

EDITED TRANSCRIPT

Q2 2020 Duke Energy Corporation Earnings Call

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PRESENTATION

Operator

Ladies and gentlemen, good day and welcome to the Duke Energy's Second Quarter Earnings Call. Today's call is being recorded. At this time, I would 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

Thank you, Abby. Good morning, everyone, and welcome to Duke Energy's second quarter 2020 earnings review and business update. Leading our call today is Lynn Good, Chair, 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 within the meaning of the securities laws. Actual results could differ materially from such forward-looking statements and those factors are outlined herein and disclosed in Duke Energy's SEC filings.

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.

As summarized on slide 4, during today's call, Lynn will provide an update on our 2020 financial results and rate cases as well as the insights on the company's long-term strategy and investment outlook. Steve will then share an overview of our second quarter financial results. We will also offer insights into our economic and load growth outlook and long-term earnings projections before closing with key investor considerations.

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

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

Bryan, thank you, and good morning, everyone. Today, we announced adjusted earnings per share of \$1.08 for the quarter which is favorable to our internal projections including COVID. The decline in load during the quarter was less significant than originally anticipated with some of our states reopening and residential usage stronger than expected. Looking ahead and recognizing the uncertainties that remain, including the potential impact of a resurgence in the virus, we're maintaining our full-year projection of a 3% to 5% decline in retail volumes. We are also closely monitoring the pace of economic recovery and we'll know more as the year progresses.

We made great progress in mitigating operations and maintenance expense. I'm very proud of our demonstrated track record in managing our cost structure over many years. But I'm particularly proud of the work of the team this year. We

have identified and launched significant efforts to reduce costs in 2020 by \$350 million to \$450 million, matching the impact of mild winter weather, major storms and the pandemic. The quarter reflects a portion of those savings and we are on track to deliver the remaining savings over the balance of 2020.

We remain steadfast in our 2020 financial commitment to shareholders and are reaffirming our full-year guidance range of \$5.05 to \$5.45. Through our aggressive approach to cost mitigation, which began early in the year, we are positioned to navigate through the uncertainties of COVID and to absorb the loss of earnings from the cancellation of ACP. As Steve will discuss in a moment, our year-to-date results, along with the strong July, position us to deliver in the lower half of the 2020 guidance range. The third quarter, our most significant one, is still ahead of us and we will update expectations again during our third quarter earnings call.

Let me also touch briefly on 2021. And in July, we announced the cancellation of ACP due to ongoing delays and increasing cost uncertainty which threatened the economic viability of the project. We are disappointed in this outcome, but believe the decision to cancel is in the best interest of our shareholders and our customers, and we are actively pursuing other infrastructure plans to support Eastern North Carolina as I will touch on in a moment.

There's a lot to be excited about as we head into 2021. We will enter the year with 95% of our future earnings and capital allocation in our regulated electric and gas utilities. Our utilities serve some of the most attractive jurisdictions in the country and provide our investors with a transparent, low-risk capital plan and annual rate base growth of 6%. We will use every tool available to us to maximize 2021 earnings for shareholders and will remain steadfastly focused on delivering growth of 4% to 6% over the long term, grounded in our regulated jurisdictional businesses. Steve will share more with you in a moment regarding our 2021 outlook.

Before I talk about a recent regulatory activity and investment strategy, I wanted to share an update on our ongoing response to COVID and the social unrest that has gripped our communities. We are nearly six months into the pandemic, an unprecedented event that has required us to create new solutions for our customers and employees. In short order, we've adapted our workplaces, shifted to remote operations where possible, created new processes for customer interactions and more, while keeping the health and safety of our communities and employees paramount. We've also maintained reliable service for our customers and quickly restored 350,000 outages across Florida and Carolinas as the result of the recent hurricane. Our employees continue to rise to the challenges associated with this pandemic, and I am so proud of our workforce's extraordinary response.

And in the midst of the pandemic, our company and, indeed, the nation have been challenged by the killing of George Floyd and its aftermath. Issues surrounding racial equity and social justice are front and center, as they should be. A national movement has been ignited that demands much more than debate, it deserves action.

Our company is determined to work toward fair, responsible and practical solutions. Times like these remind me of the importance of our company's values. We believe deeply that having diverse backgrounds, experiences and skills allows us to serve our customers better, innovate and attract the talent we need to be successful. Now more than ever, we are relying on these values to cultivate a workplace rooted in diversity and inclusion. As we power the lives of our customers, we will also continue to advocate for change, stand up for justice, and ensure the communities where we work and live are provided with equal opportunities.

Turning to slide 6, you can see that we've been active in the regulatory space over the past few months and are engaging stakeholders to reach balanced solutions for our customers. In late June, the Indiana Utility Regulatory Commission issued a constructive order in our base rate case, supporting our long-term investment strategy for the Midwest.

As you will recall, we filed our case last July, marking the first case DEI filed in 16 years. We received approval for an overall base rate increase of \$159 million or a 6.2% average rate increase. The rate increase, which is based on the modernized forward test year, will be implemented in two steps, with step one rates already effective, and step two rates will be implemented in Q2 2021, and then trued up with carrying costs to January 1, 2021. The commission ordered a 9.7% ROE and a requested capital structure of 53% equity.

We were also pleased with the decisions on full recovery of and return on the historic coal ash costs and inclusion of the Edwardsport IGCC plant in base rates. Importantly, the commission approved shortened depreciable lives for our coal fleet, a key step in our transition to a cleaner energy future and consistent with the IRP we filed in 2019.

Shifting to North Carolina, we recently reached constructive partial settlement in both our DEC and DEP rate cases. The settling parties include a broad group of intervenors from large customers to community groups and, most recently, the public staff, illustrating the focus our company places on stakeholder engagement. Key terms of the agreement with public staff include a 9.6% ROE and 52% equity component of the capital structure, along with deferral treatment and a return on approximately \$1.3 billion in grid improvements from 2020 to 2022.

The settlement terms are subject to approval by the North Carolina Utilities Commission with hearing set to begin on August 24. The delay in hearings provide sufficient time for the parties to review or update the capital and service data and other revenue requirement inputs through May 31. These changes will increase the annual revenue requirement request by approximately \$70 million.

And lastly, I'd like to point out our filing to implement interim rate changes for both DEC and DEP. These temporary rates are designed to protect our ability to earn on investments consistent with the originally requested effective dates, while avoiding a rate change for customers during this interim period. This innovative approach by our North Carolina regulatory team was made possible by utilizing the flow-back of excess deferred income taxes and ensures we maintain our financial strength as we make these investments. We look forward to sharing more updates on our North Carolina rate cases and other regulatory proceedings in the months to come.

Now, turning to slide 7 and 8, Duke Energy's strategy to modernize and strengthen the energy grid, generate cleaner energy, and expand smart energy infrastructure across our footprint is underpinned by a robust five-year \$56 billion capital plan, but also provides a clear line of sight to tremendous capital deployment opportunities for our communities well past 2024.

Our financial and capital planning process is underway. We continue to see ample capital investment opportunities, including emerging infrastructure needs for the Piedmont Natural Gas system in Eastern North Carolina, ongoing grid upgrades and infrastructure to support economic growth, and renewable expansion, and additional solar investments in Florida and the Carolinas.

We're also finalizing our work on the Integrated Resource Plan in the Carolinas, the IRP, which we will file in early September. In the IRP, we will outline alternatives to achieving our carbon reduction goals as well as the North Carolina governor's executive order to achieve the 70% reduction by 2030. This IRP filing follows a comprehensive stakeholder engagement process, which work to identify the best potential paths forward to achieve carbon reduction targets, while also balancing reliability and affordability for our customers.

We are also engaged in a separate stakeholder process led by the state of North Carolina focusing on establishing a clean energy plan for the future. We see this engagement and our IRP filing as complementary, and we believe they will serve as foundational elements in our investment planning over the next decade.

Retirement of coal plants and investment in replacement generation, coupled with investments in battery storage, the energy delivery system, energy efficiency and demand side management, will underpin the state's transition to a cleaner energy future and Duke Energy's investment plan for customers and shareholders. We look forward to sharing more with you as the year progresses.

This line of sight to an extensive runway of investment opportunities in the Carolinas as well as our other states gives us confidence to deliver on our long-term rate base growth rate of 6% not only for 2024, but into the next decade. As I reflect on 2020 and where we're headed, Duke Energy is very well positioned. Time and again, we adapt, innovate and deliver, creating value for customers and shareholders alike.

As we continue to respond to the pandemic, we are looking to the future and executing on our long-term plans, advancing a smarter energy future for our communities. I hope you'll join us for our inaugural ESG Analyst Day on October 9 to learn more about our Carolinas IRP filing, long-term strategy and specific focus around the environment, social issues, and governance.

We've included more information on slide 27 and 28 in the appendix, which illustrate our strong progress on transitioning our generation portfolio to carbon-free resources, including renewables. These are important topics, and we look forward to having further discussions with you at the ESG Day.

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

Thanks, Lynn, and good morning, everyone. I'll begin with the summary of our quarterly results highlighting a few of the key variances to the prior year. For more detailed information on earnings drivers and a reconciliation of reported to adjusted results, please refer to the supporting materials that accompany today's press release and presentation.

As shown on slide 9, we reported a second quarter loss of \$1.13 per share and adjusted earnings of \$1.08 per share. This is compared to reported and adjusted earnings per share of \$1.12 last year. The difference between the reported and adjusted earnings in the current period is due to the cancellation and write-off of the Atlantic Coast Pipeline.

With the segments, Electric Utilities and Infrastructure was down \$0.08 quarter-over-quarter. Weather was the primary driver given it was \$0.08 favorable in the prior year and closer to normal this year. We also had higher depreciation and amortization expense as we continue to grow our asset base. And as expected, electric volumes were down across each of our service territories due to the pandemic. However, these headwinds were offset by significant cost mitigation, base rate increases in South Carolina and Florida, and higher rider revenues in the Midwest.

Our Gas Utilities and Infrastructure results were \$0.01 higher driven by new retail rates in North Carolina as well as cost mitigation. Our LDC gas businesses continue to produce outstanding results, contributing \$0.09 in growth in 2020. The Commercial Renewables segment was also up \$0.01. The increase was primarily due to benefits from new projects brought online this quarter. Finally, Other was up \$0.03 for the quarter, principally due to lower income tax expense and higher investment returns in non-qualified benefit plans.

Overall, we are very pleased with the results in the quarter. We took swift action to mitigate the impacts of COVID-19 and weather on year-to-date results, and this dedication across the entire enterprise has positioned us well to deliver in the lower half of our 2020 earnings guidance range despite the loss of \$0.13 of earnings from ACP.

As we think about earnings drivers in the second half of the year, we expect solid growth over 2019 from new base rates in Indiana, North Carolina, Kentucky, and Piedmont as well as continuing benefits from our Florida multiyear rate plan and SoBRA investments. Our impressive cost mitigation efforts in the quarter have created momentum that we will build on during the remainder of the year.

We are also pleased to see July results coming in favorable to our plan. We had a very warm month with strong operational performance, and July sales volumes continued to trend favorable to our post-COVID expectations. We expect lower retail electric volumes as well as lower ACP earnings of \$0.13 to partially offset these growth factors.

Moving to slide 10, while our second quarter retail electric volumes were down 6%, this was favorable compared to our original post-COVID expectations of a 9% decline for the quarter. There were a few favorable trends that we continue to watch. First, we have experienced strength in the residential sector across our service areas in excess of our original expectations.

In addition, our commercial and industrial volumes are recovering reasonably well with nearly three-fourths of our largest C&I customers resuming operations. Adding to these data points, July 2020 weather-normal volumes were also favorable by 3% to 4% compared to our COVID-updated forecast. Residential volumes were particularly strong in July, up approximately 6.5% compared to July a year ago.

As we look ahead, we are still watching the pace of the economic recovery across each of our service territories and we'll adjust our expectations as we learn more. Our volume expectations for the full year continue to be a retail decline of 3% to 5% with earnings headwinds of \$0.25 to \$0.35. While our recent results have been favorable, this is clearly a dynamic situation and one we will closely monitor.

In the midst of the pandemic, we continue to see strong customer growth across each of our jurisdictions. Year-to-date, we've seen a 1.7% increase in new electric customers and 1.5% growth in gas distribution customers.

Beyond organic movement into our attractive service areas, we continue to proactively seek out and support economic development. Even with the current economic challenges and uncertainties, multiple corporations have announced

decisions to locate new facilities or expand existing facilities within our service territories. They've not only committed significant capital investment, but they've also committed to expanding jobs in our communities.

For example, Centene, a Fortune 50 company, announced a new East Coast regional headquarters and technology center in Charlotte with plans to invest approximately \$1 billion and create 3,200 jobs over the next 12 years. This marks one of the longest – largest economic development projects in North Carolina's history. As we continue to see more population migration into our desirable service territories, we believe Duke Energy's long-term load growth fundamentals will be some of the strongest in the industry.

Moving to slide 11, we've made tremendous progress across the organization to identify and implement substantial cost mitigation initiatives. I'm extremely proud of the collaboration and focus of our employees and management team to deliver on our 2020 shareholder earnings commitment, despite the significant headwinds we've discussed. We set an aggressive cost mitigation range of \$350 million to \$450 million in 2020. We began to tackle this by re-scoping and delaying some generation plant outages, making risk-informed decisions about the best schedule moving forward. Additionally, we are retraining and redeploying our own workforce to perform projects historically executed by contract labor and taking advantage of natural attrition.

With regards to employee expenses, we have paused any travel that is not business critical, and moderated all discretionary spend. On a year-to-date basis, we have already achieved \$170 million in cost reductions, representing 40% of our full year target. We will build on this momentum and are confident in our ability to reach the high end of the range if necessary.

Cost mitigation, the ability to respond quickly to unforeseen circumstances has become a core competency of Duke Energy. Our operational teams and industry-leading business transformation group continually utilize our digital and automation playbook to turn many of these changes in work practices and even lower cost structure to benefit future years. We will share more on this front in the coming months as team makes further progress on their work.

Let's move to slide 12. Here, I'd like to provide some early considerations for 2021. Prior to the cancellation of ACP, we built the financial plan that was trending toward an EPS midpoint of approximately \$5.50 in 2021. Included in this projection is a \$0.35 contribution from ACP. The math, therefore, points us to around \$5.15 and our regulated utilities and Commercial Renewables operations remain on track for 2021. We will be refining this 2021 earnings estimate as we move through the rest of the year, considering regulatory proceedings and our analysis of economic conditions. We believe that 2021 electric load will be impacted by longer-term economic impacts of COVID-19 and we expect to manage our O&M costs to offset this impact as we have in 2020.

Although we cannot immediately replace the ACP earnings, we have identified the incremental capital projects across our businesses that will provide growth over the five-year period. We will reset our earnings base in 2021 and deliver growth of 4% to 6% from our low-risk regulated capital investments over the long term. We will provide 2021 earnings drivers in November and the earnings guidance range in February along with an updated five-year capital plan.

As Lynn mentioned, we will use every tool at our disposal to maximize shareholder value in 2021, and our strong 6% rate base CAGR will provide a transparent low-risk platform to 4% to 6% long-term EPS growth off of that 2021 base.

Turning to slide 13. Our strong balance sheet underpins our \$56 billion capital plan. After we announced the cancellation of the Atlantic Coast Pipeline, both S&P and Moody's maintained the current rating and stable outlook at the holding company. Our stable outlook is supported by our \$500 million DRIP and ATM program in 2020 through 2022 and a proactive \$2.5 billion equity offering that was priced last November to mitigate all potential impacts of ACP. We believe this amount of equity is adequate to support our balance sheet and capital plan.

Finally, we understand the value of the dividend to our investors. This year marks the 94th consecutive year of paying a quarterly cash dividend and the 14th consecutive annual increase. The recent increase of 2% is consistent with our strategy to grow the dividend, but also moderate our payout ratio within a sustainable range of 65% to 75%.

Finally, let me wrap up on slide 14. Our attractive dividend yield, coupled with our long-term earnings growth from investments in our regulated utilities, provide a compelling risk-adjusted return for shareholders. We are well positioned to manage through COVID-19 and remain confident in our ability to deliver in the lower half of the earnings guidance range in 2020, overcoming significant headwinds, as we expect to enter 2021 with one of the most valuable and low-risk shareholder investment propositions in the industry, and we look forward to sharing more with you in the

coming months. And as Lynn mentioned, we look forward to sharing more details about our ESG vision and long-term strategy during our ESG Day on October 9.

With that, we'll open the call for the questions.

QUESTIONS & ANSWERS

Michael Weinstein – Credit Suisse, Analyst

Can you talk about some of the main things that you're looking at that will affect the 2021 guidance and how you're thinking about rebasing at 4% to 6% going forward? Like right off the bat, everybody can see the impact of ACP is definitely a factor; COVID-19, how long that lasts is a factor; maybe the coal ash settlement or coal ash proceedings, that's probably a factor. How do all these things weigh in your minds right now as you're thinking about 2021?

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

Sure, Mike, and I appreciate that question. I think it's on everyone's mind and we really worked hard in our remarks and with our slide today to give you some visibility into what we're thinking about. I think there are three important points that I would emphasize here. First of all that the regulated and commercial renewables businesses remain on track. And I think what's important there as we talk about rate case outcomes, or coal ash recovery, et cetera, we always plan for a range of outcomes that was contemplated in the projected \$5.50. It's also contemplated in the projected \$5.15 that Steve walked you through the math on.

The second important point is that we are committed to mitigating COVID economic effects as we did in 2020. We don't yet know how much they're going to be. We're looking at a range of economic forecasts, but our commitment is that the declining load would be offset with O&M. And then the third thing, I think, that's important is we've already begun to identify additional capital projects that will fill in the roughly \$2 billion that had originally been planned for ACP, and we've reflected a few ideas for you on slide 12.

So, we're trying to give you the sense, this is a visibility, this is what we're looking at, regulated utilities on track, COVID to be mitigated, capital plan intact. And so, over the balance of the year, we'll continue to monitor what's going on with the economy. We should receive orders from the NCUC on the pending cases. We're also going to be closely following the IRP and clean energy plan resolution and feedback because those two initiatives represent opportunities for us to continue to identify capital that we'll spend over the next five years and the next decade. So, we will give you more visibility on all of these things in the third quarter, including drivers, and then, of course, the complete capital cash flow earnings range in February as we historically have.

Michael Weinstein – Credit Suisse, Analyst

One more on coal ash, if you were to receive, let's say, some moderately negative order on coal ash or a negative order on coal ash, would that require any additional block equity issuance or secondary equity? I know you said that you do not need it for ACP cancellation. I just wanted to confirm.

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

Sure. And I – this is an important question and will really be the centerpiece of testimony on the implications to credit, like of coal ash recovery. I talked about the earnings implications contemplated in our plan. But on cash flow and metrics, we will be on the stand August 24 talking about the importance of a strong balance sheet, importance of our customers, not only for growth, but for potential disruptions in the market, the fact that the customers lean on our balance sheet during hurricanes and COVID and other things. And our hope and expectation is that given the magnitude of this issue to Duke and the fact that we have a very strong well-reasoned order from 2018, that we'll receive fair and appropriate treatment from the commission on this item. The North Carolina Commission has been constructive over many years and we will put a very strong case in front of them.

But I think it's important to focus specifically on coal ash. And if we were to receive an order consistent with Dominion, and absent any other provisions within the order that would be credit supportive, our balance sheet would be weakened. And Moody's has been very clear on the treatment of coal ash, if there's no return, it would be a direct reduction or deduction from FFO to debt. And frankly, we believe there are no viable options to address over 100 basis point impact to FFO to debt, which is basically the impact that that ruling would have. It's too big to solve with equity issuances. It's too big to solve with operational responses.

And I don't say this lightly, we don't want this outcome. We don't think it's in the best interest of customers or the state. And I can never speak for the agencies, but I think the consideration will not only be the quantitative math I just walked you through, but the qualitative assessments of, is this order constructive and is the downgrade threshold for Duke at the appropriate level? So we look at this as an important issue, as I said, a centerpiece of our testimony in August. We have reached a settlement with the state on the method of closing. We saved customers' money. We're meeting all the deadlines. We're delivering consistent with the rules and regulations, and our hope and expectation is for a constructive order.

As you noted in your comments about equity, we believe the amount of equity in the plan is adequate to support our capital and our balance sheet. And that's the way we're approaching it at this point.

Michael Weinstein – Credit Suisse, Analyst

So, just to be clear, it doesn't sound like you'd be inclined to issue additional equity even in the event of some kind of a negative order on coal ash recovery.

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

Mike, we will evaluate the whole of the order, because I think it'll be important to look at what else is in the order, are there any other credit-supportive elements. But we stand by the equity that we've included in our plan is adequate to support our credit and our capital plan. And we don't believe that equity will solve a potential quantitative and qualitative assessment on coal ash. So, as I said, we'll put a strong case on. We expect and hope for fair treatment from the commission, and we'll continue to keep you posted as we move through these proceedings.

Kody Clark - Guggenheim, Analyst

So, just to follow-up on the last question, just wanted to get a better sense of the moving pieces here. I know you aren't in the position to give 2021 guidance, but given your capital spending guidance, no need to raise equity yet and healthy rate case outcome in the Carolinas, upcoming filing for O&M levers and additional projects in lieu of ACP given your gas needs. Is there any reason to believe that when you issue that 2021 guidance that it would imply growth lower than the historical midpoint, 4% to 6%?

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

So, what we are pointing to in the analysis is we were targeting \$5.50. ACP is worth about \$0.35. So, the math points to about \$5.15, and that implies the reg business and commercial renewables on track, implies it will offset any economic deterioration with O&M, and also implies that we'll continue to rebuild that capital from ACP. So, that's the way I would respond to it. Steve, would you add anything to that?

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

Our rate base is growing at 6% for our businesses. So, I think we're going to robustly grow in 4% to 6% range, hopefully, with potential at the high end of the range from where we reset in 2021.

Kody Clark - Guggenheim, Analyst

And then, quickly looking forward to the ESG Day, do you plan on providing the incremental long-term capital spending opportunities associated with the Carolinas IRP at that point or will you wait for the full capital plan update in February to roll in any CapEx?

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

I believe February is going to be better timing for that. And the reason is the IRP is filed in early September. The clean energy plan reaches its natural resolution in the form of a report to the governor at the end of December. So, I think what we'll be able to do is share some of the scenarios within our IRP, what the capital would look like in those scenarios with the impact to customer rates. And it will have everything from meeting at least a 50% carbon reduction to a 70% carbon reduction, which is the target that the governor has set in his executive order.

But I think to fully reflect all of that in our capital plan in 2021, February will be a start. And I think we'll even learn more beyond February as the process continues here in the Carolinas. And I do think that fleet transition is something that represents an opportunity for us to add capital in the Carolinas that Steve referenced just a moment ago, and we'll keep you informed along the way as we know more.

Julien Dumoulin-Smith – BAML, Analyst

Just wanted to follow up as a clarification of the capital spending plan and how it reconciles with IRP. I know you list out a few potential items here offsetting ACP, but that doesn't necessarily hit at the wider potential transition of the portfolio that you might be getting at in the IRP. So, one, if you can discuss the scenario of the IRP? And two, how that might reconcile with the revised \$56 billion CapEx plan?

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

Julien, it's a very good question. And then what we've shared with you on slide 12 for incremental investments really does not contemplate the full potential from the IRP and the clean energy plan over the next decade. And so, the scenarios that we just talked briefly about in the slide deck, I'm kind of flipping here, it's slide 8, we believe we'll accelerate realization of clean energy by accelerating coal retirements. It will have a range of replacement generation options including, of course, more renewables and battery storage.

It'll present an at least 50% carbon reduction, which I think has been our goal across our system, certainly here in the Carolinas as well. It'll also present what's necessary to get to at least a 70% carbon reduction. So, those three transition opportunities are not fully reflected in our capital plan. But they will be as we know more and as we align more specifically with the policy that will be finalized here over the next year, and we'll update you as we go.

Julien Dumoulin-Smith – BAML, Analyst

And just can you clarify some of those scenarios that you talk about over the next year, what's the timeline to getting clarity here, if I can ask you just a step further?

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

So, we will take a stab at this, Julien, in February with our updated capital. But I would expect when a clean energy plan report is issued at the end of December, it's going to take a little time for that to find its way in terms of ongoing policy, is legislation necessary, is the commission going to be involved. Our IRP, similarly, will start to get reaction from it. We've been in stakeholder processes, but it will be filed in September.

And so, I think it will take a little bit of time to feed those ideas and turn that into a more definitive policy. And we'll take a stab at it in February, but continue to build on that because what we're really talking about is a decade of investment through 2030 and then beyond.

Julien Dumoulin-Smith – BAML, Analyst

Got it. All right. So, the clarity is, 4Q, you're going to give us a first stab at it. But after that, it remains ongoing and potentially expansive.

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

That's right. I think that's a fair way to think about it.

Steve Fleishman – Wolfe Research, Analyst

Hey, Lynn. Just a follow-up question on the coal ash issue. You mentioned in your rate order other credit-supportive elements. Aside from getting a return on it, have you proposed other credit-supportive elements? What might those be?

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

I think it's cash flow, Steve. We've reached the settlement at 9.6% and 52%. I think it would have to be higher than that. And there's accelerated depreciation which is the cash flow element. So, I think it would be a combination of things, but we feel strongly about the recovery of the return on and of the coal ash. We received treatment in that regard in 2018, as you know, but I'm just providing that feedback to, say, any time you get an order from the commission, you have to look at the whole of it to evaluate implications, and we'll do exactly that.

Steve Fleishman – Wolfe Research, Analyst

Okay. Great. And then on ACP, in terms of just thoughts on how you're actually going to replace the gas – not the CapEx, but the gas that you needed – do you have – when will we know more about that?

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

Sure. Steve, we've been working on contingency plans for some time for both the LDC, so this is the Piedmont system and the need to get more gas and more pressure into the eastern part of the state. There are a range of options. We'll be looking at the lowest-cost option for customers. And we believe some capital expansion will be necessary to achieve that's what's reflected on slide 12.

For the electric business, the IRP will be the first step in that process. There's been planning along the way, but the implications to replacement generation will begin to be addressed in the IRP. And there also will be weighing cost, completion risks, a variety of options that would be available to support the electric business. I think we talked about the fact the gas supply into the Carolinas is currently constrained particularly in winter. So, we'll need to look for ways to address that over time. And as we finalize these options and the considerations, we'll talk more about them.

Steve Fleishman – Wolfe Research, Analyst

Okay. Great. And then one last question. In the slide in the appendix where you showed kind of your long-term

renewables goal, I think, of doubling by 2025. Could you just give more color, like how much of that has to come through the North Carolina, the Carolinas IRP processes, or assumption for that? Or are you assuming maybe you get half of what's in there? Or is it coming from Florida commercial or areas like that? Just a little more color on that number.

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

Yeah. And Steve, that is based on historic IRPs. The Florida plan, the CPRE in the Carolinas, it includes some additional renewables, but we would intend to update all of that following the IRP and further work.

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

Right. I think there's significant renewables that come on the regulated side to CPRE and in Florida, and we're also including renewables that we cook up and just purchased from as well in the Carolinas as part of that number, because we're an important part there. And in the commercial business, we got through our five-year plan, about \$2 billion of capital, and that represents landing about 300 megawatts a year. So, that's a piece of it as well. But I think there's a lot of renewables potential continuing in Florida and the Carolinas.

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

And I think, Steve, this represents what we included in our climate report this year. It did not fully contemplate what we're seeing in the IRP and the clean energy plan. So, we will update this as we know more.

Michael Lapidès – Goldman Sachs, Analyst

Hope you guys are doing well. I have two questions. One about Florida, one about the Carolinas. In Florida, do you see the potential to significantly upsize amount of megawatts or gigawatts of utility-scale solar that you built in Florida? I mean, if I compare your program relative to the other really large utility in the state, the size and scale differences are dramatic. It didn't know if there was something physical about the different systems that drive that difference in between their rolling out 10 gigawatts over 10 years and you're doing a dramatically smaller amount. That's my first question.

My second question is, what role does offshore wind play in North Carolina – or in both Carolinas, and how will you know whether offshore wind is a component of your investment strategy?

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

Yeah. So, Michael, let me take Florida first. So, what we have shared with you in Florida is only a five-year plan. I mean, there's a site plan in Florida that gives some more visibility. But I would think about us as working within that five-year period, giving you more specifics. We are well on our way to the 750 megawatts that we announced a year and a half ago. We've also recently announced a Clean Energy Connection plan for another 750 megawatts. And as you look at the growth that Steve Fleishman was asking about a moment ago, there's over a 1,000 in total in Florida over that five-year period. I do think there will be more renewable opportunities in Florida. And so, we will continue to update as we see more potential and as we roll out additional programs on behalf of customers. We are in a multiyear rate plan that will finalize at the end of 2021, Steve?

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

Yes. at the end of 2021.

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

So, that would be another opportunity for us to provide updates on capital and so on. So, I think renewables will continue to be a story in Florida.

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

And I would add, part of our growth plan in Florida was Citrus County combined cycles and that was two very large combined cycles that went into service. So, that influenced the amount of solar that we needed during this period. I think as we go forward, we'll be ramping up the amount of solar that we're putting in place, as Lynn alluded to.

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

And Michael, on offshore wind, I think we will address offshore wind in the upcoming IRP. And where we think it might fit into the portfolio, I would think about it as something that probably has greater potential toward the end of the next decade. You may remember the history here in the Carolinas, there was a wind moratorium, so no wind through the end of 2019. So, it hasn't had as much visibility as I think it will coming through this IRP and the clean energy process. So, it represents a future investment opportunity and we'll know more as this policy gets finalized and as we make further progress on the fleet transition.

Jonathan Arnold – Vertical Research, Analyst

Just tying a couple of these things together, Lynn, do you think of the fleet transition and investments related to it as something that extends your runway or pushes you better within the 4% to 6% sort of trajectory that you're talking to us about or potentially even higher than that? Just curious, are there other things that you've dialed back a little bit on and just if you could speak to that.

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

Jonathan, I think it does both. It certainly provides a long-term runway because you think about – we're talking about fleet and fleet means long term. So, we're underpinning generation in the Carolinas for decades. But I also think it has the potential to impact this five-year plan to provide more investment opportunities, and we'll always look at investments within the context of price to customers because it needs to maintain – we need to maintain affordability. And so, I do think it has the potential to influence both periods. One of the great things about the expertise that we've developed on cost is that gives us headroom for capital. And we think about ongoing reduction of our cost structure as a way to continue to add capital for the benefit of customers. So, I would say, it helps both things.

Jonathan Arnold – Vertical Research, Analyst

Great. Thank you. And then, Steve, you gave a little bit of a – sort of more of a July view of how residential load was tracking. Could you share a little bit more sort of up to the minute report out of C&I as well?

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

Yes, we continue to see C&I below. Again, in July, we saw residential higher than last year's July, by 6.5%. But we still saw the drops in commercial and industrial compared to last year in the magnitude of the low-double digits, and that led to – overall, we were about 1.5% below last year's July. So, that was boosted by the residential, obviously. We have projected to be about 5% below last July, all in. But we were better than that primarily driven by residential. So, we still saw a decline in commercial and industrial from last year. Industrial is climbing out of things. They're starting operations. As I mentioned, three-quarters of the larger customers are back in operations, some of them not fully at

100%, but they're working their way there. Smaller commercial is hurting a bit more. But overall, we're still tracking better than what we had initially forecasted, and we'll keep an eye on it month by month.

Jonathan Arnold – Vertical Research, Analyst

So, those down 13% to 15% numbers you gave us for Q2 are a little bit more low at double digit towards beyond the end of the quarter, effectively, but still double digits is kind of the call.

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

I think that's correct. I don't have the C&I in front of me here specifically, but they're obviously pulling down from the residential being up. So, I suspect they're still down a fair amount. But again, the larger C&I are coming up. And overall, it's less of a negative impact than we had seen again in July as we saw in the second quarter. We'll keep an eye on it. We're projecting improvement particularly in the fourth quarter. So, we'll see how the second wave impacts the economy as we go forward.

Durgesh Chopra – Evercore ISI, Analyst

Just maybe just where Jonathan left it off, this is small, but your last communication was lower of the 2020 guidance and now you're saying in the lower half. So, am I right in assuming that you're trending higher than perhaps you were a few weeks ago? Am I sort of understanding that correctly?

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

That's correct. That's correct. So, it's really built on the success of the cost savings we've been able to generate rapidly as well as the strength that we saw in the month of July, not only on whether-normal volumes, but on weather, because you may recall, Durgesh we had a very mild winter weather that was dragging us early in the year. And we've seen some moderations of that weather impact on hot summer.

Durgesh Chopra – Evercore ISI, Analyst

Understood. Super helpful. And then just broad strokes, Lynn, and I appreciate more detail on the CapEx plan to come, but broad strokes, as you think about you sort of filling the ACP CapEx hole, if you will, fair to assume that the timing of that and recovery of that CapEx, specifically slide 12, that is backend-loaded of the five-year plan?

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

I would think of it maybe ratably, because as we think about the incremental LDC investment, we'll get started as soon as we can and we'll work towards completing it. So, I would think of it kind of ratably, perhaps beginning as early as 2021.

On the Florida solar investments, we are in front of the commission actually today. We reached a settlement August 4 with OPC on that, and we will begin introducing that investment as soon as possible after commission approval. And then I would also think about incremental investments in the grid, whether in the Carolinas or other jurisdictions being ratably as well.

Operator

And at this time, I would like to turn the call back to Lynn Good for any additional or closing remarks.

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

Well, thank you, and I appreciate everyone's interest and participation today. We look forward to further discussions with you. And as always, the IR team is available for any clarification following today's call. So, thanks again for joining us.

Operator

And ladies and gentlemen, once again, this concludes today's call, and we thank you for your participation. You may now disconnect.