

EDITED TRANSCRIPT

Q4 2020 Duke Energy Corporation Earnings Call

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PRESENTATION

Operator

Good day, everyone, and thank you for standing by. Welcome to the Duke Energy Fourth Quarter Earnings Conference Call. Today's conference is being recorded. At this time, I'd like to turn the conference over to Jack Sullivan, Vice President of Investor Relations. Please go ahead, sir.

Jack Sullivan – Duke Energy Corporation, Vice President Investor Relations

Thank you, Hannah. Good morning, everyone, and welcome to Duke Energy's fourth quarter 2020 earnings review and business update. Leading our call today is Lynn Good, our 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.

So with that, let's turn the call over to Lynn.

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

Jack, thank you. And good morning, everyone. I want to take a moment and welcome Jack to his first earnings call. He has recently assumed responsibility as Vice President of Investor Relations after a very strong 15-year career with Duke where he's had financial experience, capital markets experience, M&A experience, and brings that wealth of background to this role as well as a deep understanding of our company and our industry. We have put him to work over the last couple of weeks with all of our announcements. So, many of you have already had a chance to meet and talk with Jack. But you can look forward to more interaction with him as we go forward.

So, good morning to all of you. It's great to be with you for our fourth quarter 2020 earnings call. We begin the year with significant momentum on strategic, regulatory, and stakeholder fronts, and I'm very optimistic about our future heading into 2021. Today, we announced adjusted earnings per share of \$5.12 for the year, putting us solidly within our updated guidance range for 2020. These results reflect the strength of our regulated utilities, our commitment to generating sustainable shareholder value, and our financial agility, especially in response to the unique difficulties of

this past year. We also affirmed our 2021 guidance range of \$5.00 to \$5.30 with a midpoint of \$5.15 and our recently increased to long-term EPS growth rate of 5% to 7% through 2025 based off the midpoint of our 2021 guidance range.

Like most companies, 2020 presented us with new challenges, and I'm extremely proud of how we responded. We faced those challenges head on, swiftly responding to the COVID-19 pandemic to support our customers and our workforce, adjusting our plans after removing Atlantic Coast Pipeline, producing \$450 million in mitigation actions, and responding to significant storms throughout the year. All of this was made possible by our employees who showed incredible resolve as they adjusted to new working conditions, identified cost savings and operational improvements, and maintained reliable service for our customers. In short, we did more than just get through 2020. We adapted and delivered, learning new ways of working that will benefit us in the years ahead.

The momentum from 2020 has continued into 2021. And turning to slide 5, Duke Energy has made significant progress, resolving uncertainties around our company, and laying a solid foundation for growth into the future. Slide 5 captures the myriad accomplishments that the Duke Energy team delivered, all providing benefits to our customers and our investors, and allowing us to turn our full attention to advancing our goal to reduce carbon emissions by 50% by 2030 and achieve net zero by 2050.

In North Carolina, we reached a milestone settlement with the State Attorney General, Public Staff, and Sierra Club to close the debate around coal ash costs recovery. We're pleased that this balanced compromise resolves several outstanding issues including the remand of the 2017 rate cases and the pending 2019 rate cases. It also provides greater clarity and recovery of coal ash costs incurred through early 2030 and preserves our ability to earn an equity return on deferred coal ash costs.

This settlement complements the previous settlement reached in the summer of 2020 on ROE and capital structure and again demonstrates our commitment to working collaboratively with stakeholders in our jurisdictions. We look forward to the commission's order addressing these settlements and the remaining issues in the case.

We also developed innovative IRPs in the Carolinas, outlining comprehensive proposals and offering six portfolios to meet key carbon reduction milestones over the next 15 years. And for the past year, we've been working with stakeholder groups to help shape North Carolina's Clean Energy Plan with a common goal of reaching net zero carbon in a way that best serves our customers. This complements the efforts underway on regulatory reform and introducing more efficient cost recovery mechanisms.

Shifting to Florida, we work with business and consumer groups including the Office of Public Council to propose a new three-year settlement giving our investors and customers clear visibility through 2024. This settlement includes multiyear base rate increases to recover significant investments in the grid, solar generation, and electric vehicle infrastructure. It also allows for the accelerated depreciation of coal plants and supports innovative technology pilot programs that are important to achieving our carbon goals and clean energy future. We expect an order from the Florida Commission by the end of the second quarter with rates effective in January of 2020.

Beyond the multiyear rate plan, we also received approval of the first three years of our Storm Protection Plans, representing a \$6 billion investment in grid hardening projects over the next 10 years.

In Indiana, we recently announced that GIC, a global investment firm with significant experience investing in US infrastructure companies, will become a minority investor in Duke Energy Indiana. For \$2.05 billion, GIC will acquire a 19.9% ownership stake with governance rights commensurate with their equity ownership. GIC highlighted that our proven track record of high performance and clear commitment to a clean energy transition make this an attractive partnership for them.

The transaction values our DEI utility at an attractive multiple through our current stock valuation, providing an efficient source of financing for our business and allowing us to eliminate all common equity from our five-year plan. The structure of the investment also allows us to better match financing with capital needs, bringing \$1 billion into our company in 2021 and the second tranche no later than January of 2023. This investment is a strong endorsement of our company and of Duke Energy Indiana, our operations, employees, and opportunities for growth. It is also a strong endorsement of our overall strategy to be a leader in clean energy transformation.

We also significantly expanded our renewables footprint in our regulated and commercial businesses, announcing more than 700 megawatts of solar and wind energy projects. And we built momentum around electric vehicle pilot programs which was further amplified by our own pledge to electrify the Duke Energy fleet.

And turning to Tennessee, we reached a constructive settlement in our Piedmont natural gas rate case with the Attorney General's Consumer Advocate Division. This is our first general rate case in Tennessee in almost nine years, allowing us to recover needed infrastructure investments to serve our growing customer base in and around Nashville.

This is an impressive list of accomplishments, and we will keep going with a clear clean energy vision and growth in the 5% to 7% range underpinned by a robust capital plan, constructive jurisdictions, operational excellence, and a diverse committed workforce.

Shifting to slide 6, we begin 2021 with a clear vision for the future to lead the clean energy transition in our communities. Our goal is captured clearly in our climate strategy, at least 50% carbon reduction by 2030 and net zero by 2050. We crossed a major milestone in 2020 surpassing 40% carbon reduction from 2005 levels, and we're poised to hit more milestones in the years to come.

Our road map to success involves close collaboration with key stakeholders and accelerated move from coal and into cleaner forms of generation including renewables and battery storage, the modernization of our grid to enable more clean energy, and an unwavering commitment to reliability and affordability.

2021 is an important year on this journey. In North Carolina, stakeholder discussions initiated by the governor's Clean Energy Plan are beginning to wrap up. These conversations have been very helpful in creating a common understanding among the interested parties on clean energy principles and the regulatory changes needed to effectuate a generation transition.

As the 2021 legislative session begins, we believe both the stakeholders and policymakers will benefit from this work as well as the information found in the comprehensive IRPs we filed last summer. Those resource plans present several pathways that illustrate the trade-off between the pace of transition and cost implications.

We look forward to working with legislators and stakeholders over the next several weeks and months to evaluate the various options, and we are optimistic about the policies that can be created from shared objectives around North Carolina's clean energy transition as well as the regulatory reforms that provide for timely recovery of these investments. In Indiana, we will continue our critical grid improvement projects and further our clean energy transition as we file our 2021 IRP this November. In Florida, our recent settlement outlines a clear path for further renewable and the EV investment in the state through 2024 and the accelerated retirement of coal plants.

And at the federal level, we will work closely with policymakers as the Biden administration re-enters the Paris Agreement and sets a national policy that advances our country's transition to clean energy. We look forward to adding our voice to this important discussion, ensuring that the policies strategically integrate emissions reductions, cost considerations, and the promotion of a broad range of technology development.

Our objectives are clear and will create value for all of our stakeholders. Our climate strategy is our growth strategy, and our relentless commitment to our bold climate targets means we are leading the transition to clean energy. Our aggressive \$59 billion capital plan is among the largest in the industry, placing us at the forefront of clean energy at scale. We're confident this capital will generate value for our growing constructive jurisdiction and provide clean affordable energy for the more than 25 million customers we serve every day. This capital plan positions Duke to achieve earnings growth of 5% to 7% based off the 2021 midpoint of \$5.15. I'm very proud of our result and excited about Duke Energy's path forward.

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

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

Thanks, Lynn, and good morning, everyone. 2020 was a year marked by agility and transformation. We delivered results within our guidance range, overcame headwinds, and leveraged our size and scale to position the company for significant growth in the years ahead. As shown on slide 7, our full-year reported and adjusted earnings per share

were \$1.72 and \$5.12 as compared to \$5.06 of reported and adjusted earnings per share in 2019. We took swift and decisive action to mitigate the challenges we faced this year. We did not allow COVID-19, mild weather, storms and the loss of ACP earnings to define our path forward. And this commitment and dexterity enabled us to deliver solidly within our narrow 2020 earnings guidance range.

Our 2020 results were driven by strong execution across each of our operating segments. Growth from our rate case execution in Indiana and Kentucky, interim rates in North Carolina, and continued growth from our Florida operations through their multi-year rate plan and silver mechanisms produced positive results in Electric Utilities and Infrastructure. We also saw growth in our Carolinas wholesale business due to the new formula rate contract that was effective this year. These factors were offset by regulatory lag on our growing asset base, milder weather, and dilution from equity issuances.

Shifting to Gas Utilities and Infrastructure, we saw higher results and our LDC businesses primarily due to Piedmont's rate case in North Carolina and contributions from rider mechanisms. The gas LDCs continue to provide strong earnings growth adding \$0.11 driven by customer additions and investments in integrity management but offset by the cancellation of ACP in July.

Results in Commercial Renewables were higher than 2019 driven by new projects placed in service including Palmer, Holstein and Rambler, which together total 460 megawatts. Going forward, we continue to plan for this segment to deliver between \$200 million and \$250 million of net income per year over the five-year plan with a potential for upside if projects meet our return expectations.

Having accomplished a lot in 2020, we turn to 2021 well positioned to achieve our adjusted EPS guidance range of \$5 to \$5.30 with a \$5.15 midpoint.

Turning to slide 8, our financial outlook for 2021 and beyond is strong and rooted in our increased capital investment plan. Our core utilities continue to generate solid growth, driving our earnings results upward for the foreseeable future. Electric Utilities and Infrastructure growth in 2021 will come from our customer additions and infrastructure investments across our franchises. In the Carolinas, we will experience growth from revised rates in our current pending rate cases. In Florida, we expect strong earnings contributions as we move into the final year of our multiyear rate plan, coupled with growth in solar via the SoBRA mechanism.

In 2021, we'll continue to benefit from the steady growth of our T&D infrastructure investments in the Midwest, along with new effective rates in Indiana and Kentucky. As the economy continues to rebound from the pandemic, we forecast our 2021 load growth in the 1% to 2% range across our entire footprint, driven by some of the strongest customer growth we have seen in recent years.

Our Gas Utilities and Infrastructure segment provides consistent and steady growth, largely driven by our organic customer additions and integrity management investments. These investments will translate to revenues, to riders and base rate adjustment mechanisms in our LDCs such as the recent rate settlement filed in Tennessee. In Commercial Renewables, in 2021, we will deliver annual earnings solidly in the \$200 million to \$250 million range and throughout the five-year plan.

We expect the Other segment to be lower year-over-year. This is primarily due to favorable tax optimization in 2020 not producing the same level of contributions in 2021 and the expectation of lower market returns in our captive insurance program and grantor trust. Finally, we have adjusted our plans to reflect the cancellation of ACP and the full year impact of the \$2.5 billion equity forward transaction that closed in December of 2020. Excluding this, we expect growth in our core businesses of 6% in 2021.

Turning to slide 9. Let me touch on electric volumes and economic trends. We operate in constructive and growing jurisdictions. That said, like most utilities, we saw a decline in retail load for 2020 given the impact of the pandemic. While residential volumes were up 3% for the year, that did not offset the lower volumes from commercial and industrial customers. As we look at customer growth, we experienced very positive trends, closing out 2020 with 1.8% growth for the year. This was favorable to the projections we originally shared in May of last year and the firms we operate in high growth states. In fact, our franchises serve for the top eight states in terms of positive population migration.

We projected overall increase in electricity consumption in 2021 of 1% to 2% over 2020 given many of our commercial

and industrial customers continue to return to normal operations. We expect the metrics for residential may decline a bit as people begin to return to the workplace following the mass distribution of the COVID vaccine. For the five-year plan, we project low growth of 0.5% to 1% as the economy returns to pre-COVID status.

On slide 10, you will see the transformative work underway to lower our cost structure and bolster our growth potential. Duke Energy is the leader in the industry when it comes to cost mitigation driven by digital capabilities, data analytics, and retraining and reskilling employees which drives a more versatile workforce. Taken together, these factors result in meaningful and sustainable savings.

When 2020 began with weaker weather and storms, we initiated tactical business levers to significantly reduce our O&M costs. Then, in response to the pandemic in the first quarter, we accelerated these mitigations to offset projected impacts. By the end of the year, we delivered \$450 million of mitigation. This included \$320 million of O&M savings equivalent to more than 6% of our 2020 non-rider recoverable O&M. And this was done with a keen focus on minimizing the impacts to employee jobs.

While certain cost savings in 2020 were one-time opportunities, we have identified many others that are sustainable which will ultimately benefit our customers and shareholders over the long term. These sustainable savings of approximately \$200 million are underpinned by our versatile workforce who continue to adopt advanced technologies to perform work with increased efficiencies, allowing us to take advantage of attrition, reduce employee expenses, and minimize facilities costs. For the past five years, our net regulated electric and gas O&M has declined approximately 1% per year even with the acquisition of Piedmont Natural Gas, and we expect this downward trend to continue.

Moving to Slide 11. As Lynn discussed, we have a robust capital plan of \$59 billion over the five-year planning period. About 70% of this capital investment will be geared towards investments in clean energy and the grid infrastructure that supports it. We expect the clean energy transformation to ramp up over the five-year period and grow even further to \$65 billion to \$75 billion when we enter the back half of the decade. This will be largely driven by more coal plant retirements and the acceleration of renewables. We expect to gain more clarity around this projection as our states make important carbon policy decisions. These investments across our electric and LDC franchises position us for a five-year rate base CAGR of approximately 6.5%. For the next five-year period ending in 2029, we see that growth accelerating to 7% based on our growing capital needs during this transition and transformation.

Turning to slide 12, our growing capital plan, vibrant franchise service area growth and proven capability to control cost and work constructively with stakeholders to move through regulatory processes give us confidence in our ability to consistently grow our adjusted earnings per share at 5% to 7% throughout the five-year period. Bear in mind this capital plan assumes the lower-end carbon reduction scenarios in the Carolinas.

Moving to slide 13, our ability to execute on our robust capital program is underpinned by a healthy balance sheet and solid credit ratings. We announced a \$2.05 billion minority investment in our Indiana utility where we will remain the majority owner and sole operator. This private equity investment by reputable infrastructure investor demonstrates the premium valuation of our regulated utilities, addresses all equity needs for the next five years, and supports a strong balance sheet that allows access to low cost capital. The equity from the Indiana transaction, along with our overall financing plan, allows us to maintain a healthy credit profile targeting a consolidated FFO-to-debt ratio of 14%.

Before we open it up for questions, let me close with slide 14. We are positioned to deliver results for our shareholders and are confident in the 2021 base year EPS guidance and robust capital plan we have laid out for you. Our focus on the future, sound investment strategy, and demonstrated dexterity position us to consistently deliver within our increased 5% to 7% long-term EPS growth rate through 2025.

Our commitment to the dividend remains unchanged. We understand how important it is to our shareholders, and that's why 2021 will mark the 95th consecutive year of paying a quarterly cash dividend. We intend to keep growing the Duke Energy dividend, balancing our desire to offer investors a strong payout with our need to fund our capital plan.

As Lynn said in her opening remarks, 2020 and the early part of 2021 have been transformative for Duke Energy, and we lean into the next decade with anticipation and resolve to achieve our goals for our customers and our shareholders.

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

QUESTIONS & ANSWERS

Shar Pourreza - Guggenheim, Analyst

So, a couple of quick questions here. Lynn, obviously, you highlight some factors that would provide upside to the base plan, like through acceleration of clean energy, federal legislation. So, to the extent that these items require incremental CapEx, would you kind of consider monetizing additional stakes at your opcos like Indiana, similar to the GIC deal, versus maybe tapping traditional financing like equity? Obviously, the demand is there for these strategies and the transaction multiple was certainly healthy versus where your stock trades.

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

Yeah. So, Shar, thank you for that question. And as we looked at the \$60 billion, \$59 billion, \$60 billion of capital in front of us, we saw this transaction as an attractive investment. It gave us an opportunity to eliminate common stock, as you said, at a valuation that was attractive to our investors and frankly recognize the value where we operate in Indiana.

I would say, as we look at this five-year period, we feel like we've got a pretty strong capital plan. There may be some upside in the back part of the plan, Shar, but I look at the clean energy transition that's underway. We have some work to do in 2021 and 2022 to lay further groundwork. And so, that escalation will be toward the end of the five year, continuing over the rest of the decade.

We will always look for attractive ways to finance growth, and I think we've demonstrated that with this transaction. But don't have anything in the near term that I would point to, just reinforce that finding attractive low-cost capital to underpin growth is always an objective. And we're really pleased with what we were able to accomplish with this transaction.

Shar Pourreza - Guggenheim, Analyst

Got it. And then, obviously, you highlight the higher growth rate and the movement you're seeing in North Carolina. And, obviously, there's been recommendations provided by working groups in the state. I'm wondering how sort of the North Carolina clean energy legislation could impact sort of this updated growth trajectory. Should investors sort of look at it as simply as an extend the runway scenario or could it actually be accretive to that growth through maybe accelerated spending opportunities, less regulatory lag?

Obviously, we're assuming that you get some ROE bands, PBRs gets approved. But so how do we sort of think about the legislation in light of the updated growth?

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

Sure. And you know, Shar, the first thing I'd like to do is express the confidence we have in achieving 5% to 7%. It has been grounded in not only strong franchise growth, the regulatory certainty we've been able to achieve including the recent settlement with the AG, the investment opportunities we've talked about on decarbonizing, and then, our ability to control costs coupled with the transaction with GIC eliminating equity gives us a really solid foundation for 5% to 7%.

So, I'd look at what we've put in front of you as a capital plan and a strategy with a high degree of confidence to achieve 5% to 7%.

I think the ability to reach that top end, to keep going, would include faster acceleration of generation transition. Perhaps faster economic recovery, I'd put in that list also, Shar. We're seeing such incredible customer growth in the areas that we serve because of population migration. That could be another item that would be a surprise to the upside in a good way.

Sustainable cost savings. As we continue the digital transformation, continue grid modernization, continue retirement of the coal fleet, all of those things will give us an opportunity to continue to drive O&M out. And I do think regulatory lag, if we can find a way to lessen it, the growth is going to be strengthened. And so, I come to this discussion with a lot of confidence. And we have a plan that we'll achieve the 5% to 7%, and we'll continue to work on the legislation and regulatory reform in a way that'll complement the growth and perhaps enhance it, if it moves more quickly.

Shar Pourreza - Guggenheim, Analyst

Terrific. And just lastly for me, Lynn, in your discussions with stakeholders, are you finding sort of an alignment with the governor and key legislators here? And what's kind of the next data point we should be watching out for?

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

We have been at work on this, Shar, as we've talked about for some time and have been engaged actively with stakeholders, really building alignment around the common goal, common objectives. And those objectives include moving away from coal, carbon reduction, regulatory mechanisms that incent that move, and then, of course, increased investment in renewable, all within the construct of maintaining reliability and affordability. So, I think the common objectives really provide a really strong foundation to move forward. So, we're working to advance those objectives, and we will continue to provide updates along the way.

The session that is underway right now, there will be some milestones in April around potential introduction of bills. So, what I would point to is with common objectives, with a desire to create momentum on carbon reduction, I think that alignment provides a great foundation for moving forward.

Stephen Byrd - Morgan Stanley, Analyst

I wanted to talk about the prospects for further federal legislation supporting clean energy. I guess we're growing more optimistic that we may see kind of a round two of legislative support this summer, into the fall where Congress might further extend the duration of tax credits for wind and solar and potentially add a new tax credit for energy storage. And as you think about those kinds of elements of support, how do you think about that in terms of your longer-term resource planning? Could that have an impact in terms of just kind of thinking through the economic cost of renewable energy?

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

Stephen, I think it will. And I think all of that to the benefit of our customers in our regulated jurisdictions. And so, as you look at even the integrated resource plans that we shared in the fall, those were predicated on the tax policy that existed at that time. And so, extensions could be valuable. I think credits around battery storage, electric vehicles, all of those represent opportunities to continue the clean energy transition. So, I would say we'll watch it closely.

Stephen Byrd - Morgan Stanley, Analyst

Okay. Very good. And then, maybe just thinking about offshore wind. If the decision was made at the state level to start to sort of at least explore or pursue offshore wind, how do you sort of think about next steps? I'm just not familiar enough with sort of the technical feasibility of offshore wind. What kind of early steps you might take if the decision was made that the state wants to go in that direction?

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

Stephen, we've been working on the potential for offshore wind for some time, not only in terms of the obvious issues around leases and location of leases, but also transmission infrastructure that will need to accompany that. We're in

the Carolinas, in particular, the load centers are further west than the coast. So, finding an appropriate transmission path would be important.

I think there's been more conversation in the Carolinas. The governor has joined with other mid-Atlantic governors, signing an MOU to say, let's spend more time figuring this out. There's a study underway to look at the impact to economic development.

And so, I would say we're monitoring all of this closely. I would think about it as maybe a late 2020, 2030 opportunity in the Carolinas. But nonetheless, we are supportive of finding ways to bring wind into the state as a complement to the solar and nuclear resources that we have that are carbon-free. So, I think more to come on that, Stephen, as some of these exploratory processes bear fruit.

Stephen Byrd - Morgan Stanley, Analyst

It's well taken. It's a long lead time to kind of think through these issues for offshore wind. Maybe last question, just on the commercial renewables business. I was just curious, your latest thinking in terms of the competitive dynamics in renewables. Are you seeing any sort of trends in terms of increased competition? We're just anecdotally hearing some degree of increased competition. I'm just kind of curious what you all are seeing on that side of the business.

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

Stephen, we see it as competitive. It's been competitive for some time. It's hard to delineate, is it a little bit more competitive? So, from our standpoint, we stay very disciplined on the cost of capital, the returns that we want, and have a combination of development around the US, but also really focused on how we can grow renewables within our own jurisdictions. But I think it's a fair comment. There's a lot of interest in investment moving into renewable energy. And that, by its nature, will create competition.

Steve Fleishman – Wolfe, Analyst

So, just wanted to go back to a prior question which I'm not sure was answered on the North Carolina Governor's kind of discussions and the like and next steps. Is there still going to be kind of a report that comes out from that? And then, when would we likely see legislation proposed?

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

Sure. And, Steve, on the specific question of the report, there were two processes. So, the regulatory reform report is out. This is the one that talks about multiyear rate plans, performance incentives, really a strong endorsement that regulatory reform is important to incenting movement. So, that one is out and discussions, of course, continue on that.

The carbon policy report, which is the one that's been led by the Nicholas Institute, should be coming any time. And I would think about it, Steve, as a data point that will be considered in the legislative session along with our IRPs, frankly, that has garnered a lot of stakeholder discussion.

We don't expect that carbon policy report to include specific recommendations, but we believe it'll be a discussion of retirement of coal, carbon pricing, clean energy standard, et cetera. And the stakeholders that have been involved in all of these processes, integrated resource plan, clean energy, policy discussions that the governor sponsored, the regulatory reform, all of the stakeholders have been working together quite well over the course of the year.

And when I talked about common objective, what I was really speaking to is the common objectives that have come out of all of that, common objectives around retirement of coal, common objectives around increasing renewable, regulatory reform, et cetera.

So, it's that bringing together of those common objectives that is being worked on to try to advance where we go from here. And I'm optimistic that you have a number of very informed stakeholder groups that have common views of positioning North Carolina for the future. And I think progress will come from that. There's also a keen focus in that group on reliability and affordability, which we also strongly endorse and come to the conversation with very low prices against national averages. And we'll be working actively to make sure we make progress within that construct as well.

Steve Fleishman – Wolfe, Analyst

Okay. That's good. And then, in the event that no law passes and if we're just kind of doing regulation in the Carolinas as we have it now, could you just give a sense of just how you would manage this kind of maybe increasing spend on the regulatory side? Is it just the annual rate cases?

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

Steve, I think it's important to maybe step back for a moment. When we put forward the integrated resource plan in the Carolinas, there were six scenarios. The base scenario, the one that's on the far left, is one that can be accomplished without any changes in regulation or legislation, et cetera. And the capital plan that we've put in front of you is really predicated on that base plan. So, we believe the grid investment, the investment in generation that's included in our plan for the Carolinas can be executed. You could think about the overlay of legislation and perhaps new tools and maybe acceleration being incremental to what we've put in front of you.

We thought it was prudent to put together a plan that we have a high degree of confidence to achieve under a variety of scenarios. But we'll work actively as we have over the last year-and-a-half with stakeholders to find a way to meet those objectives.

Steve Fleishman – Wolfe, Analyst

Great. One last quick one. I think I heard Steve say the 5% – when you look at the 5% to 7% growth rate, it's kind of consistent over the period, roughly? Is that fair to say?

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

That's right.

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

That's right. That's correct.

Julien Dumoulin-Smith – BAML, Analyst

Hey. Good morning. Perhaps just a follow-up on this, because I want to understand. So you talk about legislation and having worked for years to try to get the stakeholders up the curb, but at the same time, you talked about this IRP pending before the commission. Can you talk about how those two processes work as best you understand right now? Let's say, for instance, we don't get legislation. How does the IRP proceed in that case and perhaps the overlap in timing, critically, as you think about April versus the IRPs process that already kicked off.

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

Sure. Julien, I would think of these things as being complementary. The stakeholder group that's been involved in the IRPs, the stakeholder group that's been involved in the clean energy policy discussions – there's a high degree of

overlap. And so, let's talk a little bit about the IRP because we haven't visited about that in this call. North Carolina will review the IRP. Comments that are due at the end of April. And we would expect an order from the North Carolina Commission yet this year, probably in the fall. And the North Carolina Commission doesn't approve, but rather provides comments, perspectives on what they've seen. And so, it becomes a data point, right, not only for the legislative process, but also for the commission on how we're thinking about the future. And stakeholder parties will have an opportunity to weigh in and discuss.

In South Carolina, the IRP will be approved or reviewed, and an order will be issued by the commission. This is consistent with Act 62, which you may remember being a requirement in South Carolina. We believe our IRP conforms with those requirements, extensive stakeholder engagement, an analysis of core requirements, an analysis of rate impact. So, we should expect to hear from the South Carolina Commission in June.

The legislative session, the bills would be introduced in this legislative session in April. Crossover dates are in May. So, the legislative session is also running, Julien, in the first half of the year. And so, I would think about all of these things as complementary, the same people at the table talking about the same objectives – lowering carbon, building renewables, grid investment, regulatory reform. And we will keep you informed along the way as milestones are achieved and feedback is received. But I'm optimistic about an informed group of stakeholders coming together with shared objectives.

Julien Dumoulin-Smith – BAML, Analyst

And perhaps just a follow-up on the consistency of the 5% to 7%, if I can quickly. Can you comment about – on the earned ROE trend across the years, I'm thinking Carolinas. Obviously, you guys have a range established for this year. Is that range broadly the same range through the forecasted period or how would you characterize that?

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

Yeah. I think, broadly, it's just going to be similar. We have a settlement proposal with a 9.6% ROE. But we've got a long track record in the Carolinas and across our entire footprint of being able to earn at or, in some years, certainly above our allowed returns through cost management, through working on wholesale-type transactions as well. So, I think there are a number of mechanisms that are going to allow us to earn similar to what we've earned in the past on our regulated jurisdictions.

Michael Weinstein – Credit Suisse, Analyst

Hey, on the same topic, could you comment a little bit about the ROE projection you guys have in there for 2021 for Indiana and Ohio and Kentucky as well? Both looking pretty low, trending towards lower numbers going forward. Sub-9%, sub-8% in Kentucky.

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

Yeah, a couple of comments there. In Indiana, we've got a rate order in August in Indiana, and that was a catch-up rate case. So, what you see when you've got a big base rate case that's built up, and in Indiana, we haven't had a base rate case in quite a while, so you're building up a lot of investments there. And prior to that buildup, you're going to see the ROEs drop a bit, and then you have a catch-up and we've got the solid ROE in Indiana going forward. We'll be able to optimize around that and earn very well there.

Ohio is a similar situation. When you have a base rate case, you'll build up investments up to that point, and then the new rates will work on the return. So, you'll see some movement around a rate case like that.

But over a broad period, as you've seen when you look across our footprint, we've been very capable at earning our allowed returns on a growing rate base. And we've done that through periods where we've had more frequent rate cases and periods where we've had less frequent rate cases. And that's where you utilize your capital optimization

between rate cases and cost control to keep the returns solid. So, we'll continue to have those capabilities.

Michael Weinstein – Credit Suisse, Analyst

Are you planning on having a base rate case in Indiana?

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

No, not in the near term. We've caught up those investments. Most of our growth will be coming through TDSIC and the environmental rider. So, it's a very efficient jurisdiction going forward here.

Michael Weinstein – Credit Suisse, Analyst

So, you think it will improve after 2021 basically, the ROEs in that state?

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

Yes.

Michael Weinstein – Credit Suisse, Analyst

And how is the 5% to 7% growth CAGR weighted? Is that a steady growth rate throughout the period to 2025 or is that back-end loaded?

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

I would think about it as a steady growth rate, Michael.

Michael Weinstein – Credit Suisse, Analyst

Okay. And dividend growth, I know that we're still in that slower than EPS growth period. Is that expected to continue, given the high CapEx program that you have?

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

I think certainly in the near term, Michael, and then we'll evaluate it as we get deeper into the five-year plan. The growth shows up, the payout ratio comes down a bit. So, we understand the importance of a growing dividend, and we'll continue to look at that right balance between growth of capital and growth in the dividend.

Jonathan Arnold – Vertical Research, Analyst

Just to revisit this question of what's in the plan. And you've said pretty clearly that the low end, the left-hand end of the Carolinas transition, the IRP proposals is what's in your plan and your CapEx. How would you sort of tie that to the sort of second half of the decade where you've got this \$65 billion to \$75 billion five-year spend for 2025 through 2029? Just curious if that's still the case or you're starting to sort of dip into acceleration there?

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

Well, what we reflected in that second half of the decade, the range of \$65 billion to \$75 billion represented again the low-end scenarios of carbon reduction versus the higher, more aggressive carbon reduction. So, as we learn more about the pacing that the state wants to go through, I would project that we'd be somewhere in that range depending on that pacing of the \$65 billion to \$75 billion as you move into that second five-year period.

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

And, Jonathan, even the base plan of the IRP includes over 50% carbon reduction and includes quite a bit of transition of generation, retirement of coal, and renewables. And so, as Steve indicated, we'll learn more around pace, in particular, as we go through the next few months and hear from commissions, et cetera. And the \$75 billion would be the more aggressive, kind of to the 70%-type range but even the base plan has a very healthy growth rate within that range.

Jonathan Arnold – Vertical Research, Analyst

Okay. Great. Thank you for clarifying there. And then obviously 2025, you already have a number out for. So, that \$65 billion to \$75 billion implies quite a material step-up closer to the back end of the decade. Is that the right way to think about it or is it a 2025 number that could be in play if the things decided to move faster, I guess?

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

I think 2025 could be in play, Jonathan. And I think about it in this way. It takes a little bit of time to develop, site and permit generation. But as we think about – this is 2021. By the time 2025 rolls around, we will have a clearer picture on that. And coal retirements go along with it. And so, we'll be into a deeper amount of coal being retired in that back part of the decade. And so, you'll be building generation to replace them that way. So, we'll know more and, of course, update these expectations all along the way.

Jonathan Arnold – Vertical Research, Analyst

Okay. Thank you. And then, just maybe one other thing. It looked like there was a fair step-up in what you're categorizing as maintenance CapEx in the five-year plan, a couple of billion versus last year. Is that a categorization issue or is it different spend or what's going on there?

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

Nothing singular there. I just think we're looking at the maintenance of the nuclear facilities and the grid facilities as we modernize the grid. There's more CapEx of maintenance nature in those areas, in those two specific areas.

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

And, Jonathan, we did do a little bit of changing our profile around maintenance outages and other things in 2020 because of COVID. And so, I believe some of that will also be movement of outage and investment that goes with it into 2021, consistent with the challenges of the year.

Durgesh Chopra – Vertical Research, Analyst

Hopefully, two quick questions. Steve, just – can you remind us the tax optimization in 2020? You mentioned this in

your drivers 2021 over 2020. What is that tax optimization? Any color on that front?

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

Yeah. Well, what we have done in 2020, we had worked on various efforts that lowered the effective tax rate a bit, and that falls through and was part of the mitigation that was put in place. And it was probably around 0.5% on the effective tax rate reduction, might have been in the range of \$0.04 to \$0.05 or so of mitigation that we got out of income taxes.

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

Durgesh, I would share with you that the tax team is always looking for ways to optimize taxes, whether it's at the state level, property taxes, federal tax, tax credits, research and development, et cetera. And so, we – they were quite effective in 2020 with a variety of projects. But we are always looking for effective tax planning ideas.

Durgesh Chopra – Vertical Research, Analyst

Understood. So, it's more like a 2020 event. You're not modeling that going into 2021, but there may be opportunities, right? Is that the right way to look at it?

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

There are opportunities in 2021. But we expect them to be a bit less than what they were in 2020.

Durgesh Chopra – Vertical Research, Analyst

Understood. Perfect. And then just maybe quickly on the FFO-to-debt metric, if I have this correct, 2020 for the year past, we were targeting 15%. Now, it's going to 14% for the next five years. And you mentioned there's some question versus sort of what agency thresholds are to kind of predict your rating. Can you just provide us a little bit of what is the floor? So how much cushion do you actually have versus the credit rating agency metrics?

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

So, I'll jump in, and Steve can follow on. The FFO has seen the impact of COVID. We also see the impact of our coal ash settlement with some near-term benefits that we offer to customers. And so, as we look ahead speaking to S&P in particular, the range is 12% to 16%. We believe we'll be very solidly within that range. And continue to believe a strong balance sheet and our commitment to the balance sheet is important. And you see that with the recent GIC transaction. So, I would talk about some of those near-term items that I referenced there. And, Steve, how would you add?

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

I think that's exactly right. We – certainly, as we look forward, we've got COVID impacts that will continue into 2021 and affect the top line revenues, the coal ash settlement that was structured in a fashion to help customers there, but we think we can operate very comfortably within this range at the new rating. And we will get very adequate access to capital.

Operator

And that concludes today's conference. I would like to turn it back over to Lynn Good for any additional or closing remarks.

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

Well, Hannah, thank you. And thanks to all of you who joined the call. We've had a lot of news here in 2021, all directed at building a strong foundation for growth in the future and look forward to engagement with you in the weeks and months ahead. And, of course, the IR team is always available this afternoon if there are further questions.

So, thanks for your interest and investment in Duke Energy.

Operator

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