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PRESENTATION

Operator - Good day and welcome to the Duke Energy Second Quarter Earnings Call. This conference is being recorded. And at this time, I'm going to turn the conference over to Mr. Mike Callahan, Vice President of Investor Relations. Please go ahead, sir.

Michael Callahan – Duke Energy Corporation, Vice President Investor Relations

Thank you, Derek. Good morning, everyone, and thanks for joining Duke Energy's second quarter 2019 earnings review and business update. Leading our call today is Lynn Good, Chairman, President and CEO; along with Steve Young, Executive Vice President and Chief Financial Officer.

Today's discussion will include forward-looking information and the use of non-GAAP financial measures. Slide 2 presents the Safe Harbor statement, which accompanies our presentation materials. A reconciliation of non-GAAP financial measures can be found on duke-energy.com and in today's materials. Please note the appendix for today's presentation includes supplemental information and additional disclosures. As summarized on slide 3, during today's call, Lynn will provide an update on the quarter and progress on our strategic initiatives. She will also discuss legislative and regulatory activity in North Carolina. Steve will then provide an overview of our second quarter financial results and insight about economic and load growth trends. He will also provide an update on our regulatory and financing activities this year before closing with key investor considerations.

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

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

Mike, thank you, and good morning, everyone. Today, we announced strong results for the quarter with reported and adjusted earnings per share of $1.12, compared to $0.93 in the prior year. Our results today represent 6% growth over last year and give us confidence as we reaffirm our 2019 adjusted EPS guidance range $4.80 to $5.20. We also reaffirmed our long term earnings growth target of 4% to 6% through 2023. With solid growth across all three operating segments, we are executing our long-term strategy to transform the customer experience and deliver value for our shareholders. Our investments in the energy grid, cleaner generation and natural gas infrastructure ensure Duke Energy is well positioned to build a smarter, low-carbon energy future. In addition, we remain committed to the dividend. And for the 13th consecutive year, we increased our quarterly dividend to shareholders.

Shifting to operations, let me highlight several noteworthy accomplishments on slide 4. First, Piedmont Natural Gas was recognized as one of America's Most Trusted Brands among utilities, continuing to prove the franchise’s value, as well as its unwavering dedication to safety and impressive customer service. And we also remain steadfast in our
focus on operational excellence. I'm very proud of our employees' commitment to providing reliable, affordable and increasingly clean energy to our customers every day. This was exemplified by the strong performance of our system during the recent sustained heat wave. Our teams demonstrated exceptional preparation and collaboration across the company and the fleet performed well while serving near-record load in the Carolinas, the Midwest and Florida.

Turning to slide 5, let me provide an update on how we are advancing our strategic initiatives to generate cleaner energy. In our Electric business, the $1.1 billion Western Carolinas Modernization Project in Asheville remains on track. On August 5, the combined cycle plant successfully achieved first fire, an important milestone in the process to bring the unit online in late 2019. As a reminder, our comprehensive plan for this region includes retiring an older coal plant, building new natural gas combined cycle units, installing renewables and upgrading transmission and distribution infrastructure.

We've also engaged the community to increase energy efficiency, demand response adoption in our products and services offerings as we better serve this growing region. In Indiana, we filed our Integrated Resource Plan and rate case in early July, consistent with our cleaner generation strategy key components of our plan include accelerating coal plant retirements and replacing them with natural gas units and renewables. Steve will discuss the elements of the rate case filing in more detail in a moment. We also continued to advance innovative solutions across the Southeast, including renewables, battery and EV infrastructure.

In Florida, we are executing on the investment plan that underpins our multi-year settlement agreement. The Florida Commission has approved the recovery of 344 megawatts of previously announced solar projects under the solar base rate adjustment mechanism. This represents nearly half of the 700 megawatts we will be installing through 2021. We also announced 22 megawatts of battery storage projects in the state this quarter, kicking off the first wave of our planned 50-megawatt pilot program.

In the Carolinas, we continued to engage stakeholders in our proposed electric vehicle pilot programs. Electrification is an important part of the low-carbon future and we look forward to spurring EV adoption in our communities with this infrastructure. Also in North Carolina, the first RFP for solar energy under House Bill 589 is complete. The second RFP is expected to launch this October and we look forward to participating in the next round of bidding.

In our Commercial business, we expanded our portfolio of projects during the quarter. In June, the 150-megawatt North Rosamond solar facility began delivering energy to customers in California. This is the largest solar project in our renewables fleet to-date and the energy generated from the project will be sold to Southern California Edison under a 15-year PPA. We also announced 650 megawatts of new projects this quarter, including the acquisition of 37 megawatts of Bloom Energy's distributed fuel cell technology, which will come online over the next 18 months.

We continue to bring more visibility to our growth prospects in this segment and are evaluating a modest level of investment to safe harbor several solar projects, preserving the full investment tax credits through our five-year plan. We now have line-of-sight to substantially all of our growth targets for 2019 and 2020, and approximately 70% over the five-year plan.

Shifting to our Gas business on slide 6, ACP project partners filed a petition on June 25 seeking a Supreme Court review of the Appalachian Trail decision. We're pleased to have the Solicitor General join the petition in support of the case and we expect the court to decide later this fall if it will agree to hear the appeal.

We also recently received an order from the 4th Circuit Court of Appeals vacating the project's Biological Opinion and Incidental Take Statement. We are evaluating this order and we'll work with the Fish and Wildlife Service to resolve any deficiencies. In anticipation of this ruling, work has been underway including survey work to address certain issues identified at the May 9 hearing and confirmed in the vacatur order. Our current expectation is that construction could resume by year-end, recognizing there are several steps that need to take place before we move forward. We continue to target in service for the first phase of the project by late 2020 and full pipeline in service in 2021. Our cost estimate of $7 billion to $7.8 billion remains unchanged.

Finally, we are moving ahead with the construction of our $250 million Robeson LNG facility in North Carolina. This infrastructure will help Piedmont continue providing customers with the most affordable, reliable supply of natural gas during peak usage days, protecting customers from price spikes and volatility when extremely low temperatures create higher-than-normal demand for natural gas. We expect this facility to be in service during 2021. Each of these projects...
aligns with our strategy to expand natural gas infrastructure as we bring much needed gas supply to the under-served Southeast.

Moving to slide 7, let me share an overview of recent developments in North Carolina. Senate Bill 559 is pending before the North Carolina General Assembly. As a reminder, this bipartisan legislation was introduced in both chambers in early April. As written, it would allow the Commission to consider alternative cost recovery mechanisms, including storm cost securitization, multi-year rate plans and ROE bands. Importantly, the Commission would retain its authority to review investments and the prudence of incurred costs just as it does today.

If enacted into law, North Carolina would join 35 states that already have alternative cost recovery frameworks in place, which generate significant customer benefits and incents investments necessary to transform our energy infrastructure. A multi-year rate plan in North Carolina would provide bill predictability, and through investments in the energy delivery system, result in fewer and shorter outages for customers, while enabling more solar and battery installations. Further, storm cost securitization would save customers 15% to 20% on storm costs.

Stakeholders have provided useful input throughout the legislative process, strengthening the bill by creating additional consumer protection. The current version of the bill also provides for utility investments to support low income communities. The bill which is sponsored by leading members of the House and Senate has passed the Senate and moved through three required House committees. The bill currently remains in the Rules Committee of the House as the General Assembly addresses other priorities, specifically the 2019 budget.

The next step for the bill is a vote by the full House before moving to the Senate and ultimately the Governor for his consideration. Given there is no set end date for this session, we will monitor developments and continue our advocacy work in support of the legislation. The bill sponsors remain committed to Senate Bill 559 and the substantial benefits it offers to our customers and our state.

Shifting to coal ash, I'm extraordinarily proud of the work underway to meet our commitments in North Carolina. We successfully closed all three high priority sites ahead of their 2019 compliance deadlines despite hurricanes and other severe weather over the last few years. We are also advancing work at the remaining sites. The legal process to appeal the North Carolina Department of Environmental Quality's order to excavate all remaining low risk and low-priority basins is also underway. While we share the same goals of permanently and safely closing all basins, we disagree with DEQ's position, and filed an appeal in April outlining our case.

Last week, the Office of Administrative Hearings heard arguments on a partial motion to dismiss filed by DEQ. The judge dismissed claims related to the procedure DEQ used in reaching a decision, while allowing the substantive claim on the decision to excavate to move forward. We plan to proceed with the appeal, standing firm that the DEQ decision is not in the best interest of our customers and communities. We estimate full excavation would cost an incremental $4 billion to $5 billion versus a cap in place or hybrid closure methods proposed by our utilities, imposing significant costs on customers without measurable benefit to the environment. We expect the appeal process could take 9 to 12 months, and we'll keep you informed as we reach milestones during the process.

Before turning it over to Steve, I'm going to reiterate our confidence in our long-term strategy and our continued ability to deliver on our commitments. As the past quarter shows, we're making strides in improving the energy grid, transitioning our generation fleet and increasing natural gas infrastructure, with significant investments in renewables, progress on regulatory and legislative fronts, and ongoing stakeholder engagement we're advancing our long-term vision for Duke Energy.

And with that, I'll turn it over to Steve.

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

Thanks, Lynn and good morning everyone. I'll start with quarterly results on slide 8, including our adjusted earnings per share variances to the prior year. For detailed information on variance drivers and the reconciliation of reported to adjusted results, please refer to the supporting materials that accompany today's press release and presentation. On both the reported and adjusted basis, 2019 second quarter earnings per share were $1.12. This compared to reported and adjusted earnings per share of $0.71 and $0.93 respectively last year.
For the quarter, higher reported and adjusted results compared to the prior year were primarily due to growth from investments at the electric and gas utilities, the commercial renewables project placed in service, and favorable timing of O&M expenses. Within the segments, Electric Utilities and Infrastructure was up $0.13 compared to the prior year. The segment continued to benefit from base rate increases across multiple utilities as well as higher rider revenues that include recovery of our Midwest grid investments. O&M was also favorable, $0.07 in the quarter. These positive drivers were partially offset by higher depreciation from a growing asset base and higher interest expense.

Shifting to Gas Utilities and Infrastructure, results were up $0.02 in the quarter. The increase was largely due to growth from our midstream investments. As a reminder, we expect the LDC businesses to deliver the bulk of their remaining earnings contribution in the fourth quarter. In Commercial Renewables, results were up $0.06 driven primarily by our North Rosamond solar project placed in service. This was partially offset by below normal wind resource and a prior year favorable contractual settlement. Finally, Other contributed $0.01 for the quarter and share dilution drove a $0.03 decline given we issued shares in December to settle last year’s equity forward agreements.

Overall, we are pleased with our strong results for the first half of the year and our solid execution gives us confidence that we will achieve our full year earnings target and deliver on our commitments. For perspective on key considerations for the back half of the year, please see the slide we provided in the appendix.

Turning to slide 9, we operate in jurisdictions with strong customer growth and economies. On a rolling 12-month basis, weather-normalized retail electric load growth was 0.5%, consistent with our full year expectation. Our residential class continues to contribute to our results with an overall increase in volumes of 0.6% on a rolling 12-month basis. Robust customer growth fueled by population increases in our attractive service territories support volumes. Our jurisdictions also enjoy strong employment nearly 25% of all jobs created over the last year across the nation are in states we serve. We’re also seeing strength in the commercial class with sales up 0.7% over the rolling 12 months. Data center expansions continued to lead growth in the sector with strength in the hospitality and leisure segment also helping to offset weakness in big-box retail.

Finally, sales in our industrial class declined 0.2% on a rolling 12-month basis, a slight improvement from last quarter. As expected, results continued to be impacted by 2018 production declines for a few large customers and recent outage activities that continue to influence the 12-month rolling average. Going forward, we believe these specific outliers will continue to improve. At a macro level, economic indicators for our service areas remain strong and reaffirm our long-term assumption of 0.5% retail load growth for our electric utilities.

Turning to slide 10, let me update you on our active regulatory calendar. In July, we filed our first Indiana rate case in 16 years. As Lynn mentioned, the case presents the roadmap to our cleaner generation strategy, and also incorporates modern regulatory recovery mechanisms. These include forward-looking test years and a five-year decoupling program for residential and commercial customers. The requested $395 million revenue increase would occur over two years and is based on a 10.4% ROE and a 53% equity component of the capital structure. Key drivers of the request include additional depreciation as we accelerate the retirement dates of our coal fleet in the state and investments to serve the more than 100,000 of its customers added since the last rate case. We expect hearings for the case to commence in January 2020 with rates effective mid-2020.

Let me move to Piedmont Natural Gas, which filed its first base rate case in North Carolina in six years on April 1. We requested an $83 million revenue increase to recover costs for necessary infrastructure investments. The evidentiary hearing is scheduled for August 19 and we expect new rates to be effective by the end of the year.

Finally, in South Carolina, we filed a motion for rehearing of our DEC and DEP electric rate cases in May. We requested reconsideration of the 9.5% ROE and the disallowance of certain coal ash costs deemed to be related to implementation of North Carolina’s Coal Ash Management Act. On June 19, the state’s Public Service Commission issued a directive denying our motion for rehearing. We are awaiting the full order from the Commission and are prepared to file an appeal to the South Carolina Supreme Court.

Turning to our other utilities, Duke Energy Kentucky filed its 30-day notice of an electric rate case on August 1. We also continue to evaluate rate case timing in North Carolina for both DEC and DEP, and expect to rate cases for both later this year. We’re executing on our regulatory strategy to recover investments to serve our customers and remain focused on collaborating with stakeholders throughout the process.
Turning to slide 11, let me give you an update on our continued efforts to support our credit ratings and financing plan. First, in May, S&P affirmed our rating of BBB+ and revised their rating outlook to negative from stable. Some of the items they highlighted are singular in nature and will evolve over time. S&P provided a 12-month to 24-month timeframe to work through these issues and we are focused on reaching resolutions during that time. We remain committed to our current credit ratings, which reflect our low risk business with tremendous scope and scale, geographical and regulatory diversity, and constructive regulation.

As we outlined in February, our 2019 financing plan assumes a $500 million common equity issuance and today, we have priced or issued approximately $420 million of that amount. We expect the balance to be issued through our DRIP in the third and fourth quarters. We also expect our 2019 credit metrics to be supported by refundable AMT credits of $575 million and the close of our Commercial Renewables minority stake sale to John Hancock, both of which should occur this fall.

Finally in July, we increased our quarterly cash dividend by 2%. This is consistent with our plan to moderate our dividend growth over time, particularly given our robust capital plan. We continue to target a payout ratio range of 65% to 75%, trending to the midpoint of this range over the five-year plan. Our financing plan prudently manages the balance sheet to support Duke Energy's credit quality and maintain financial flexibility as we execute our long-term strategy.

I'll close with slide 12. Our attractive investor value proposition is founded upon our growing dividend, which currently yields approximately 4.3% coupled with earnings growth of 4% to 6% from transparent low-risk investments. We offer a compelling risk-adjusted total shareholder return of 8% to 10%. Our scale, constructive service areas and ability to execute make Duke Energy a solid long-term investment opportunity.

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

**QUESTIONS & ANSWERS**

**Shar Pourezza – Guggenheim, Analyst**

In South Carolina, you obviously got a low ROE and a negative outcome for coal ash, which is on appeal. How is the dialogue going in North Carolina? They're obviously seeing what's going on and the two jurisdictions have been somewhat aligned in the past. Should we be concerned that there is some read-through to what we're seeing in South Carolina? Just from a regulatory construct standpoint.

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

I want to be clear that we do not see a read-through from South Carolina to North Carolina. North Carolina has historically been a very fair, impartial regulatory jurisdiction that reaches decisions based on facts and evidence presented, follows the law, and we would certainly expect that to be the case as we think about regulatory outcomes moving forward.

**Shar Pourezza – Guggenheim, Analyst**

And then just on Senate Bill 559, do you have any sense on sort of timing? Are we going into a special session? Any incremental color on how the conversations are flowing would be very helpful.

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

We're very pleased with the progress that we've made with Senate Bill 559. We have strong bipartisan sponsorship of the bill. And as you've indicated, we are in the Rules Committee really waiting for other priorities that the General Assembly has in front of them, specifically the budget. I think it's important to recognize that the bill sponsors have continued to express support for moving this legislation and it is historically the case in North Carolina that legislation is taken up after the budget or even during a budget impasse. So, we continue to actively advocate for the bill.
We think the customer benefits and the policy involved and embodied in the bill are very strong. Our customer benefits reducing costs for storms in the range of 15% to 20% and the policy allows for stakeholder settlements and engagements to develop an investment plan that delivers value to customers from storm hardening and resiliency to renewables and improvements in customer experience. And recently, in the House, we also added provisions to encourage low income investment. So, we think the combination of good policy and clear benefits to customers are very strong attributes of this bill and we continue to advocate for it.

I think in terms of timeline, we'll have to see how these other priorities continue to shape up. There's no specific timeline I would share with you, but we'll continue to update as progress is made.

**Shar Pourezza – Guggenheim, Analyst**

I know you typically shy away from commenting on any strategic moves, but you've given us some sense in how you think about Santee Cooper and its ongoing process in South Carolina. If you sort of shift to Florida, is there any interest in JEA in case they pursue a privatization?

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

We evaluate opportunities as you would expect, as we see things that are in our service territory that we think are a fit for us, but that would be evaluated within the broad context of our business plan. And we feel like our organic growth opportunities are quite strong and that would be our highest priority.

**Greg Gordon – Evercore ISI, Analyst**

So, you had a really solid first half, $2.36. And, I know that you're flagging some timing issues, but even taking those into account, adding back assumption of normal weather and then the points that Steve made with things that were positive drivers in the first half that should continue to be positive drivers in the second half. You only need to do a nickel better than last year in the second half to hit current consensus of $4.90, $0.15 to get to $5. So, I'm just wondering if you're comfortable articulating a little bit more where you think you'll be in the range given that it seems that consensus might be a little bit too low for the balance of the year unless I'm missing some big negative driver that you haven't disclosed.

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

Our typical approach on resetting specifics within the range follows the third quarter, which is just a statement of the obvious about how significant third quarter can be. So, we will fine tune the range as we historically have. But I think all the points that you're making around the strength of the start to the year, the way we're executing on our plan, controlling costs, working through our regulatory outcomes gives us a high degree of confidence within the range. So, I think, we're off to a strong start and the team is focused on delivering. And I would expect us to do that. We're waiting to see how weather in August and September plays out.

**Greg Gordon – Evercore ISI, Analyst**

How has the weather been through June and July relative to normal?

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

July has been hot. No doubt.

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

In July we've seen some favorable weather. And the only thing I would add in terms of the last half of the year is a bit about shaping. We do have, as I mentioned, some renewables projects that are slated for the fourth quarter and we provided an exhibit there. But in terms of the year as a whole, I echo Lynn's comments entirely.

**Lynn Good – Duke Energy Corporation, Chairman, President & CEO**
The other thing I’d point to in the back half, you may remember Florence and Michael in the third and fourth quarter last year, so that’s another consideration as you think about O&M.

**Stephen Byrd** – Morgan Stanley, Analyst

On North Carolina legislation, if the legislation is enacted into law, I just wanted to get your latest thoughts on what kinds of opportunities perhaps longer term in terms of additional CapEx, additional areas of focus and spending if you get that kind of support that we’ve been looking for?

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

Steve and I would think about Senate Bill 559 as being an enabler of the capital plan that we have laid out over the next five years. You will note that we have more investment in the delivery system really as part of the transformation that we see in the industry, and so the Bill 559 provides an investment mechanism that very closely matches the investment with the benefits to customers. So, I would think about it in that context.

And as we think about actually putting 559 into place, we envision a stakeholder process where the investment priorities over the multi-year period would be informed in a way that drives the policy in the state. So this gives us a great opportunity to tailor those investments in a way that drives customer benefits. But I would think about it within the context of the plan we have in front of you. We think it’s just very good policy at this stage of the industry transformation.

**Stephen Byrd** – Morgan Stanley, Analyst

Shifting gears over to Atlantic Coast, obviously we had an unfavorable ruling from the Fourth Circuit on the Biological Opinion and Incidental Take Statement. In the unfortunate event that a revised BO and ITS is also vacated again. Would you mind just talking at a high level to the range of options whether that be other sources of natural gas, other approaches, generation needs, anything? I know it’s premature to talk in detail about what might be done, but as I’m trying to think through the range of options, would you mind just speaking to that at a high level?

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

There are two points I’d like to make on those Stephen. The first one is that we are evaluating this order working closely with project partners and also the Fish and Wildlife. There’s been extensive work done. We’re in the field now with surveys. And our intention is to work with the partners and federal agencies to address the Fourth Circuit concerns in a manner that will withstand further challenge, that is our highest priority.

But I think the question that you’re raising is what about the longer-term implications. And I would go to the business case for this investment and answer that question because the business case remains extraordinarily strong. We need this infrastructure. Eastern North Carolina needs this infrastructure not only for the delivery of natural gas, but for continued reduction in carbon emissions as we move away from coal. And so we will continue to pursue ways that we can get that infrastructure into the state. But our highest priority and we think the best business case for customers is Atlantic Coast Pipeline.

**Michael Weinstein** – Credit Suisse, Analyst

Could you talk about the timing of O&M that was mentioned in the quarter? Just wondering what are the issues that were being contributed to different timing of O&M throughout the year.

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

What I was referring to basically relates to some outages and timing of outages year-over-year. So you’ll see some non-storm O&M timing that might turn around in the second half of the year. Lynn mentioned storms in the prior year. If you look at storm O&M in the second half of the year, if we have a more normal second half of the year, you might see some favorable O&M coming from that.
But some of the non-storm O&M may turn a bit in the second half of the year just because of timing of plant outages and that type of work. So, I was just trying to give some flavor for it. We’re very pleased with our efforts on O&M in the first half of the year. In response to the mild weather we saw in January and February, we enacted some efforts in our O&M agility is the term we use internally to help offset some of the impacts of that. And that's shown up as part of the $0.07, but some of its timing as well.

**Michael Weinstein – Credit Suisse, Analyst**

And on the Commercial Renewables business, you have about 70% line-of-sight for the five-year plan. Is there a possibility that you might be considering increasing the $2.5 billion investment plan for that segment?

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

That'll be something, Michael, we look at in connection with our five-year planning process, which is underway. But as we think about the five years, given all the other capital investment opportunities we have, we're really looking for this segment to consistently deliver at the level that with that in 2019. And we have a high degree of confidence in its ability to do that because of the 70% that we've already locked in on growth target.

So that's probably the way I would think about it at this point, but consistent with five-year planning, we'll give every segment a review and make sure it has our best thinking as we come to the Street with guidance in February.

**Michael Weinstein – Credit Suisse, Analyst**

On Bloom Energy, how did you guys get involved with fuel cells how did that decision process come about?

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

Michael, we have a team that is looking at, what I would call, Customer Solutions. And so this is a team that works with large industrial, large commercial customers and really is working to customize solutions that those customers need to meet their energy requirements. It can be renewables, it can be battery technology, can be microgrids, it could be a fuel cell technology.

And so the Bloom investment was consistent with the growth priorities that that team is focused on and we believe this notion of customization of energy for large energy users is a trend that will just continue to grow.

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

So, Lynn, going back to some of the comments you made earlier with respect to the coal ash order with the DEQ. Can you elaborate on the next steps after the judge’s actions recently and just some of the specific nuances of how you go forward on appeals?

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

Sure. Simply put, Julien, we’re moving forward on the appeal. And so, what we would expect is a procedural calendar to come out, establishing discovery and hearings and so on. And so we will continue to challenge the underlying decision itself, the science and engineering, the cost considerations, et cetera. We would expect the hearing to be in 2020 and we'll know more as the calendar is established.

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

And then, if I can turn the focus back to Indiana quickly. You talk about the filing here. Can you elaborate a little bit with respect to the planning process and generation decisions? I know you talked about some acceleration here, but just more of the specifics. I know the state has gotten a good bit of attention, so I just want to dig in a little bit.

**Lynn Good – Duke Energy Corporation, Chairman, President & CEO**
And Julien, the team in Indiana has done a lot of very good work to think about a thoughtful approach around the generation mix in the state. And so, we've put together a proposal that shortens the life of certain of the assets and then introduces more investment in renewables and natural gas, which you'll see in the IRP plan.

I think the first thing to focus on is the rate case which will run over the next six to nine months, and then the Integrated Resource Plan is something that will continue to be a topic of discussion and review in the state. We believe we put together a very thoughtful approach. We've had a very active stakeholder engagement, not only with customers but with policymakers in the state and believe we put forward a very thoughtful plan for Indiana.

Julien Dumoulin-Smith – BAML, Analyst

Got it. But no timeline for further acceleration, right? It seems like that the acceleration is pretty long-dated for the remaining asset life?

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

I’d ask you to look at it because there is a fair amount of acceleration on a couple of the units. And then those will be a topic of discussion of course as we go through the rate case. And when I say we’ve put together a thoughtful plan, I think that invites and offers an opportunity for further discussion both with regulators and with other intervening parties. And our commitment is to develop a plan that makes sense for the customers of Indiana but also continues to lower carbon, and we think we’ve started that conversation well with the rate case and with the IRP.

Praful Mehta – Citi, Analyst

I just wanted to get a little bit more on North Carolina, the DEQ that you just talked about. The $4 billion to $5 billion spend, if you could just dimension for us what the risks are if you're not successful on the appeal. In terms of is it all a customer bill impact and so that's a worry or is there some concern that part of that $4 billion to $5 billion is not recoverable?

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

Praful, I would make a couple of comments on that. And the first one is that the impact of the excavation order has a very limited impact on the five-year plan. So, $200 million to $400 million falling in that five-year period because of the time required to secure permits and construct landfills and other things contemplated by the order. So, we're talking about a period of time that is outside of the five years and with full excavation could extend all the way into the 2040s for certain of the sites. And so, I think what it represents is a longer closure period that in our opinion increases cost without a measurable improvement and environmental benefits, and that'll be the discussion as we go forward.

The North Carolina Commission has approved recovery of costs for coal ash, and so I would ask you to look at that order in terms of the precedent in the state. And we will continue to make progress on these basins. Our commitment and DEQ's is exactly the same which is to close them safely, and that's where our focus remains as we pursue these legal matters and some fine-tuning of the approach over the long term to close the basins.

Praful Mehta – Citi, Analyst

Then maybe just the same color on the South Carolina side in terms of appealing the rate cases there. Could you give us some color on the specific issues that you're more focused on and how you see that playing out?

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

Sure. In South Carolina, Praful, we are awaiting a final order on the cases. So we’ve gotten the directive, we’ve gotten the rehearing, but the actual order on rehearing has not yet been filed. We would expect it in the next period of time. And then we have 30 days to appeal the order, which we intend to do. And we would appeal to the Supreme Court in South Carolina. The disallowance of coal ash costs will be a part of that appeal.
And I think it's important to recognize that the precedent between North and South Carolina is a longstanding one where the benefits between the two states are shared on generation and transmission. And remediation of coal ash would be a part of the decommissioning of plants. And those plants have been shared – the benefits of those plants with South Carolina customers over their entire life. I think it's also important to recognize that both the federal and the state laws establish safe basin closure methods and excavation as an option in both.

And so, we would intend to continue to pursue this. I think the timeframe you should think about is probably one to two years to work through the process but the clock doesn't start until we get the order and then file the appeal within 30 days. So, we'll continue to keep you posted as it moves through the process.

Praful Mehta – Citi, Analyst

Clearly you are having a strong first half. Is there any assumption on incremental O&M being pulled forward, given you have some budget or some room in your numbers to kind of maintain within the guidance? Just want to understand any shaping on the O&M side for the second half.

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

Well, Praful that capability to move O&M back and forth and toggle it based upon results is a core skill-set that we have. It remains to be seen in the second half of the year dependent upon weather, storm activity and those kind of things, whether we'll pull those levers. But I mentioned we pulled some of them in response to the mild weather in the first couple of months of the year. We have the capability of redirecting O&M in different fashion when we see favorable results as well. But I don't want to give any firm guidance going forward. We still have the third quarter to go and the weather and storms sit in front of us but we do have that capability.

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

And Praful, the objective of all of this is to deliver on our commitment around the guidance that we've provided for the Street and that's the way we will approach this.

Michael Lapides – Citi, Analyst

I wanted to ask about North Carolina renewables, and can you remind us what's already in your forecast for the amount of renewables you’re building in North Carolina, where you’ve already gotten approval through the RFP process? And then, can you remind us what the limits are and how much you think you could wind up doing beyond what's already known or in your plan?

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

Regarding the limits to the HB 589 regulations, there's a limit to our bidding and winning bids to 30% of the tranches that are going to be bid over the next several years. There's no limit to subsequent acquisition of another winning bidder's part interest. So ultimately, we could own a higher percentage than 30% of the renewables assets from HB 589.

I think for planning purposes, we've got about 30% in our plan. We have typically thought about that being in the commercial renewable segment, but it could be within the regulated business segment or the commercial renewables. The first tranche that was awarded of roughly 600 megawatts between regulated and commercial, we got about one-third of that. So I think that's a reasonable planning assumption going forward.

Michael Lapides – Citi, Analyst

So, roughly couple of hundred megawatts a year install run rate or is that over a several year period?

Steve Young – Duke Energy Corporation, Executive Vice President & CFO
It'll depend upon how much is bid through the process. We saw 600 megawatts, initially was 680 megawatts but only 600 megawatts were awarded. If the tranche stays at that level then it might be in the ballpark of 150 megawatts to 200 megawatts. The tranche going forward may be smaller than that as we grandfather other renewables into the process. But those are reasonable numbers to think about.

**Sophie Karp** – KeyBank, Analyst

Renewables has clearly been a very successful program for you and an attractive niche. Is there a way to do more along those lines in addition to these tranches or maybe just strictly in the commercial renewable space? And what's your view on the probability that we're going to see some ITC and PTC extensions?

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

A couple of things here on the tranches of renewables that come through the HB 589. We'll continue to participate at that level. We think it makes sense. We know the service area. We know the grids surrounding these assets. So, again, I think that will continue to be fruitful for us over the next several years. Regarding ITC and PTC extensions, again, we've heard nothing about extending that specifically. They're set to expire and that is what we're basing our plans upon as those particular tax benefits will begin to wind down.

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

And, Sophie, we commented a moment ago on the strength of the pipeline that sits in the commercial business. We feel very confident with our ability to deliver what's in our five-year plan. And have a robust pipeline to support that. I think in terms of the congressional extension of the credits, there's some discussion underway about that. We have been supporters of Congress's bipartisan agreement to phase them down. We believe that the economic competitiveness of the resource is very attractive and as a result are supportive of that phase down. But I think we'll have to see what plays out as the process continues in Washington.

**Sophie Karp** – KeyBank, Analyst

And then maybe, a quick follow-up on the coal ash in South Carolina. Your appeal right now is to the State Supreme Court, correct? But ultimately the issue is how these costs would be allocated between two different states. And should we expect this litigation ultimately find its way to the federal court?

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

No, I believe the South Carolina Supreme Court is where it will be decided, Sophie. And there's a great deal of precedent over decades around the allocation of costs between North and South Carolina. We run the generation and transmission system as a system between North and South Carolina and have established methods of allocating costs. And so we will be presenting very strong arguments on those costs and believe that it will be resolved at the Supreme Court level in South Carolina.

**Operator**

And I'll now turn the call back over to Lynn Good for any additional or closing remarks.

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

Well, thank you, everyone. We appreciate your interest and investment in Duke Energy. Our IR team will be available this afternoon as usual to answer any follow-up questions and we look forward to seeing many of you in the weeks to come. Thanks so much.

**Operator**

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