatt-hour sales. We saw that in many of our peers as well. The good news for us is that we see tremendous customer growth. We saw the best customer growth in 2019 we've seen in many years, particularly in the Carolinas and Florida. As we look forward, we'll see some of that customer growth translate into some favorable growth, we believe. We also think that there will be some rebound as we look at some of our industrial customers. A few have had some singular issues with outages, supply chain issues and so forth. So, we think they may get some traction as we move forward in 2020 to help rebound off a bad year. Our overall growth expectation – load growth expectation is 0.5%. And there'll be years like 2018 that are very strong years followed by some years that are a little weaker, but we think that's a reasonable place to be over the five-year period. We do expect to see some growth over 2019 in 2020, as 2019 was kind of a low year. And again, we're seeing some favorable indicators from some of our industrials in our service territories.

Lynn Good – Duke Energy Corporation, Chairman, President & CEO

Andrew, the only thing I would add to that is all of our jurisdictions continue to perform. The GDP is above national average. The weakness we saw in industrial was largely driven by some of the uncertainties around tariffs that surfaced in 2019. But as Steve said, we are beginning to see some signs of rebound in those specific customer circumstances and hope for a stronger 2020.

Andrew Weisel – Scotiabank, Analyst

Okay, great. That's helpful. Then, on the dividend, Steve, did I hear you say that you're targeting the low-end of the 65% to 75% range in the outer years? Why would that be and why not the midpoint?

Steve Young – Duke Energy Corporation, Executive Vice President & CFO

Well, that's just where it tracks based on the assumptions we put there. We'll certainly monitor that as we go forward. It's nice to have the flexibility to look at the dividend as it gets to the low-end of the range. But we have that flexibility. So, we're not committing to anything on that, but it's nice to be tracking in that direction.

Lynn Good – Duke Energy Corporation, Chairman, President & CEO

And I think, Andrew, as we more solidly positioned the dividend within the payout range, our longer term goal is to grow the dividend at the same pace of earnings. And this moderation we're experiencing here in the short-term will give us the flexibility to do that over the longer term.

Andrew Weisel – Scotiabank, Analyst

Got it. Very good. And then, if I could squeeze one last one in here, the earned ROEs in the Carolinas, you're guiding to a modestly lower return in 2020 versus the past few years. Is that primarily related to last year's reduction in the allowed ROE or are there other factors there? I know it's tough to discuss in the middle of rate cases, but any kind of directional commentary?

Steve Young – Duke Energy Corporation, Executive Vice President & CFO

A couple of factors that come in. As you build the investment base for the upcoming rate case, you'll incur some lag, as I referred to. And then, you'll catch that up when you have the rate case. So, some of those returns will move around depending upon rate case timing, and I think that's one of the factors to think about as well.

Operator

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

Lynn Good – Duke Energy Corporation, Chairman, President & CEO

So, I want to thank everyone for joining the call today. We're proud of our accomplishments in 2019 and believe that the company is well positioned not only to deliver industry-leading service to our customers, but also results – strong results for our shareholders in the years ahead. We look forward to seeing you at our ESG Investor Day in May and also look forward to any follow-up questions that you have. Our IR team will be available. So, thanks again for joining us.

Operator

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