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

Thank you, Derrick. Good morning, everyone. And welcome to Duke Energy's first quarter 2020 earnings review and business update. Leading our call today is Lynn Good, Chair, President and Chief Executive Officer, along with Steve Young, Executive Vice President and CFO.

Today's discussion will include the use of non-GAAP financial measures and forward-looking information within the meaning of the securities laws. Actual results may differ materially from such forward-looking statements and those factors are outlined herein and disclosed in Duke Energy's SEC filings. A reconciliation of non-GAAP financial measures can be found in today's materials and on duke-energy.com. Please note the appendix for today's presentation includes supplemental information and additional disclosures.

As summarized on slide 4, during today's call, Lynn, will provide an update on our response to COVID-19. She will also discuss progress on our strategic initiatives and the company's long-term outlook. Steve will then provide an overview of our first quarter financial results and share an update on key regulatory activity. He will also provide insights into our economic and load growth outlook before closing with key investor considerations.

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

Bryan, thank you. And good morning, everyone. Let me open our call today by focusing first on our response to COVID-19. I know it is top of mind for all of you. First and foremost, our thoughts are with those who have been personally affected. I also want to express my heartfelt thanks to the healthcare and government workers as well as those working countless hours to support the frontline professionals. This pandemic has no barriers - it has permeated
the globe, our country and the state in which we operate. It has altered our day-to-day lives -- from how we interact to the way we operate and serve our customers.

But despite the dynamic conditions, Duke Energy and its employees have risen to the challenge, continuing to provide reliable service to our nearly 24 million electric and gas customers. The safety of our communities, customers and employees is our top priority, and we took a number of steps to protect them. In March, we shifted nearly 18,000 teammates to remote operations. For our teammates in critical roles that could not work remotely, we deployed the best available personal protection equipment, increased disinfecting between shifts, initiated split operation between primary and alternate locations to limit exposure, placed additional restrictions on those accessing our facilities, and implemented social distancing policies.

These new safety protocols were particularly important during spring storm restoration, and generation outages. So far, our teams have completed three nuclear outages and more than 30 fossil/hydro generation outages all while maintaining focus on safety and delivering on time and on budget. And in mid-April, our transmission and distribution team quickly responded more than 900,000 outages across the Midwest and the Carolinas after severe thunderstorms and tornadoes.

The Duke Energy response has gone well beyond supporting our internal team. We were one of the first utilities in the country to suspend service disconnections for nonpayment and waive late payment and other fees for our customers. In addition, we donated nearly $6 million to support relief efforts across our jurisdictions and provided critical PPE to several community organizations within our territory. We also accelerated the flow back of fuel adjustments and overcollections in Florida resulting in a 20% reduction in residential bills in May. And we are working directly with our commercial and industrial customers to provide assistance with payment options for those most impacted by current economic conditions.

Our employees have been steadfast in ensuring our communities have power as they also respond and adapt to this changing time. The collective work of the healthcare and government professionals as well as utility and other essential workers demonstrate the power of working together to serve our communities.

Now, let me take a moment to walk you through slide 6 which summarizes where our company stands financially during these uncertain economic times. Today, we announced first quarter adjusted earnings per share of $1.14 in-line with our expectations, but reflecting milder weather compared to normal and storm costs this winter totaling approximately $0.15 per share. We began to take cost mitigation actions in February as we saw the impact of the mild winter and we are building on those actions to address COVID-19.

Our communities are experiencing a slowdown and we are beginning to see the impact on electric load in our jurisdictions. In a few minutes, Steve will share more on these customer load trends, focusing on the month of April and a range of potential load trends over the balance of 2020. We are presently projecting a $0.25 to $0.35 reduction in revenue from COVID-19 which is consistent with stay-at-home policies through mid-summer and a gradual economic recovery beginning in the third quarter and continuing over the balance of the year.

In response to the pandemic and in recognition of mild weather entering the year, we are executing on a series of cost saving initiatives totaling approximately $350 million to $450 million or $0.35 to $0.45 per share. We're also keeping our regulators informed about this specific cost we are incurring related to COVID-19. For example, a potential increase in bad debt expense and we'll seek recovery of these thoughts at the appropriate time. Taking these measures into consideration, we are affirming our 2020 adjusted earnings per share guidance range of $5.05 to $5.45. We will continue to update you as we move forward.

It's important to recognize that we are only two months into this event. We are and we will continue planning for a range of outcomes and we will know more as the economies that we serve reopen. The third quarter, which is our most significant one, is also still ahead of us. Over the long term, we maintain our confidence in the strength of the communities we serve and in our ability to deliver on this $56 billion infrastructure investment plan that is critical to our customers and community. I will speak more to our business fundamentals in a moment.
Turning to slide 7, we remain committed to our long-term vision and value creation for our communities and our shareholders. We’re putting our five-year $56 billion capital plan to work as we generate cleaner energy, modernizing strength in the energy grid and expand natural gas infrastructure. Since announcing this updated plan in February, we’ve made progress advancing these goals. Last September, we announced our comprehensive plan to address carbon across our footprint reaching at least the 50% reduction by 2030 and net-zero by 2050.

Our updated climate and sustainability report issued in April provide more clarity and detail around the measures we’re taking to achieve these milestones, including doubling our renewables portfolio over the next five years. Our climate report outlines our plans over the longer term to retire more coal, further expand renewables, energy storage and natural gas. We also emphasized the importance of research and development, focused on load following carbon-free resource. We believe these new technologies are essential to reach our net zero goal by 2050 and plan to share more updates to this area when we host our ESG Day later this year.

On the grid, in April, we filed our 10-year, $6 billion Florida Storm Protection Plan. These investments will generate meaningful customer benefit by enhancing the reliability, while reducing restoration costs and outage times associated with extreme weather events. Further, details of the progress we’re making in these areas are outlined on the slide.

Before I close, let me touch on the Atlantic Coast pipeline. You can reference the status summary on slide 18 in the Appendix. We expect a decision from the Supreme Court regarding the Appalachian Trail crossing in the coming weeks. We’re also awaiting the Biological Opinion and Incidental Take Statement from the US Fish and Wildlife Service as their detailed analysis continues to ensure that a durable permit is issued.

We expect the agency to reissue permit in mid-2020, and to-date have not seen any significant delays in the progress of the work from COVID-19. Successful of resolution of both of these items will be important to restart construction. Importantly, ACP has finalized revised commercial terms with major pipeline off-takers balancing value to customers and a fair return to project owners. Finally, we are also closely monitoring developments on the Nationwide Permit 12. The recent decision related to the Keystone pipeline by the district court in Montana has potential implications to ACP. Just yesterday, the judge amended the April 15 ruling limiting the vacatur to new oil and gas pipeline projects. He also denied a stay, pending appeal. We are evaluating this ruling and the impact it will have on the existing timing and cost of the project. Assuming the issue is resolved in a timely manner and we can take advantage of the November to March tree-felling season we believe ACP can maintain the existing schedule and cost estimate. We remain committed to this important infrastructure project and the economic benefits we expect will drive for our communities in the Carolinas, and we’ll continue to update you as progress is made.

As I reflect on our long-term strategy, I’m confident in our investment priorities that continue to deliver value, capitalizing on the complementary nature of our electric and gas franchises, to meet our customers growing and evolving energy needs. Looking ahead and in the context of the uncertain economic environment in our country we will be thoughtful on the pace at which we deploy capital, balancing affordability for our customers, and value creation for our investors.

Turning to slide 8, even in the midst of the economic impact of the stay-at-home orders, the fundamentals of our business remain strong. Importantly, our employees' commitments to our customers and community shines through during the hardest times as we generate and deliver reliable, increasingly clean energy across our service territories.

There are several distinguishing factors to make our company an ideal long-term investment for shareholders. First, our size and scale and diversity of operations is unmatched, allowing us to deliver consistent short-term returns and long-term investment opportunities. Furthermore, we operate in constructive regulatory jurisdictions that oversee our operations and arguably the most attractive communities on the East Coast. And our five-year $56 billion plan to invest in cleaner energy, grid improvements, and other infrastructure is critical to the customers and communities we serve and will create meaningful shareholder value for many years to come. These are the strong business fundamentals that give us confidence to deliver on our long-term earnings growth rate of 4% to 6%.

And with that, I’ll turn it over to Steve.
Thanks, Lynn, and good morning, everyone. I'll start with a brief discussion on our quarterly results, highlighting a few of the key variances to the prior year. For more detailed information on variance drivers and a reconciliation of reported to adjusted results, please refer to the supporting materials that accompany today's press release and presentation. As shown on slide 9, our first quarter reported earnings per share were $1.24 and our adjusted earnings per share were $1.14 as this compared to reported and adjusted earnings per share of $1.24 last year. The difference between reported and adjusted earnings was due to the partial settlement in the DEC North Carolina rate case permitting recovery of 2018 severance costs.

Within the segment, Electric Utilities and Infrastructure was down $0.06 compared to the prior year. We saw the expected benefits from base rate increases in South Carolina and Florida and higher rider revenues in the Midwest, along with forecasted regulatory lag in North Carolina. However, these fundamental improvements in our segment results were offset by mild winter weather along with severe storms that impacted much of the Carolinas. Shifting to Gas Utilities and Infrastructure results were $0.03 higher driven primarily by new retail rates in North Carolina and higher margins at the LDC. These items were partially offset by one-time income tax adjustment related to ACP was favorably impacted the prior period results.

In our Commercial Renewable segment, results were up $0.06 for the quarter. The increase was primarily due to ongoing benefits from projects brought on line in 2019, as well as favorable wind resource and pricing this year. Finally, Other was down $0.12 for the quarter, principally due to planned cost of borrowings and lower investment returns on non-qualified benefit plans, causing an approximate $0.06 year-over-year difference. Returns on these plan assets partially rebounded for the month of April. Overall, our first quarter financial results were not materially affected by the COVID-19 pandemic.

Aside from the unseasonable weather and related storm cost, the first quarter was consistent with our internal plan. Given the softer weather, we began planning mitigation actions in February and further enhanced and accelerated those plans upon the full onset of COVID-19, which I’ll describe in detail in a few moments.

Turning to slide 10, we continue to execute on our regulatory agenda. As Lynn mentioned, we recently filed our Storm Protection Plan in Florida that provides much needed storm hardening in the state. We also have modernized regulatory mechanisms for investments in both Florida and Ohio that are providing timely recovery for our investments in clean generation and a more modernized grid. We currently have three rate cases underway.

Our Duke Energy Indiana case continues as planned and hearings were held in January and the record is now closed and we expect the order around mid-year.

For Duke Energy Carolinas and Duke Energy Progress, the written pre-hearing record is substantially closed. DEC case, we reached a partial settlement for storm cost, allowing us to pursue securitization, as well as other adjustment. The hearings for both cases have been delayed. We continue to work with all stakeholders to identify options to safely and efficiently conduct the hearings and we expect a revised procedural schedule to be released in the coming weeks.

Just last week, we filed with the commission a proposal to combine the hearings of the two cases in July, which is supported by the public staff. If this procedural schedule is approved, it will help to limit the delay in obtaining the general rate case orders. A slight delay in the decisions for both of the North Carolina cases is not expected to have a significant impact on our 2020 financial plan and the commission has a variety of mechanisms that they can implement to help balance the interests of customers and shareholders.

With regard to COVID-19 and the expected impacts across our jurisdiction, we are tracking the financial effects on our utilities, including elevated bad debt expense and waived fees for customers. This is an extraordinary time that has and will continue to require our utilities to incur cost on behalf of our customers and the employees who operate our business. Similar to what others are doing across the country, we will work with our regulators to identify the best solutions to recover these costs, to support the ongoing financial health of our utilities, while also recognizing the unique needs of our customers during this unprecedented time.
Shifting now to our response to the COVID pandemic, slide 11 highlights the well-timed steps we’ve taken to bolster our liquidity and financial strength to position us to manage through a variety of potential outcomes. As of April 30, we have a strong available liquidity position of $8.2 billion which provides the company valuable flexibility to plan our remaining capital markets transactions in 2020. In addition, provisions within the recently enacted CARES Act provide meaningful cash benefits in 2020 by accelerating our remaining AMT credit of approximately $285 million into the current year. This additional cash benefit will help to mitigate lower revenues and give us added confidence in our ability to deliver our consolidated credit metric targets for the year. Finally, our 2020 capital and financing plan remains on track. We will closely monitor the capital markets and strategically time our issuances to achieve the best outcomes possible to both our customers and shareholders.

Moving to slide 12. In addition to our large size and scale, our retail customer mix is diverse and anchored by our growing residential customer volumes. The Southeast remains a very attractive part of the country that continues to experience strong growth of new residential customers at a rate of approximately 1.7% year-over-year.

With the recent stay-at-home policies, volumes in our residential customer front has been strong, particularly in Florida, and we expect this trend continue into the summer cooling season. The higher residential volumes provide a partial offset to declines in the commercial and industrial clients. Within commercial, much of the service sector has been closed or limited operationally, including schools and universities, bars and restaurants and other retail establishments. Certain sectors within commercial remain resilient, such as data centers and hospitals that continue to provide frontline services to fight against the pandemic. The temporary closures and curtailments of certain industrial customers are beginning to give way the plans to restart production, as states in our service territories are relaxing stay-at-home policies and workers are preparing to come back to work gradually.

Turning to slide 13, as we compare billed sales in April to the prior year, we were able to see how a full stay-at-home policies have impacted retail electric volumes across each of our customer classes. Commercial and industrial usage was down 10% and 13% respectively for the month. But as expected, the higher margin residential class was up 6%. Overall, retail sales were down 5% and these results were slightly favorable to our revised forecast for the month.

As a reminder, the earning sensitivities do vary across retail customer classes and we’ve included those here for you. Looking ahead, we expect the 3% to 5% decline in total retail volumes for the full year. We are forecasting the deepest declines in volumes compared to 2019 in both the second and third quarter with a gradual economic recovery beginning in the latter half of the third quarter and extending beyond the end of the year. With these forecasted ranges and on a weather normalized basis, we are forecasting the full-year 2020 negative EPS impact of $0.25 to $0.35.

As our communities are beginning measured re-openings, we are hearing from a large number of our industrial customers that they are planning to increase their level of operations in the mid to late May timeframe. At the same time, we expect higher residential volumes and until stay at home policies are fully relaxed.

Moving now to slide 14, we've activated several initiatives to mitigate the impacts of COVID-19. Our annual non-rider O&M budget is nearly $5 billion, providing us a formidable lever to address revenue headwinds. As I mentioned, we began our mitigation plans in February and have greatly expanded those efforts to COVID-19 onset. Over the past five years, we have demonstrated a core competency in managing our O&M, absorbing increases for inflation as well as nearly $300 million of O&M associated with the Piedmont acquisition. We have also demonstrated the ability to strategically manage cost between years, taking advantage of strong earnings in some years to strengthen periods when unexpected costs arise. Based on the tremendous focus and commitment of our teammates, we are confident we can reduce our O&M and other expenses by approximately $350 million to $450 million in 2020. Our target is not merely aspirational, but it's underscored with discrete actions on which we have clear line of sight and are already taking action.

For example, as our generating assets are expected to run less during the year, we are optimizing the timing and scope of our 2020 plant outages. In addition, we are aggressively managing all expenses, including our contract labor, overtime, non-essential projects, and a broad range of discretionary spending. We are also suspending external hiring, while sharing existing resources in a virtual manner in order to optimize labor cost. Let me be clear, we are highly confident in our ability to deliver on this goal of $350 million to $450 million of 2020 cost reductions.
Although we are still early in the year, based on the forecast of a gradual economic recovery beginning this summer and the significant cost mitigation actions that we have put into motion, we are affirming our 2020 target to deliver within our original earnings per share guidance range. Finally, we understand the value of the dividend to our investors. Approximately 40% of whom our retail investors and many of them count on our dividend as a source of income during these uncertain times. 2020 marks the 94th consecutive year of paying quarterly cash dividend.

Throughout the past nine decades, including during the financial crisis of 2008 and 2009, we have protected our quarterly cash dividend. Our excellent businesses that operate in some of the best jurisdictions in the country give us confidence to continue paying and growing the dividend consistent with our long-term target payout ratio of 65% to 75%.

Before we open it up for questions, let me turn to slide 15. Our attractive dividend yield coupled with our long-term earnings growth from investments in our regulated utilities provide a compelling risk-adjusted return for shareholders. As a company, we are well-positioned and confident our vibrantly growing communities will resume strong economic growth as we emerge from this pandemic.

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

QUESTIONS & ANSWERS

Shar Pourreza – Guggenheim, Analyst

So big mitigation plan that was announced. How much is the $0.35 to $0.45 is sort of cemented and if COVID is more protracted than your current 3% to 5% low degradation, do you have incremental levers?

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

I’ll start and Steve you can add. We have definitive a plan for the $0.35 to $0.45, Shar, as well as upside potential. And I think at some point, depending on how this economic downturn plays out, we would continue to go more aggressively not only at cost categories we’ve identified, but really within a broader context of transformation. And this is where we’d be more aggressive around corporate center, around outsourcing, real estate footprint, digital tools, early plant retirements, just a variety of things. And that work is already underway. So, this is something that I’m particularly proud of is we’ve demonstrated the ability to understand our cost and cost drivers significantly over the last five years. We’ve also put infrastructure in place to drive transformation and the plans are underway for a range of economic outcomes.

Shar Pourreza – Guggenheim, Analyst

And then, just focusing on the O&M side of the $350 million to $400 million mitigation plan. Can you touch on how much of this could be ongoing or perpetual in nature as you sort of think about the shaping of your O&M profile post-2020?

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

I would say there will be elements of the cost reductions that are sustainable and there will be elements that move with timing. So, an example would be when you put a hiring freeze in place, we will enter 2021 with a lower head count than we would originally projected. And then, we will begin bringing bills in at the appropriate time and case depending on the needs of the business.

I think outages, because we’re running our asset less, we’ve been able to defer some of those. But we’ll be thoughtful about maintaining assets that are important to customers and feather those back end as needed.

We are also spending a lot of time on what we’ve learned around remote work and the activities underway from COVID-19. And I believe there will be permanent savings from the way we are using resources and we’re trying to get our hands around quantification of that as we look at remote work policies, and as we look at our real estate footprint, and you can expect to hear more about that as we think about 2021 and beyond.
Steve, would you add to that.

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

I think, Lynn, you hit it very well. I'm very confident that we're learning a lot through this pandemic about how to work remotely, how to use technology tools that we didn't really realize what we had. That will serve us well as we go forward. Couple that with the digital capabilities that our business transformation center is utilizing in data analytics. I think we have found a new avenue, a new path with another body of efficiencies through what we're learning to this COVID-19 pandemic.

**Stephen Byrd** – Morgan Stanley, Analyst

I wanted to touch on ACP and I think many expect that you will be victorious at the Supreme Court. From there, I'm thinking about the Montana litigation and potential impact in terms of decision to restart the project or ability to restart the project. I think there's a chance there that the litigation could be fairly extensive. How does that factor into the decision-making around restarting work on ACP?

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

Stephen, it's an important consideration. And as I said in the remarks, assuming that we can get this resolved ahead of the tree-felling season we'll be in position to move forward maintaining cost and schedule. Given the fact that that ruling happened yesterday, you're catching us at a very early time in our evaluation. We would expect the Army Corps and DOJ to appeal, then we'll be monitoring that closely as I know others will be in the industry and other infrastructure companies, and we'll, of course, learn more from the Army Corp and DOJ if we go forward. So, it's something to keep on the radar screen, and we will continue to monitor and update as we learn more.

**Stephen Byrd** – Morgan Stanley, Analyst

And then, maybe just a quick one on the credit statistics that you laid out last year, kind of your pretty clear path. And maybe you're sort of overthinking or just looking at the discussion here. In terms of the 15% FFO/debt level that you're targeting versus sort of the 15% to 16% level, would you mind just touching again on dialogue with rating agencies, your overall sort of sense of where you want to be over the next several years in terms of your FFO/debt?

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

Yes. Our targeted range for credit ratings is to have FFO in the 15% to 16% range. We've taken steps to make that happen in our plan and in the past. We have good dialogue with the rating agencies. Moody's reaffirmed our rating. S&P pulled the entire sector onto a negative outlook. And everybody is looking at the impacts of this pandemic. So, we'll continue that dialogue. We're seeing some erosion of top line revenues and that affects FFO. But you can see the mitigation impacts that we have put in place that moves in the opposite direction. So, we'll continue the dialogue. We will continue to work to meet our financial plans both earnings and on the credit side.

A couple of things that are unique to us, we've got these AMT credits. Accelerated monetization helps us quite a bit here. We're also taking advantage of deferring the corporate portion of payroll taxes. That's about $100 million cash flow benefit. Our pension plans are in good shape in terms of funding and so forth, and we're not a cash taxpayer until 2027 in any significant way. So, we've got some solid strengths in our balance sheet that help us. And then, the continued regulatory activity of getting recovery of costs is essential there. So, we'll continue that dialogue with the rating agencies and we'll keep them abreast of what's moving forward.

**Stephen Byrd** – Morgan Stanley, Analyst

No, that makes total sense. And just lastly if I could, just on the O&M cost control, impressive results in terms of being able to cut costs. And it's an interesting point about some of the learnings that you're engaged in. When you think about the EPS growth guidance in the longer term that you've laid out in the trajectory, is there a potential that some of these learnings could last and be beneficial, could that have a meaningful benefit in terms of how you think about your overall trajectory or is it a little too early to say? How are you thinking about what you've been able to learn here?
**Lynn Good** – Duke Energy Corporation, Chair, President & CEO

Stephen, I think O&M agility, the ability to lower cost structure is a tailwind to growth because it puts us in a great position to deploy capital without raising price to customers. And so, I do think about it as something that's important to the long-term growth of the company.

**Stephen Byrd** – Morgan Stanley, Analyst

Understood. And it sounds like at least a portion of these cost savings are things that could be more permanent in nature and be beneficial longer term. Whereas other things like outage timing or more transitory in nature. So, it sounds like it's a mix of the two.

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

I think that's right, Stephen, but I think it's important that you're hearing from us that lowering our cost structure is not only a core competency of ours but a strong objective. And we think, particularly in a time we've got economic uncertainty, to move early and aggressively is a smart thing to do and that's how we are positioning ourselves in 2020 and also for 2021 and beyond.

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

And we are learning techniques to utilize our workforce much more efficiently in this situation. We can virtually shift engineers within functions. We have shifted financial people from budgeting, to accounting, to audit services. IT people to different functions. These virtual capabilities, as we learn more about them, are going to help us utilize our workforce more efficiently and I think that's going to provide longer-term savings capabilities.

**Steve Fleishman** – Wolfe Research, Analyst

Could you just remind us on the North Carolina rate cases, when you expect outcomes and if that does get delayed further, how much do we have to worry about the timing of that in terms of your range for this year?

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

We made a filing maybe a week ago, two days ago, adjusting or recommending the consolidation of the two cases in the Carolinas it's supported by public staff putting a hearing in July of this year. And so, we think that commission will give that close consideration and that'll put us close to the timing we'd originally planned. So, we feel like we've got some flexibility within our financial plan for 2020 on that timing.

I also think it's fair to say that there are tools with these cases whether it's deferrals, accounting orders, give back of deferred income taxes, interim rates, a variety of tools that could be used to support the health of the utility. And we'll be evaluating all of those considerations as we go. Many of those tools are available to the commission is you know.

**Steve Fleishman** – Wolfe Research, Analyst

Any updated thoughts on whether you have the likely potential to settle those cases or expect them to be going to the end?

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

Steve, we've entered into a settlement on a handful of items in the DEC case. We'll have similar discussions on DEP. In between now and July, we'll continue to keep lines of communication open with the parties to see if there are other opportunities. I think this is an important time as you recognize customers, of course, working through the economic downturn, but the health of the utilities are also extraordinarily important. And I'm not sure that there's been another time when the essential nature of our service has been underscored more than this. And so, we'll continue to have discussions. It's hard to forecast whether or not we'll get to any further settlement at this point, but we'll keep you posted.
Steve Fleishman – Wolfe Research, Analyst

Lastly, I think you mentioned that there's been the initial meeting on the North Carolina Energy plan. Could you just give a color on where that stands and when we might start seeing any outcomes from that?

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

There have been two stakeholder work streams in 2020, one focused on climate policy. So, this is a group of stakeholders focused on retirement of coal, CO2 markets, clean energy standard. And they have continued to meet remotely, talking about these various items. We would expect a draft report from those discussions in the second quarter, public drafts for third quarter, and then a recommendation going to the governor by the end of the year.

You may recall that the objective is to get to at least a 70% carbon reduction by 2030. And it's actually greenhouse gases not carbon. And so, there are some alignment around base years and other things going on to figure out exactly how to do the counting. We're comfortable with this objective. From our climate strategy where at least 50% by 2030. So, that stream of work is very engaged.

There have also been two meetings on a stakeholder process focused on modernized regulation, performance based rate making and other tools. The discussion there is early, I would say. I think there was one meeting in person, one remote meeting. The objectives there are trying to find ways that carbon reduction can be incented, distributed energy resources and so, that is moving it perhaps, at slightly slower pace but good discussion and dialog there as well. So, I think on both of these, we'll have more feedback as the year progresses and determine whether or not there's any specific push coming out of either of these processes for legislation in 2021.

Jonathan Arnold – Vertical Research, Analyst

On this guidance reaffirmation and the cost savings versus the pressure you see on sales, is it reasonable to assume that where you're sitting today, if those things play out as you've outlined, recognizing there's a lot variability that you would be that are solidly in the range or are we kind of holding in at the low-end or if there's any other color you can give us there?

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

Jonathan, we appreciate that. We built a plan and are executing a plan that matches the COVID-19 expectation as well as the first quarter weaker weather, which really gives us an opportunity to land solidly within the range. And as we've talked about, we have a track record of being able to manage O&M in this fashion and we have a high degree of confidence that we can do that. But we also recognize we're only a couple of months into this. The third quarter is still ahead of us. There are a wide range of assumptions on how this economy is going to play out. Our states are just beginning to reopen. We have the milestones around Atlantic Coast Pipeline that we've talked about with the SCOTUS decision and also the biological opinion.

So, we'll continue to update on all of those things as the year progresses. But the actions that we've put into place right now are designed to place us solidly within the range.

Jonathan Arnold – Vertical Research, Analyst

One other thing, you've talked about keeping regulators informed on incremental costs, are you actually deferring certain items and just where are you on sort of deferrals and potentially orders out of commissions allowing you to do that?

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

For the first quarter, Jonathan, minimal impact because we were just sort of starting into this process in the various policies with customers. But we are reporting and tracking all of these costs to our various commissions. And you will begin to see filings around deferrals or accounting orders and other things. I think Ohio and Indiana are already underway. And as we get more of that feedback going, then we will reflect the appropriate accounting entries at the
Steve Young – Duke Energy Corporation, Executive Vice President & CFO

Yeah, that's correct. We're preparing filings in the Midwest and in Ohio and Indiana. We are tracking cost in all of our jurisdictions. And at the appropriate time, we'll make various filings and work with our regulators on appropriate deferrals. Nothing's being deferred at this point but applications are getting prepared, tracking is moving forward, and we'll continue to look at this and see what makes most sense.

Jonathan Arnold – Vertical Research, Analyst

And how have you treated that in guidance, I guess?

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

We're assuming that we will get appropriate treatment of the incremental costs and I'm focusing on things like bad debt expense. The timing of when that occurs in terms of cash collections will depend on the jurisdiction. But for incremental costs we are assuming that we'll get appropriate regulatory treatment.

Jonathan Arnold – Vertical Research, Analyst

The recent executive order about not forcing equipment from adversary nations. Do you have any initial thoughts at the higher level on how this might impact your ability to execute the plan on grid, for example, just any color?

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

We're closely following it, Jonathan. I think the spirit of that is to address cyber risk which is something we strongly support. There was a similar executive order issued a few years ago for the telecom industry. And so, we will factor in as we learn more these plans into our investment plan. But as you know making investment in T&D intended to address cyber and physical risks as well as renewables and customer programs all of that fits squarely within our strategic investment plan. So we will adjust to that as we learn more, and focus on cyber risk around the bulk power system.

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

And I would add that we have a broad supplier base across our footprint. As you said, Jonathan, there's more to learn as to who's specifically being targeted here. But we look at our vendor base and try to diversify as much as possible so we can move in different directions if necessary.

Julien Dumoulin-Smith – BAML, Analyst

So I know you addressed this in part, but I want to come back to it. How you think about the sustainability of the cost cuts beyond the current period? Obviously, it's a dramatic number so not necessarily expected, but how do you think about the cadence of that against the need for perhaps evolving rate case timeline? And even within that number that you talked about this year, how you're thinking about that complementing your cost cutting efforts to mitigate the impacts from coal ash?

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

Yeah. So I'll take a stab and, Steve, you can build on it. We have developed a plan, Julien, to match what we see as COVID risk as well as mild weather. They've got economic downturn as well as a weak start to the year. And we've identified from a range of things, operation, corporate center, employee expenses, hiring freeze, contractor contingent workers, overtime, variable compensation, a variety of tools that we used to go after that.

As I commented a moment ago, the fact there were only a couple of months into this and learning about the reopening and learning about what might unfold over the balance of the year, we are also looking in each of those cost categories
for potential upsizing of them, as well as moving into what I would call more transformative changes where we might look at real estate and early retirement of certain assets and so on.

So, there's a lot of planning going on because the future is uncertain. If I look at that range of costs, some of them will be sustainable. I'm not prepared to give you a percentage or a specific number on that. But I do believe that some of them will be sustainable. The example I gave a moment ago, hiring freeze is going to put us into 2021 with a smaller workforce. And we will monitor as we go how to convert to a sustainable lower cost structure if we find ourselves in a longer downturn.

I think as you talk about coal ash, you're talking about regulatory risk. And the rate case outcomes and how that will factor in. We have a range of assumptions in our financial plan as we think about rate cases, and that is always part of our thinking in developing the size and mitigating actions. And so, I won't point to a specific item on that, but I will say any time you put a financial plan together, you're evaluating a range of outcomes. We feel strongly that recovery of coal ash costs and recovery of a return is important. We believe it's important for health of a balance sheet when you think about costs of this nature. And we will be prepared to strongly defend that when we're on the stand later this summer.

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

And I might add, Julien, that as we think about our regulatory cadences, the ability to generate these O&M efficiencies is a very useful tool. It gives us headroom and needed capital investments on behalf of our customers as Lynn alluded to earlier and minimizing any rate impacts to customers. So this capital optimization around our O&M optimization in sync with the regulatory cadence is a very important part of what we're trying to put together and we've got flexibility in the capital plan. So we can move that capital around to fit under O&M efficiencies to help our shareholders and our customers. So those are the types of dynamics we're trying to put together across our footprint.

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

How are you thinking about the shaping here by quarter of these cost cuts and how they manifest themselves relative, I suppose, to the reduction of load? I mean, it sounds like you were rapidly able to identify these cost cuts such as if your think about 2Q and 3Q, etcetera? And then, Lynn, if I can clarify. You specifically said that you did not yet elect, for instance, voluntary retirement programs as part of this $400 million number?

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

There is no assumption of a voluntary retirement program in the numbers, Julien.

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

And then on the shaping, Julien, I'd look for most of it to be in the second half of the year. A lot of our generation outage work will be in the fall generation season. As our head count freeze kicks in that kind of builds during the year. We had budgeted increases in workforce. We'll certainly see some in each quarter of the rest of the year. But specifically, with the generation outage work, that'll be a bit more in the second half of the year.

**Michael Weinstein** – Credit Suisse, Analyst

A couple of quick ones here on CapEx and O&M. So, the Florida grid hardening plan that you just filed, is that already reflected in the five-year CapEx plan?

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

So, Michael, we updated in February about $1.5 billion into Florida, our Florida five-year plan, and that is consistent with what we filed in the grid hardening plan. We will see incremental capital beyond the five years because this has put forward a 10-year plan and we'll provide those updates as the years progress.

**Steve Young** – Duke Energy Corporation, Executive Vice President & CFO
That's right. Our February capital plan was increased 12% and the Florida grid mod was a significant part of the increase.

**Michael Weinstein** – Credit Suisse, Analyst

And just to beat the dead horse on the O&M reduction, is there a ballpark estimate that you could give us for how much is deferral into the planned maintenance and how much is more permanent, say, 25% of it more permanent, maybe 50% permanent.

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

Michael, at this point, I don't have a range to share with you. I think that's been a topic of interest. And as we go into the second quarter and begin out more earnest planning for 2021, I think we'll be in a better position to talk about that. But our objective will be to make as much sustainable as we can in this environment. But I don't have a specific on deferrals versus sustainable at this point.

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

And we want to look at how the assets operate and think about their performance under the revised operations and so forth and that will impact this as well.

**Michael Weinstein** – Credit Suisse, Analyst

Steve, you mentioned the idea that you have headroom, yes, smaller O&M with more capital improvement. Do you see the opportunity to convert some of these OpEx cuts once the crisis is over into a higher rate base and CapEx growth plan?

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

Well, we certainly always look at putting our financial plans together, keeping in mind impacts on customer rates. And so, to the extent you can reduce O&M cost, that does give you that headroom there. We have a robust dataset of capital opportunities, we turn capital away each year when we go through our budgeting process. So, given our scope and scale, the breadth of our grid, we have plenty of opportunities to do those kinds of things, Mike.

**Michael Weinstein** – Credit Suisse, Analyst

And also, since the Progress rate case has a record that's still open. Is it possible to incorporate some of these COVID cost deferrals and recovery mechanisms or anything else you’re thinking about there, that would be possible to incorporate that into that case?

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

So, Michael, we're looking at the appropriate way to handle the Carolinas in light of the fact that the cases has yet to go hearing. I don't have anything specific to share on that plan right now, but we are reporting the costs to both – to the North Carolina Commission and to the state and to South Carolina, and we'll make the appropriate filings and incorporate them in the rate case if that makes sense or handle in whatever way make sense. Just too early on that one.

**Jeremy Tonet** – JP Morgan, Analyst

Just want to come to the O&M side with a slightly different angle. As I recall, it seems like the spending on items such a vegetation management was accelerated in 4Q 2019. So, just trying to think through how much cost savings was kind of banked last year that could be used again this year and was any of that contingency kind of already utilized in the first quarter?

**Steve Young** – Duke Energy Corporation, Executive Vice President & CFO
You're right. In terms of 2019, our agility programs worked in the other direction. We had a favorable year and we accelerated some useful expenses into 2019. We had veg management, where we had about $0.04 that we fold into 2019, as I recall. That was baked into our plans and our forecasts and so forth. And the ability to do those kinds of things is very useful to us. That's already baked into the numbers that you're seeing at this point, but that helps us achieve and get into our range, that dexterity between calendar years.

Operator

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

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

Well, thank you, Derrick, and thanks to all who joined today for your interest and investments in Duke Energy. And I just want to take this opportunity to thank the employees at Duke Energy. I'm extraordinarily proud of the work that's been underway with new safety protocols to do the business as usual, but also to serve our customers well. And the commitment of the leadership team and our employees to excellence for the customers, and in maintaining a financial health for our company is truly extraordinary.

So, thanks to the Duke Energy employees and thanks to all of you for joining today.

Operator

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