

# EDITED TRANSCRIPT

Q3 2020 Duke Energy Corporation Earnings Call

November 5, 2020 / 10:00AM

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## CORPORATE PARTICIPANTS

**Bryan Buckler** – Duke Energy Corporation, Vice President Investor Relations

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

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

## CONFERENCE CALL PARTICIPANTS

**Stephen Byrd** - Morgan Stanley, Analyst

**Shar Pourreza** – Guggenheim, Analyst

**Michael Weinstein** – Credit Suisse, Analyst

**Julien Dumoulin-Smith** – BAML, Analyst

**Steve Fleishman** – Wolfe Research, Analyst

**Anthony Crowdell** – Mizuho, Analyst

**Jeremy Tonet** – JP Morgan, Analyst

**Jonathan Arnold** – Vertical Research, Analyst

## PRESENTATION

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### Operator

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

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**Bryan Buckler** – Duke Energy Corporation, Vice President Investor Relations

Thank you, Savannah. Good morning, everyone and welcome to Duke Energy's Third 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 and 2021 outlooks. She will also share insights on the company's long-term strategy and clean energy investment plans.

Steve will then share an overview of our third quarter financial results. We will also provide updates on our economic and load growth outlook, progress against our 2020 mitigation targets, an update on our 2021 earnings drivers and Duke Energy's long-term capital investment plan.

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

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

Bryan, thank you, and good morning everyone. Today, we announced adjusted earnings per share of \$1.87 for the quarter, favorable to the third quarter of 2019 by \$0.08. These results were driven by higher earnings at our Electric Utilities from rate case activities, strong O&M and other mitigation actions and growth in our Commercial Renewables business.

I am very proud of our workforce for their consistent focus on reducing costs and driving efficiencies to offset a number of headwinds this year, while continuing to provide outstanding service for our customers. And a recent example is

Hurricane Zeta. I want to give a special thanks to the men and women who just this past week responded with outstanding restoration services after the remnants of the hurricane caused significant damage in the Carolinas.

Despite the challenges presented by 2020, our team remains focused on serving our customers with excellence. We've also made great progress with our mitigation actions to offset the impacts of COVID, delivering \$0.35 of benefit through September. As Steve will speak to in a moment, we now expect to deliver full-year earnings benefits of \$0.40 to \$0.45. We will use our size and scale to carry many of these efforts into next year, a continuation of our successful track record in these areas since 2015.

With the third quarter behind us, we are narrowing our full-year guidance range to \$5.05 to \$5.20. We have successfully offset the impacts of COVID load and costs, weather and storms, including Isaias and Zeta with exceptional cost management, giving us confidence that we can deliver results within this range for 2020.

With ACP behind us, we are well-positioned to deliver in 2021 as well and are pointing to a solid \$5.15 with upside potential. We continue to finalize our business plans for the year ahead and consistent with our typical practice, we will provide complete guidance, including detailed capital and financing plans in February.

Our confidence in our ability to deliver results goes well beyond next year. We expect to deliver at the top end of the 4% to 6% range through 2024, grounded in our robust investment plan to deliver cleaner energy and sustainable value for our communities and our industry-leading cost efficiency programs.

We shared our vision and the significant runway of growth potential during our October 9th inaugural ESG Investor Day. During the event, we outlined the investment opportunities we are pursuing to support our goal to achieve net-zero carbon emissions by 2050. And while we are already an industry leader in carbon-free generation, we have near-term ambitious plans to double our renewables portfolio by 2025, deploy energy storage across the Carolinas and Florida and extend the licenses of our nuclear fleet, all to the benefit of our customers and communities.

To support this work, we increased our five-year capital plan to \$58 billion and outlined a robust \$65 billion to \$75 billion capital plan for the 2025 through 2029 period. This incremental capital drives our earnings based CAGR from the 6% level we shared with you in February to progressively higher levels. We now expect a 6.5% rate-based CAGR through 2024 and growing to a 7% rate-based CAGR by the end of the five-year planning period.

As we move forward, our path is underpinned by strong governance, collaboration with stakeholders and most importantly, developing our people and fostering a culture rooted in diversity and inclusion. I'm incredibly proud of our work and its foundation in 2020 gives us confidence as we close out the year and move through the next few years.

Turning to slide 6, we're advancing our Clean Energy Strategy and building momentum in the states we serve. We operate in attractive jurisdictions that are considering various policy changes to support cleaner energy futures for our communities. We are partnering with stakeholders in each state to find solutions that accelerate carbon reductions, while also balancing customer affordability and the financial health of our utilities.

In North Carolina, the Governor's Clean Energy Plan process is well underway and we, along with many stakeholders, are in the midst of constructive policy conversations. The pathways we outlined in our IRP serve as fundamental pillars, demonstrating what it will take to achieve the objectives outlined in the Clean Energy Plan.

In addition, the detailed analysis in our filings is informing carbon policy discussions. We recognize our leadership role in de-carbonizing the state and the robust thoughtful portfolios we've shared helped shape the path forward. The carbon policy discussions will be summarized in the report to the Governor by year-end.

We are also advancing the process around the IRP itself. We've shared the IRP with dozens of stakeholders, ensuring we received feedback from a wide variety of interest groups. The approach and modeling we used in the filing add a new level of transparency and sets the standard for how to collaborate and seek input.

We anticipate hearings in the first half of 2021 in North Carolina and look forward to working with stakeholders to define the best pathway to reduce carbon emissions. We are also advancing the IRP in South Carolina with a hearing expected in April and a decision from the Commission expected in June. This will allow us to have more clarity about how our proposed portfolios integrate into the state's policy objectives.

Also in South Carolina, we've reached multiple milestones with stakeholders. We received Commission approval of our EV infrastructure pilot in September and reached a settlement agreement on net metering with solar developers. These developments highlight South Carolina's commitment to a cleaner energy future.

Turning to Indiana, we are actively engaged in the state's 21st Century Energy Policy Task Force, which is focused on transitioning the state's generation mix and integrating renewables, while ensuring high levels of reliability and resiliency. Their findings will be compiled into a report due to the General Assembly by December. This work builds on the advances we made as part of our 2019 IRP and 2020 rate case, where we received approval to reduce the average remaining depreciable lives of our Indiana coal assets by approximately 40%.

And in Florida, the Clean Energy Connection and Solar Base Rate Adjustment programs underpin our commitment to renewable energy. A hearing on the Clean Energy Connection proposal is scheduled for November 17. If approved, we would launch a \$1 billion shared solar program which includes 750 megawatts of renewable resources. We've received strong support for our proposal from a broad range of stakeholders and look forward to the outcome of the hearing.

We're also making headway on the SoBRA investments with nearly half of the 700 megawatts of utility scale solar installed. This also represents \$1 billion investment in the state. We understand our integral role to lead the clean energy transition, we will strengthen and modernize the energy grid, increase our investments in renewables and new technologies and advocate for energy policy and regulatory mechanisms that align with industry best practices and shareholder expectations. This is an exciting time for our company and our communities, and we look forward to making meaningful progress on clean energy transition in 2021.

Before I move to the next slide, let me make a brief comment on the elections. I know some results are still being counted, with final results a few days or weeks away. But what I do know is that there is strong bipartisan support for investing in critical infrastructure, driving economic growth and job creation for clean energy and resiliency investments. Our capital plan offers meaningful solutions to these and other needs of the communities we serve. I want to congratulate Governor Cooper on his re-election and thank him for his leadership of North Carolina. We are proud to be headquartered in North Carolina and look forward to working with his administration and the incoming members of the General Assembly.

I also want to congratulate Indiana Governor Holcomb on his victory. Indiana has a bright future as we transition our generation fleet and make critical investments in the grid. We welcome the opportunity to continue engaging with the Governor and the General Assembly in Indiana as well as all of our jurisdictions in which we operate.

Before turning it over to Steve, let me reiterate our value proposition. We operate in premium utilities across the South East and Midwest and our service areas continue to benefit from strong growth of new residences and businesses moving to our service territories. We are positioned to deliver 95% of our earnings from lower risk regulated electric and gas utilities and our growth profile is driven by our robust, five-year \$58 billion capital plan.

The past year has made our great company even stronger and more agile and we look forward to a strong finish to 2020 and to carrying our momentum forward into future years. Our clean energy vision is transforming Duke, providing clear benefits to our customers and to our investors. For this reason, we are confident in our ambitious investment plans and our ability to deliver the top end of our growth range.

And with that, let me turn the call over to Steve.

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

Thanks, Lynn, and good morning, everyone. I'll begin with a 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 8, we announced third quarter adjusted earnings of \$1.87 per share compared to adjusted earnings of \$1.79 per share last year. Within the segments, on an adjusted basis, Electric Utilities and Infrastructure was up \$0.06 quarter-over-quarter, driven in large part by rate case activity in North Carolina, Indiana, Florida and Kentucky that contributed \$0.07 in the quarter.

Earnings also benefited by \$0.08 from our industry-leading mitigation efforts, which I will speak to more in a moment. Lower tax expense and contributions from our wholesale contracts also contributed to our favorable results. Weather came in slightly above normal this quarter, but represents an \$0.08 headwind this year when compared to the third quarter of the prior year. We also had higher depreciation and amortization expense as we continue to grow our asset base. And as expected, electric volumes were down due to the pandemic.

Our Gas Utilities and Infrastructure results were \$0.05 lower, primarily due to the cancellation of ACP. Our LDC gas businesses continued to produce outstanding results, contributing a \$0.01 of growth in the quarter and \$0.09 year-to-date in 2020. The Commercial Renewables segment was up \$0.03, largely driven by new projects brought online this quarter, including the 200-megawatt Rambler Solar Project in Texas.

Finally, Other was favorable \$0.05 for the quarter, principally due to low income tax expense and financing costs and higher investment returns in non-qualified benefit plans. Overall, we are very pleased with our year-to-date results. We took swift action to mitigate the impacts of COVID-19, weather, storms and the loss of ACP earnings. And this dexterity has positioned us well to deliver on our narrowed 2020 earnings guidance range of \$5.05 to \$5.20.

Moving to slide 9. Our third quarter Retail Electric volumes were down 2% compared to the third quarter 2019, which was slightly favorable compared to our original post-COVID expectations of a 3.5% decline for the quarter. And while total volumes were better than anticipated, the improved customer class mix was more heavily weighted to C&I customers and less to residential and thus, the EPS impact was mostly in line with our expectations for the quarter.

Despite the continuing effects of COVID-19, the economies in our jurisdictions have shown a level of resiliency, with approximately 85% of our largest commercial and industrial customers resuming operations by September. While the pandemic's effect on the economy still bears close monitoring, we are updating our full-year COVID load forecast to a decline of approximately 2% to 3% in total retail volumes compared to our previous estimates of a 3% to 5% decline. This revised load forecast equates to approximately \$0.20 to \$0.25 of earnings per share impact. And when coupled with waived fees and non-deferred COVID costs, results in COVID-related earnings headwinds of \$0.25 to \$0.35 in 2020.

In the midst of the pandemic, we are encouraged by the strong customer growth across all of our jurisdictions. Year-to-date, we've seen a 1.8% increase in new electric customers and 1.9% growth for our LDCs. As we continue to see more population migration to our desirable service territories, we believe Duke Energy's long-term load growth fundamentals will be some of the strongest in the industry.

Let's move to slide 10, where I'd like to highlight our strong progress on achieving our 2020 financial commitments, despite challenging headwinds. We have faced impact from COVID and the cancellation of ACP as well as unfavorable weather and significant storms, including Hurricane Zeta, which came through the Carolinas in October. Time and again, Duke Energy has demonstrated the ability to pivot, mitigate impacts and advance our strategic investments for short- and long-term value creation for customers and shareholders, and 2020 is a prime example. As I've highlighted many times, cost mitigation and the ability to respond quickly to unforeseen circumstances has become a core competency of Duke Energy.

On a year-to-date basis, we've achieved approximately \$350 million in mitigation, representing approximately 75% of our full-year target and we are highly confident in our ability to deliver \$400 million to \$450 million of earnings benefits for the full year. These efforts position us to mitigate a large portion of the headwinds we've experienced in 2020 and the level of earnings within our original narrowed guidance ranges.

With that, let's move to slide 11. We had a strong outlook for 2021 and our significant investment opportunities serve as growth drivers for the year ahead. In Florida, we will continue to recover our grid investments with a third base rate increase in our multiyear rate plan. We also expect growth from additional solar projects recovered under the Solar Base Rate Adjustment mechanism.

And starting in 2021, we expect to begin delivering grid improvement investments to our Florida customers under our storm protection plan approved earlier in the year. In the Carolinas, Indiana and Kentucky, we will have a full-year benefit of the new base rate adjustments that went into effect earlier this year. Also in Indiana and Ohio, we'll continue to invest in transmission and distribution upgrades that are recovered under our rider programs that drive consistent earnings growth each year.

Additional drivers in Electric Utilities and Infrastructure will come from load growth and O&M management. As I mentioned earlier, we continue to see impressive increases in our number of customers and that along with the continued recovery of the economy is expected to lead to an overall uplift in margins in 2021.

Our current estimate of load growth off of 2020 is approximately 1% to 2%. We continue to monitor the pace of economic recovery and will provide an update in February. With respect to O&M and other mitigation actions, some of the tactical efforts that we are achieving in 2020 are not sustainable beyond the current year and thus we expect a modest uptick in O&M costs in 2021, as compared to 2020. Revised timing and scope of outages is an example of mitigation efforts not sustainable year-over-year.

Nonetheless, our operational teams and industry-leading business transformation group are in the process of utilizing our digital and automation playbook to turn some of these initiatives into even lower cost operational model to benefit future years. We will share more on this from the upcoming months as the team makes progress on their work.

Shifting to the Gas segment, we expect to see a full-year benefit from our Tennessee rate case filed this year, as well as our South Carolina Rate Stabilization Adjustment that was recently approved by the Commission at a 9.8% ROE. Additional growth in the LDC business will come from customer additions and our integrity management investments, which are recovered through riders and provide steady, predictable earnings per share growth year-after-year.

Our Commercial Renewables segment will be largely flat to slightly negative for 2020, given our strong performance and delivery of completed projects this year. Our plan continues to target an annual net income of \$200 million to \$250 million through the five-year plan. On the financing front, we expect to settle the \$2.5 billion equity forward by the end of this year, which will result in approximately \$0.13 of dilution, net of holding company debt interest savings.

As stated during our second quarter call, with these drivers and ongoing COVID uncertainty, we expect to rebase our long-term earnings per share growth rate off of 2021, with the midpoint initially pointing to \$5.15. We believe this is a solid number with upside, we are close to finalizing our 2021 through 2025 financial plans, and we will provide complete detailed guidance in February as we normally do.

As Lynn mentioned, we have great confidence in delivering at the top end of our 4% to 6% earnings per share growth rate through 2024, underpinned by our \$58 billion capital plan and industry leading cost reduction program. As we discussed on ESG Investor Day, our clean energy transition will drive significant growth for at least the next decade.

As you look at slide 12, the left-hand side of the evolution of our five-year capital plan over the past several years and on the right-hand side, we show the expected growth in our earnings base. As you will recall, our five-year capital plan just a year and a half ago was at \$50 billion. This past February, we increased the plan to \$56 billion to address pressing infrastructure needs of our communities, including more renewables on our system and grid improvements.

During the latter half of 2020, it has become evident that the cleaner energy transition of our jurisdictions will necessitate additional capital deployment, resulting in our current five-year capital plan of \$58 billion. Looking at the second half of this decade, we estimate a five-year capital plan of \$65 billion to \$75 billion.

We've made some assumptions here about the amount of renewables investment Duke Energy would be able to rate base as those details have not yet been determined. As I mentioned at ESG Day, under any IRP portfolio chosen in the Carolinas, we will have a significant role to play in the clean energy transformation in the two states. We believe the assumptions included here are very reasonable based on what we've seen around the country and within our service territories.

This \$65 billion to \$75 billion capital plan for 2025 through 2029 includes clean energy generation and transmission investments across the Carolinas, Indiana and Florida, as well as an estimate of the distribution investments that will be required to enable renewables, battery storage and other distributed energy generation on our system. Our confidence in the growing rate base over the long term is rooted in these strong capital plans.

Our rate base grows from \$77 billion in 2019 to roughly \$105 billion by the end of 2024. That's a 6.5% earnings based CAGR. For the latter half of the decade, we see that growth accelerating to 7%, with significant investments to enable this transformation. Our broad strategy also balances the need for investments with affordability for customers. As we transition out of coal, we expect to have lower fuel costs and nonfuel OEM costs and we will continue our business

transformation model in pursuit of efficiencies across our footprint. Finally, we operate in states that are experiencing strong customer vote, particularly in the Carolinas and Florida, which also helps keep customer rates competitive.

Finally, let me wrap up on slide 13. An attractive dividend yield, coupled with our long-term earnings growth from investments in our regulated utilities, provide a compelling risk-adjusted return for our shareholders. We're well-positioned to manage through COVID-19 and are confident in our ability to delivering the narrowed earnings guidance range in 2020 and then our ability to achieve the top end of our 4% to 6% earnings per share growth rate off of the 2021 base. We expect to enter 2021 with one of the most valuable and lower-risk shareholder investment propositions in the industry. And we are positioned to deliver sustainable value into the future. We look forward to speaking with many of you next week during the EEI Conference.

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

## QUESTIONS & ANSWERS

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**Stephen Byrd** - Morgan Stanley, Analyst

Lynn, you gave a great update of the – sort of the clean energy transition. And I thought slide 6 encapsulated it pretty well. And I just wanted to explore the Carolinas a bit. You lay out on this page the – in North Carolina the report to the governor by the end of the year and then in both states, you have IRP hearings. You've laid out pretty clearly sort of the trade-offs of different approaches to your future energy mix.

How do you anticipate sort of the decision-making process evolving? Do you see, for example, sort of heavy direction from the governor in these cases or is it more sort of a collaborative hearing process where many constituents are going to weigh in and then ultimately, it's sort of more of a Commission-driven decision? How do you kind of think about where you're headed there?

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

Sure. And Stephen, thanks for that question. I think the governor has been very clear about his expectations in the form of his executive order that set a target of the 70% carbon reduction by 2030. He has been directing the stakeholder process throughout 2020 through his cabinet secretary Regan, to oversee it. And I would say that stakeholder process has been a robust one, broad range of people involved and has made significant progress over the course of the year, identifying and aligning around common goals; so transitioning the generation fleet over time, developing regulatory mechanisms that would incent that transition.

And so, I also believe that kind of points to broad support for critical infrastructure investment, that'll drive jobs and economic development, of course, achieve carbon reduction and achieve resiliency for the state. So, I believe the next steps on this will be a shaping and updating of energy policy in North Carolina. If you look historically about the way that has happened, Stephen, it's always been led by stakeholders coming together to achieve common goals in a bipartisan way, the governor of course weighing in with his expectations, stakeholders shaping the way to get there and we see that process maturing in 2021 and expect that we of course will play a pivotal role in implementing that energy policy in a way that meets all of these objectives.

I think the IRP is very complementary to that stakeholder process because it puts in front of the Commission a variety of options on how those policy objectives could be achieved. And we would expect a review by the Commission and of course any input or feedback that they would have. And I think the combination of both of these processes will give us more clarity in 2021 on how we will move forward.

But I would emphasize again the alignment of stakeholders to achieve common objectives has always been the foundation of movement on energy policy in North Carolina. And we would expect the same to be the case here.

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**Stephen Byrd** - Morgan Stanley, Analyst

That's very clear. And I guess at a high level, looking at this page, you kind of have a lot of add backs in terms of the possibility of additional capital spending. And I just want to make sure I was clear. Let's say that Duke is fortunate

enough to have the opportunity for even more renewable spending, EV spending, whatever it might be. Just a refresh in terms of your thinking of incremental CapEx and how you would finance that incremental CapEx?

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

And so, Stephen, as you know, we've put some incremental CapEx in the five-year plan really underpinned by what we're seeing here in this generation transition. We have not changed the financing plans that we shared with you in February. We continue to plan to issue DRIP and ATM equity in 2021 and 2022.

As we get to the back end of that five-year plan and really build the momentum to accelerate rate base growth, I would expect for us to have a modest level of DRIP/ATM equity in the plan. We think that, coupled with cost mitigation, regulatory support and other elements that drive cash flow, would balance the needs of shareholders and creditors.

So, we will provide that complete update on financing in February. But your mind should go to the modest DRIP/ATM level as we think about the way we underpin this growth investment going forward.

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**Stephen Byrd** - Morgan Stanley, Analyst

Understood. So if I'm sort of thinking about this correctly then, you're already sort of thinking about some incremental CapEx, which you've described before. I mean these hearings and these processes are going to take a while anyway. So it's not as if it's an immediate impact to your financing needs. And some of that was already sort of factored in. So, it feels like even if you get good responses in these states, at first, it's going to take a while for that CapEx to actually transpire. Secondly, some of that was sort of already contemplated. And so, it's not as if we're likely to see a fairly significant change to your plans, i.e., not massive new additional equity needs over and above what you've already laid out.

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

That's very fair, Stephen. If you – on the slide that Steve walked you through, we updated capital from \$50 billion to \$56 billion in February. And that financing plan underpins that \$56 billion, which is really the foundational element of the spending. This additional \$2 billion and then ramping to \$65 billion to \$75 billion toward the back end is where we'll really be focused on your question initially and we will be updating that. You should be thinking about the modest DRIP and ATM as the first place we would go to support that accelerated growth toward the back half of the planning period.

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**Shar Pourreza** - Guggenheim, Analyst

Just a couple of quick questions here. First, around the \$5.15 number through 2021, obviously, this is sort of a worst-case outcome as we think about coal ash, etcetera. And I know you talked a little bit more about it in February and you have some drivers in the slides. But maybe you can provide a little bit of a sense on some of the incremental items that could put you higher than that \$5.15? There's a lot of moving pieces here.

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

Yeah, Shar. I'll point to three things that we're watching and then Steve can add to it. COVID load, we're continuing to look at what does load growth look like into 2021? Is there a second wave? Are there more economic shutdowns and so on. Or does the economy bounce back more strongly. As we said in the second quarter and it continues to be our profile, we intend to offset COVID impacts with O&M so that we lessen the impact of that. But understanding where that economic forecast is and how that matches up with cost would be something that we're watching.

Maturing our cost management productivity to see how much of these savings that we've been able to drive out in 2020 can continue into 2021. That work continues. We will start the year with a lower head count. We have used

technology in different ways, we've dispatched crews in different ways, there have been so many opportunities and we're looking for ways we can create even more sustainability. That represents a potential item.

And then of course, rate cases. We have set the \$5.15 to absorb the Dominion outcome on coal ash. And we will learn more toward the end of this year, early next on the DEC order in particular. We will also hear from the Supreme Court we believe in 2020 on the prior rate case. So, those are a couple of other things that we are monitoring.

But we have, as I look at 2021, there is so much clarity. We will have all of this behind us. The uncertainties that have been a challenge for us and we're excited about the ability for the utilities to demonstrate the growth we know they're capable of without ACP, without rate case overhang, without coal ash, et cetera. And so, we believe there is incredible opportunity in 2021 and then growth beyond. So, Steve, would you add anything to that?

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

The only thing I might add is that we'll look to see the impact of the customer growth. We're seeing the highest customer growth numbers we've seen in several years in the Carolinas and Florida. So, perhaps that can give us a pickup as well.

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**Shar Pourreza** - Guggenheim, Analyst

And then obviously you highlighted the Supreme Court pushed out the ruling until December 11. Can you just maybe, Lynn, with that delay, talk a little bit about sort of the settlement strategy? How do you think discussions are going? Are they more/less constructive? And you've been obviously very vocal of the impact of not earning a return on the expenditures. May be helpful to refresh your thoughts as we think about credit metrics and how we should think about potential equity or not in lieu of the Dominion order.

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

And so, sure, let me go to the last question first and that is if we do receive the Dominion order from the NCUC, we do not intend to issue equity to cure the impact of a difficult rate order. So, that is the headline answer to that question. I think we will wait to hear from both of these parties, the Supreme Court and the NCUC on coal ash in December, early January. I do not expect that we would be reaching settlement on coal ash. I think all parties are interested in hearing what the court and commission has to say.

But as I've said many times, we believe that coal ash is a recoverable cost; the NCUC does as well. We also believe that we are entitled to earn a return on costs that are collected over a long period of time, consistent with the precedence of rate making in the state and also consistent with the requirements of strong credit for the utility. So, we will await those ruling later this year.

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**Shar Pourreza** - Guggenheim, Analyst

Got it. And then just lastly on – just to follow up on Stephen's question around the alternative regulation group. It sounds like it's going to mature in 2021. Do you sort of anticipate a bill forming in 2021? And then just remind us like a bill that sort of enacts potential ROE bands or PBRs. Does that sort of really act to minimize some regulatory lag or could that be sort of incremental or accretive to your current growth trajectory or the profile of how you're guiding on growth?

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

Those are good questions, Shar, and I do believe that legislation could spring from this clean energy process and the recommendations coming out of the report to not only set some parameters around transition in the fleet, but also those regulatory reform changes that you're talking about. The objective of the regulatory reform would really be to

incent and enable the energy policy in the state. And to the extent it reduces regulatory lag, it is good; it is good for customers. It is good for investors and that will be an objective as we talk about the way regulatory reform would play out. I think about grid investment in particular. It's so important to this transition. And grid investment needs a different regulatory model than what we have here in North Carolina and there's a lot of good discussion going on about that as part of these processes.

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**Michael Weinstein** – Credit Suisse, Analyst

Hey on the – is the upside for \$5.15 in 2021, does that only apply to 2021? In other words, would you intend to keep the base at \$5.15, even if you were able to find some savings for next year?

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

I think we'll cross that bridge when we come to it, Mike. I appreciate that question. I do feel like we've got a lot of uncertainties behind us. We've got a clean picture for 2021. But just like any business here, you have things to tackle. We're tackling COVID and O&M and we're also working to progress the clean energy plan. So, Steve, would you add to that in any way?

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

You're right, we don't have that specificity now. But whatever we anchor to, we're going to have a growth trajectory from that point forward that I think is going to be very clear throughout the period that we're projecting forward on.

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**Michael Weinstein** – Credit Suisse, Analyst

Steve, when you were negotiating after the tax or tax rate reductions a few years ago, when you were negotiating with regulators to keep cash flows intact, what would be the outcome of a higher tax rate going forward? Do you think there'll be room for additional FFO to debt improvements there if such a thing were to happen going forward?

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

Yes. I think that would ultimately happen. What you'd see here if you saw an increase in the federal tax rate, people have talked about moving from 21% to 28%. It would just move in the opposite direction of what we did in 2018. You would see the holding company tax shield be more beneficial to the tune of \$0.05 or \$0.06 per share at the operating company levels. Once enacted, the higher tax rate we would start deferring the additional income tax expense and then we'd work with regulators on increasing the rates to reflect the increase in the tax expense, which is the opposite of what we did back in 2018 through 2020. And that would result in an increase in cash flow and would help FFO there. We estimate that type of impact would be in the neighborhood of 2% to customer rates. But we've seen larger decreases as we've implemented the 2018 Reform Act. So, I do think it provides cash flow benefits in that fashion.

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**Julien Dumoulin-Smith** – BAML, Analyst

First, perfunctory question, just wanted to see, I haven't heard anything strategic here, but following media reports in recent weeks and months, anything you can offer on strategic remarks, I'll just leave that open ended. And then I've got some more substantive questions if I can.

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

And so Julien, are you talking about market rumors on M&A?

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**Julien Dumoulin-Smith** – BAML, Analyst

Yeah. I just wanted to see if there's anything that you would offer on that front?

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

Yeah. So building on your comment about strategic things for the company, our focus is on the strategy of clean energy transition. It's on the strategy of building the stakeholder support in the Carolinas, to move forward on regulatory reform and infrastructure investment. And so our focus is on driving that organic growth, which, we believe, is extraordinary not only in terms of rate base investment, but customer growth and thriving jurisdictions. So that's what I would say our focus is on, Julien, and we feel like the future is bright as we've laid out here and will continue to build on as we give you more insight in February.

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**Julien Dumoulin-Smith** – BAML, Analyst

No. I appreciate that. Just wanted to make sure. All right. so back to perhaps more substantive measures. Perhaps as you think about the transitioning here from the Clean Energy Plan and the report to the governor, what pieces are resonating as best you can tell thus far with that stakeholder group? And I know we're still a few weeks away, but as you would – in an attempt to try to capture the preponderance of different views here, what are those regulatory buckets for reform that are still on the table versus perhaps those that may be less relevant today? If you can try to catch up, if you don't mind?

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

It's a good question, Julien, because a lot of things have been discussed and I think it's been a good exchange of information, feedback, education, points of view being shared. I think at the top level, the regulatory reform is really focused on how can we incent the development of this critical infrastructure and the associated reduction in carbon. So things like multi-year rate plans are being discussed, decoupling is being discussed, and we believe there's a lot of interest in those types of tools in order to move this forward. Performance based rate making would be another thing that I would point to your because you can tie achievement of certain outcomes to performance based rate making.

So, those are the things I would point to at this point. And as the processes continue, as you may recall, there are two pieces, carbon policy in one, regulatory reform in the other. Carbon policy will find its way to the governor's desk by the end of the year. Regulatory reform will also be kind of wrapping up in that timeframe. And as we reach critical milestones, we'll update of course along the way.

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**Julien Dumoulin-Smith** – BAML, Analyst

Got it. Sorry, one quick clarification if I can. With respect to your confidence on cost mitigation, do you think you'll be able to earn your authorized ROE in the Carolinas going forward even with this Dominion order?

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

Yeah. So, if you look at our track record on earning our allowed rate of return, Julien, it's been very good. And we expect to be able to earn at our allowed rate of return going forward. Steve, would you add to that?

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

Yes. I think, absolutely, we've got a long history of utilizing various levers, whether it's O&M cost control, expanding wholesale sales, just working, optimizing our regulatory schedule to earn our allowed return on our growing rate base. So, we'll continue to employ those tools as we go forward regardless of any particular rate outcome.

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**Steve Fleishman** – Wolfe, Analyst

Hi, Lynn. So, just a little bit more follow-up on North Carolina. I think you did mention that you kind of work well with both sides of the aisle. I think the governor won Democrat, but the legislature stays Republican. Just in thinking about trying to turn these working groups into a law, how much is that going to be a challenge in 2021?

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

Steve, I would say that historically energy policy in North Carolina has moved in a bipartisan way. And the benefit of having diverse stakeholders together is you have voices from business community, from the manufacturing community, from low income, from the environmental constituents. You've got the administration at the table as well.

And I believe critical infrastructure focused not only on environment, but on job creation has a durability or an appeal to both sides of the aisle. And I believe we'll play a role in working with both sides to bring that intersection together. So, we approach this with great optimism and enthusiasm from the alignment we've been able to be a part of in 2020. And we'll keep the conversations going.

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

Great. And I guess outside of getting legislation, can some of these potential changes be implemented without that just by the commission directly or at the executive level?

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

It's interesting Steve, if you look at the – yeah, if look at the IRP, we've got everything from the base plan to the more aggressive, early retirements of coal and so on. That base plan can be executed immediately because it's within the regulations in North Carolina. It has renewable investment. It has storage investment and a variety of things. So there's a lot that can be done without any changes. I think as we look at some of the more new technologies like offshore wind and other things like that, having some legislative support around achieving those targets and embracing those technologies I think would be helpful to any investor in the state as well as to the commission. So you can think about that IRP as providing a menu of options and we can get going even absent changes on the transition up to, I think that base plan is a 50% to 55% carbon reduction under existing statutes.

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**Anthony Crowdell** - Mizuho, Analyst

Thanks so much for all the information in the slide. I just have two quick ones, all related to slide 12 and the growing CapEx profile. I guess first, how much of that CapEx is maybe rider eligible? I mean the company is kind of winding down, hopefully the resolution not going or one thing on a rate case cycle. How much could that get included in rates without a rate filing? And are you entering another rate case cycle? And then the follow-up would be it appears that Duke's service territory has a significant amount of investment opportunities, especially on the other companies. What's the limitation there? Is it balance sheet? Is it rate impact? And I'll leave it at that.

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

So, in the Carolinas, Anthony, the regulatory structure is still a rate base, rate case type structure. I think as we think about this regulatory reform, multi-year rate planning, decoupling, performance-based rate making are in the conversation, and our hope and expectation is there will be some adjustment to that regulatory process. We have not laid out any specific timing for rate cases. We've just finished a rate case here in 2020. So, you would not expect us to come in in the short term.

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

Right, and I'd agree with that. The Carolinas were working to put into place some mechanisms that help incent, as Lynn said, this growing investment profile that we have going forward. Our Gas businesses in the Midwest and Florida, we have mechanisms in place and they work very well for us, whether it's rider mechanisms or multiyear rate planning or decoupling on the Gas side. So, we're very familiar with those. We're advancing the ball in the Carolinas with this dialogue. And I think we'll make some progress as we move forward.

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

And on the second part of the question around constraints. Anthony, we always plan capital within, what I would call, a reasonable expectation of impact to customer price. So, as we talked about in the Integrated Resource Plan discussion, the base plan is about a 1% increase in customer rates per year. As you get more aggressive, it could go up to 2.5%. That includes offsets for fuel and O&M and so on, that would be a part of the transition.

So, we always keep an eye on price and in addition to those tools of fuel and O&M that will come naturally from transitioning the generation, we also continue to very aggressively drive costs out of the business through digitization, through changes in process, all forms of automation. And that'll continue to be an objective to keep prices low for customers.

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**Jeremy Tonet** – JP Morgan, Analyst

I think you've touched on 2021 O&M a bit here, but just thinking about that a bit more. Is the timing of 2020 plant outages kind of main driver of higher 2021 O&M? Or are there other factors to think about here? And how should we think about 2021 O&M versus 2019 as a base year? And kind of what does the trajectory look like longer-term as the pandemic subsides?

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

Sure. Lynn had mentioned and I'd mentioned outages as being one thing that potentially could put some upward pressure on O&M going forward. We'll also look at variable compensation, that's another area that we have flex on that could see an increase in 2021.

So, we'll continue to look at that. I'd say those were a couple of areas there. When you think about our O&M trajectory as a whole, we started back in 2015 at \$5 billion of non-recoverable O&M, if you will. And in 2019, that was at \$4.9 billion and that included absorbing \$280 million to \$300 million at Piedmont because they were acquired during that period of time. That gives you an idea of the savings that we've been able to generate through this very concerted effort of business transformation.

We're going to come in lower in 2020 because of all of the tactical efforts that we've put in place to replace the top line revenue loss. That will move up in 2021, but I suspect the downward trajectory is going to continue in 2021 over 2019. We'll be firming that up as we go forward. But our sustainable reductions will continue; I do believe that.

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

And what we're trying to do, Jeremy, as we've said a couple of times is this load continues to represent a headwind in 2021, we do not see it quite back to 2019 based on our projections although we would be delighted to be surprised to the upside. We'll keep costs under control consistent with that weakness in the top line as we think about 2021.

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**Jonathan Arnold** – Vertical Research, Analyst

Could you talk a little bit about what you're seeing in the renewables development space for the Commercial business and just remind us where that sort of fits into how you're talking about the growth outlook?

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

Jonathan, we continue to see a lot of project opportunity and a pipeline of contracts and projects under development. We have targeted \$200 million to \$250 million of net income over the five-year period. And we have a clear line of sight to achieving that during the five years. So, we feel very good about the business. When you couple that expertise with the renewables that we're building in the regulated business, I feel like the team is doing a good job of understanding the integration of the resources, how to develop and build them cost effectively and so, that's what you can expect, kind of a \$200 million to \$250 million contribution from Commercial Renewables going forward.

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**Jonathan Arnold** – Vertical Research, Analyst

Great. Thank you. And then just if I may, Lynn, on your comments about seeing upside potential to the \$5.15. I was just curious if you could, I know this has been covered, but is that incremental comfort that you've developed since you've first put that number out there or really just articulating kind of a path that you were already on a lot more clearly?

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

Probably a little bit more comfort, Jonathan, in that we've got three more months behind us on COVID. Our forecasts for that have been pretty accurate in terms of net income. But we'll be watching it over November and December with the second wave and the rate cases have always been out there. It's something that represents an opportunity. And then we talked about cost management. We're going through everything we've done in 2020 to challenge whether it's achievable in 2021 and that work is part of our normal process that Steve leads in connection with the five-year plan. So, probably a little more confidence because we've got three more months of experience. Steve, how would you add?

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

Yeah. I'd agree with that. We are starting to firm up on what we can – what we've learned from COVID on cost reductions and we'll continue to drive that out. And that's always helpful to our plan. So, we'll be continuing to push on this and drive more detail as we go forward.

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**Operator**

And that will conclude our Q&A session for today's call. At this time, I'd like to turn the call back to Lynn Good for closing remarks.

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

Thank you, Savannah, and thanks everyone who joined. We're looking forward to talking with many of you, if not, all of you next week in our virtual EEI meeting. So, thanks again for joining us, thanks for your investment in Duke Energy.

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**Operator**

And this will conclude today's conference. Thank you for your participation and you may now disconnect.