

POWER UP

**NAYGN CAROLINAS
REGIONAL CONFERENCE**

Breakout Sessions:

1) Nuclear Finance

← Elliott Wilson, Room EII-05106

2) UN Global Energy Summit: A Simulation

→ Amanda Lang, Room ECII-0372

3) Nuclear Innovation

Stay in this room (OJ Miller Auditorium)



NAYGN Finance Break-Out Session

Presented by: Kayce Brock



BUILDING A SMARTER ENERGY FUTURE™

Agenda

1. Introduction
2. The Big Picture
3. Financial Statement Terms Translated
4. How Do We Make Money?
5. The Who, What, Where, & When of Budgeting
6. Total Nuclear Operating Cost per MWH
7. Nuclear Fuel
8. Takeaway/Questions

Primary Financial Reports

1. Balance Sheet
2. Statements of Operations
3. Statements of Comprehensive Income
4. Statements of Cash Flows
5. Statements of Changes in Equity



TRANSFORMING THE
FUTURE

Duke Energy 2018 Annual Report and Form 10-K



The Balance Sheet

- Summarizes assets, liabilities, & equity
- Snapshot of a company's financial condition

PART II

DUKE ENERGY CORPORATION

CONSOLIDATED BALANCE SHEETS

(in millions)	December 31,	
	2018	2017
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 442	\$ 358
Receivables (net of allowance for doubtful accounts of \$16 at 2018 and \$14 at 2017)	962	779
Receivables of VIEs (net of allowance for doubtful accounts of \$55 at 2018 and \$54 at 2017)	2,172	1,995
Inventory	3,084	3,250
Regulatory assets (includes \$52 at 2018 and \$51 at 2017 related to VIEs)	2,005	1,437
Other (includes \$162 at 2018 and \$214 at 2017 related to VIEs)	1,049	634
Total current assets	9,714	8,453
Property, Plant and Equipment		
Cost	134,458	127,507
Accumulated depreciation and amortization	(43,126)	(41,537)
Generation facilities to be retired, net	362	421
Net property, plant and equipment	91,694	86,391
Other Noncurrent Assets		
Goodwill	19,303	19,396
Regulatory assets (includes \$1,041 at 2018 and \$1,091 at 2017 related to VIEs)	13,617	12,442
Nuclear decommissioning trust funds	6,720	7,097
Investments in equity method unconsolidated affiliates	1,409	1,175
Other	2,935	2,960
Total other noncurrent assets	43,984	43,070
Total Assets	\$145,392	\$137,914

See Notes to Consolidated Financial Statements

The Balance Sheet (continued)

- Summarizes assets, liabilities, & equity
- Snapshot of a company's financial condition

PART II

DUKE ENERGY CORPORATION

CONSOLIDATED BALANCE SHEETS — (Continued)

(in millions)	December 31,	
	2018	2017
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable	\$ 3,487	\$ 3,043
Notes payable and commercial paper	3,410	2,163
Taxes accrued	577	551
Interest accrued	559	525
Current maturities of long-term debt (includes \$227 at 2018 and \$225 at 2017 related to VIEs)	3,406	3,244
Asset retirement obligations	919	689
Regulatory liabilities	598	402
Other	2,085	1,865
Total current liabilities	15,041	12,482
Long-Term Debt (includes \$3,998 at 2018 and \$4,306 at 2017 related to VIEs)	51,123	49,035
Other Noncurrent Liabilities		
Deferred income taxes	7,806	6,621
Asset retirement obligations	9,548	9,486
Regulatory liabilities	14,834	15,330
Accrued pension and other post-retirement benefit costs	988	1,103
Investment tax credits	568	539
Other (includes \$212 at 2018 and \$241 at 2017 related to VIEs)	1,650	1,581
Total other noncurrent liabilities	35,394	34,660
Commitments and Contingencies		
Equity		
Common stock, \$0.001 par value, 2 billion shares authorized; 727 million shares outstanding at 2018 and 700 million shares outstanding at 2017	1	1
Additional paid-in capital	40,795	38,792
Retained earnings	3,113	3,013
Accumulated other comprehensive loss	(92)	(67)
Total Duke Energy Corporation stockholders' equity	43,817	41,739
Noncontrolling interests	17	(2)
Total equity	43,834	41,737
Total Liabilities and Equity	\$145,392	\$137,914

See Notes to Consolidated Financial Statements

The Statement of Operations

- Summarizes revenues & expenses to arrive at net income (profit)
- Presents if a company made money or lost money

PART II

DUKE ENERGY CORPORATION

CONSOLIDATED STATEMENTS OF OPERATIONS

(in millions, except per share amounts)	Years Ended December 31,		
	2018	2017	2016
Operating Revenues			
Regulated electric	\$22,097	\$21,177	\$21,221
Regulated natural gas	1,773	1,734	863
Nonregulated electric and other	651	654	659
Total operating revenues	24,521	23,565	22,743
Operating Expenses			
Fuel used in electric generation and purchased power	6,831	6,350	6,625
Cost of natural gas	697	632	265
Operation, maintenance and other	6,463	5,944	6,224
Depreciation and amortization	4,074	3,527	3,294
Property and other taxes	1,280	1,233	1,142
Impairment charges	402	282	18
Total operating expenses	19,747	17,968	17,568
(Losses) Gains on Sales of Other Assets and Other, net	(89)	28	27
Operating Income	4,685	5,625	5,202
Other Income and Expenses			
Equity in earnings (losses) of unconsolidated affiliates	83	119	(15)
Other income and expenses, net	399	508	463
Total other income and expenses	482	627	448
Interest Expense	2,094	1,986	1,916
Income From Continuing Operations Before Income Taxes	3,073	4,266	3,734
Income Tax Expense From Continuing Operations	448	1,196	1,156
Income From Continuing Operations	2,625	3,070	2,578
Income (Loss) From Discontinued Operations, net of tax	19	(6)	(408)
Net Income	2,644	3,064	2,170
Less: Net (Loss) Income Attributable to Noncontrolling Interests	(22)	5	18
Net Income Attributable to Duke Energy Corporation	\$ 2,666	\$ 3,059	\$ 2,152

Financial Terms & Concepts

Capital spending represents the dollars that qualify as property, plant & equipment assets

- It increases long-term assets on the balance sheet as costs are incurred
- Once the asset is "Placed in service," the costs are depreciated over the estimated useful life of the asset
- Depreciation expense is an item on the Statement of Operations

O&M spending represents dollars that are operating in nature

- It increases operating expense on the Statement of Operations

Capitalization (Property, Plant, & Equipment)

4 basic capitalization rules:

1. Expenditure is to purchase and/or to construct an asset
2. Asset has a future economic benefit greater than 1 year
3. Expenditure generally has a total cost greater than \$1,000
4. Work performed is extending the economic life of the asset beyond originally expected



How do we make money?

- We are a regulated utility. Therefore, unlike other businesses, we do not set the prices our customers pay
- Instead, our rates must be reviewed & approved by the state utility commissions
- The state utility commissions determine our total “revenue requirement” via a rate case



How do we make money? (continued)

- Revenue requirement = the amount of money a utility must collect in order to cover its costs & make a reasonable profit

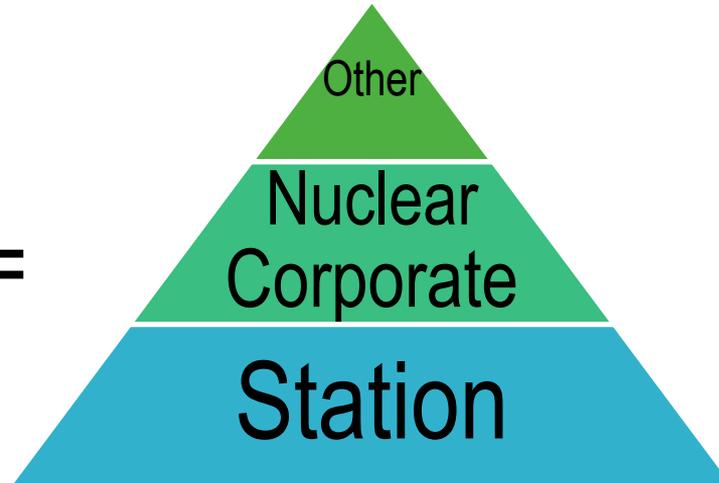
$$\text{Total Revenue Requirement} = \text{Rate Base} * \text{Allowed Rate of Return} + \text{Expenses}$$

- Rate base is the value of the company's assets minus accumulated depreciation
- Allowed rate of return (return on assets) drives a utility's profitability
- Expenses are simply passed through (including fuel)

How is the budget built?

1. The company evaluates strategy, earning per share growth, etc. to arrive at budget targets by Business Unit (Nuclear, Fossil/Hydro, Customer, etc.)
2. Both O&M and Capital budget targets are assigned
3. Business Unit Finance organizations further divide this target down for internal purposes
4. Nuclear assigns O&M budget targets by Cost Center, and Capital budget targets by Operating Unit

Operating Unit =



How is the budget built? (continued)

- Nuclear O&M budget targets are broken down into the following significant cost drivers:
 1. Base Labor
 2. Routine Online
 3. Non-Routine Online
 4. Outage

- Nuclear Capital budget targets are broken down between:
 1. Fleet Initiatives
 2. Fleet Must-Do's
 3. Suspended/Idle Projects
 4. Site Discretionary



How is the budget built? (continued)

- It is at station/GO management's discretion how they spend their allotted target dollars within general fleet direction
- 2020 O&M budget guidance:
 - Base Labor = current staffing + approved hiring + merit
 - Routine Online = flat to 2019 budget
 - Non-Routine Online = per reactor
 - Outage = \$28.5M per



Who builds the budget?

- Everyone! Department/project managers have primary accountability, but everyone's input is valued
- Local Nuclear Finance staff lead & facilitate the budget process based on input from all parties – job sponsors, department managers, project managers, etc.
- Key data points are utilized including historical spending, current year budget, current year projected spending, sister-site comparisons, etc.

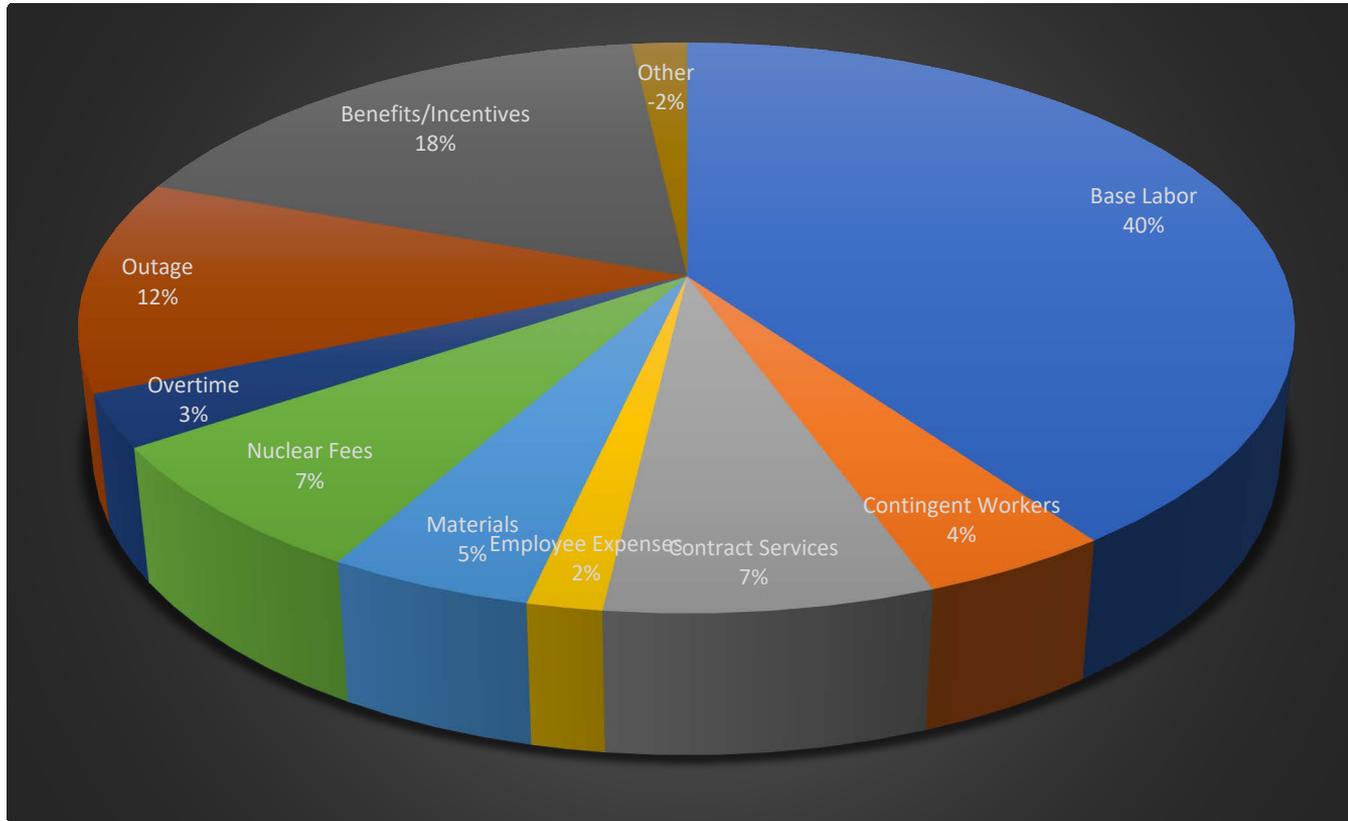


Who approves the budget?

- For the last 3 years, Nuclear has successfully utilized a Budget Summit approach to review/approve the budget
- Attendees are Site VP's, Nuclear Corporate VP's, SVP's, & CNO with Nuclear Finance facilitating
- Show & Tell – Summit Package
- End objective is to finalize a reasonable & achievable budget within the fleet target

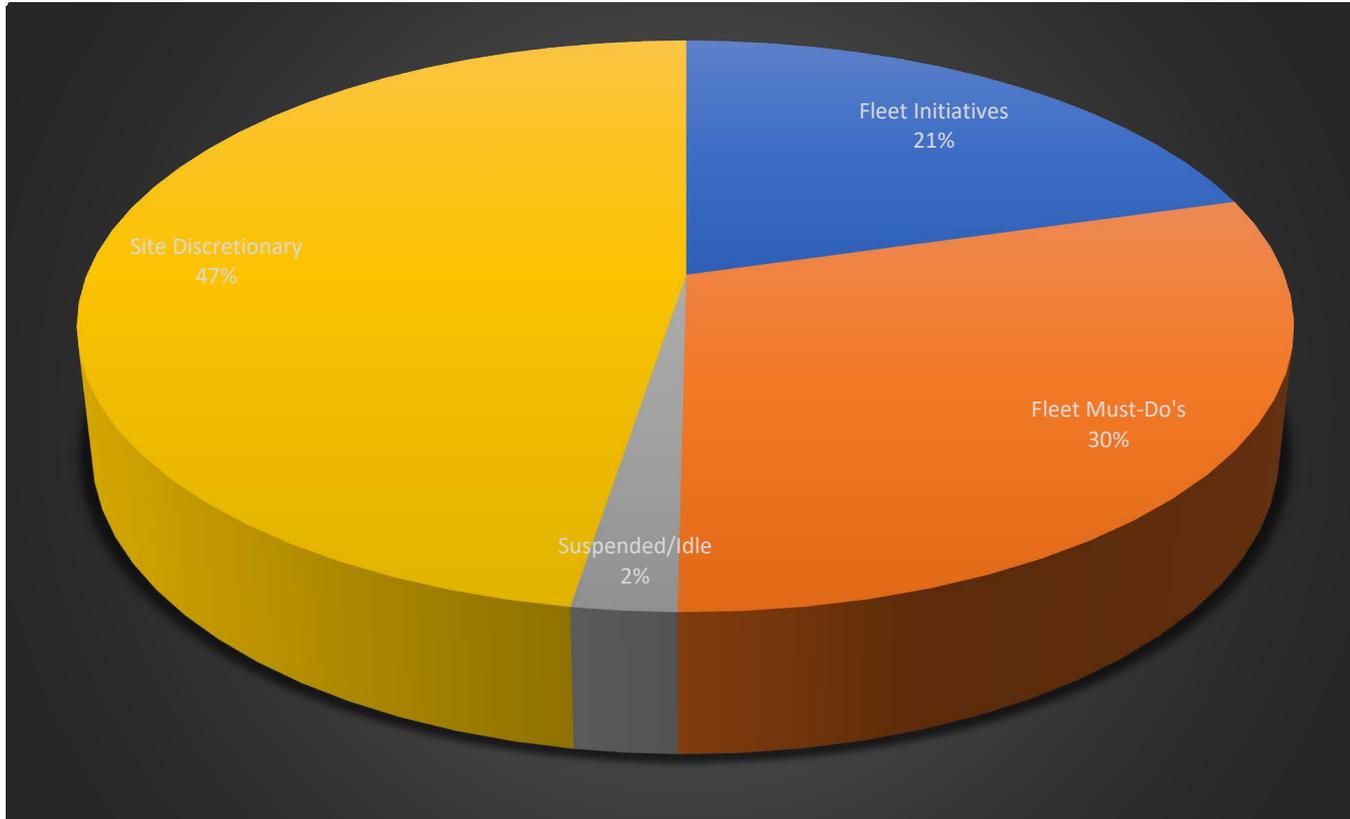


How does Nuclear spend it's O&M budget?



Base Labor	\$ 496.8
Benefits/Incentives	218.1
Outage	149.5
Nuclear Fees	91.4
Contract Services	91.2
Materials	57.2
Contingent Workers	53.1
Overtime	36.7
Employee Expenses	20.9
Other	(21.5)
Total	\$1,193.4

How does Nuclear spend it's Capital budget?



Fleet Initiatives	\$	104.6
Fleet Must-Do's		151.1
Suspended/Idle		12.0
Site Discretionary		241.8
Total	\$	509.5

Total Nuclear Operating Cost per MWH

- Measure of nuclear operating cost per net megawatt-hour generated
- Key Performance Indicator (KPI)
- Industry measure
- Basic formula:

	Operating Cost
+	Nuclear Fuel Expenses
=	Total Operating Cost
/	Net Generation (MW)
=	Cost per MW

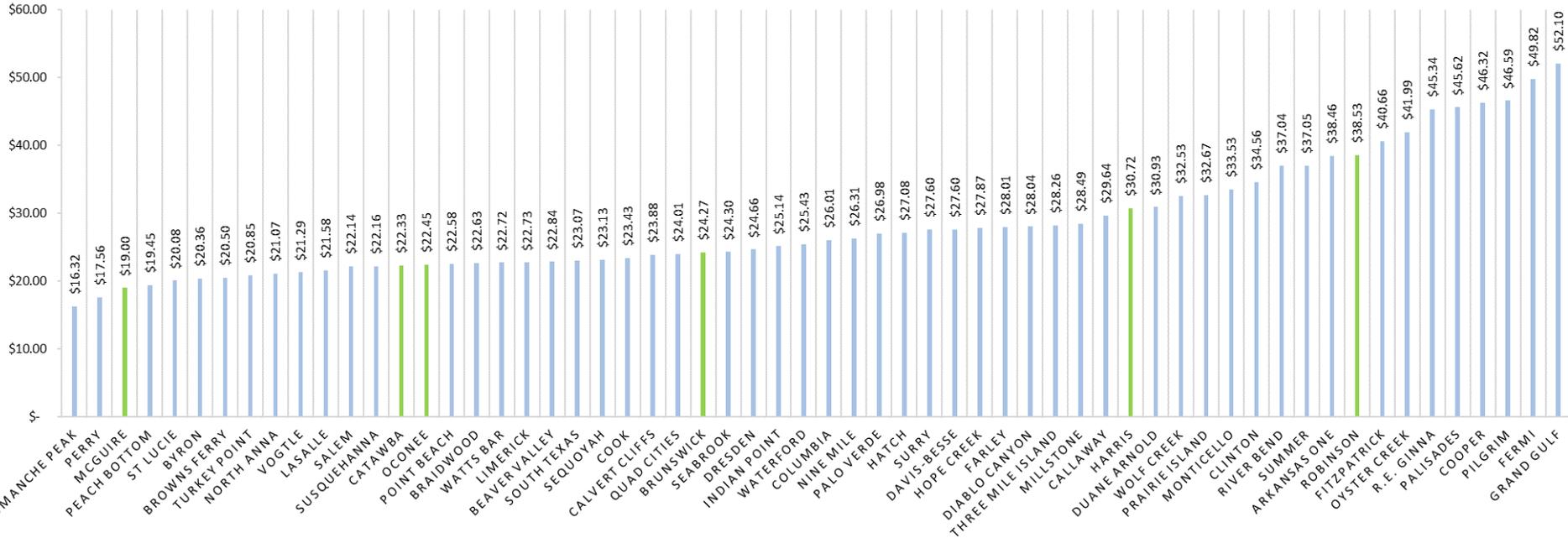
Total Nuclear Operating Cost per MWH (continued)

- Nuclear goal is \$24.00/MWH
- Fleet status per May KPI report:

PLANT/DEPT	BNP	CNS	HNP	MNS	ONS	RNP	NGD
Actual	29.55	16.80	23.34	21.74	16.98	25.76	20.97
Target	28.06	18.79	25.84	24.18	19.22	30.27	22.97
Min Target	28.40	18.86	25.94	24.46	19.29	30.39	23.13
Max Target	27.78	18.74	27.78	23.93	19.17	30.19	22.85
Projection	23.99	20.00	30.81	19.68	19.97	27.72	22.07

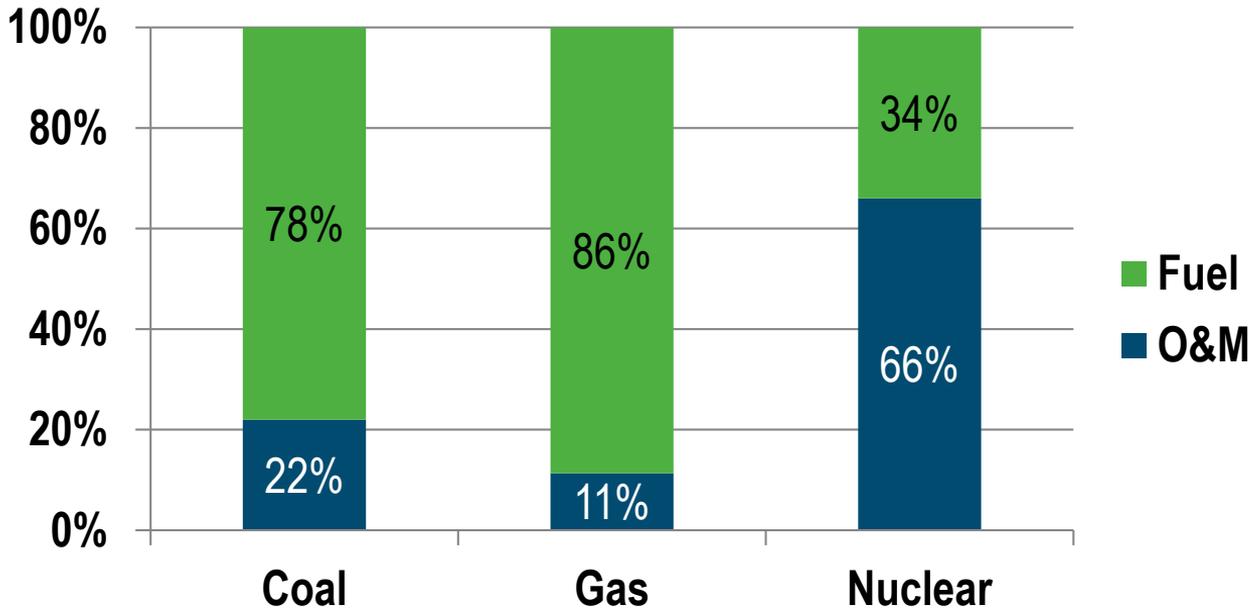
Total Nuclear Operating Cost per MWH (continued)

■ 2018 Industry Comparison



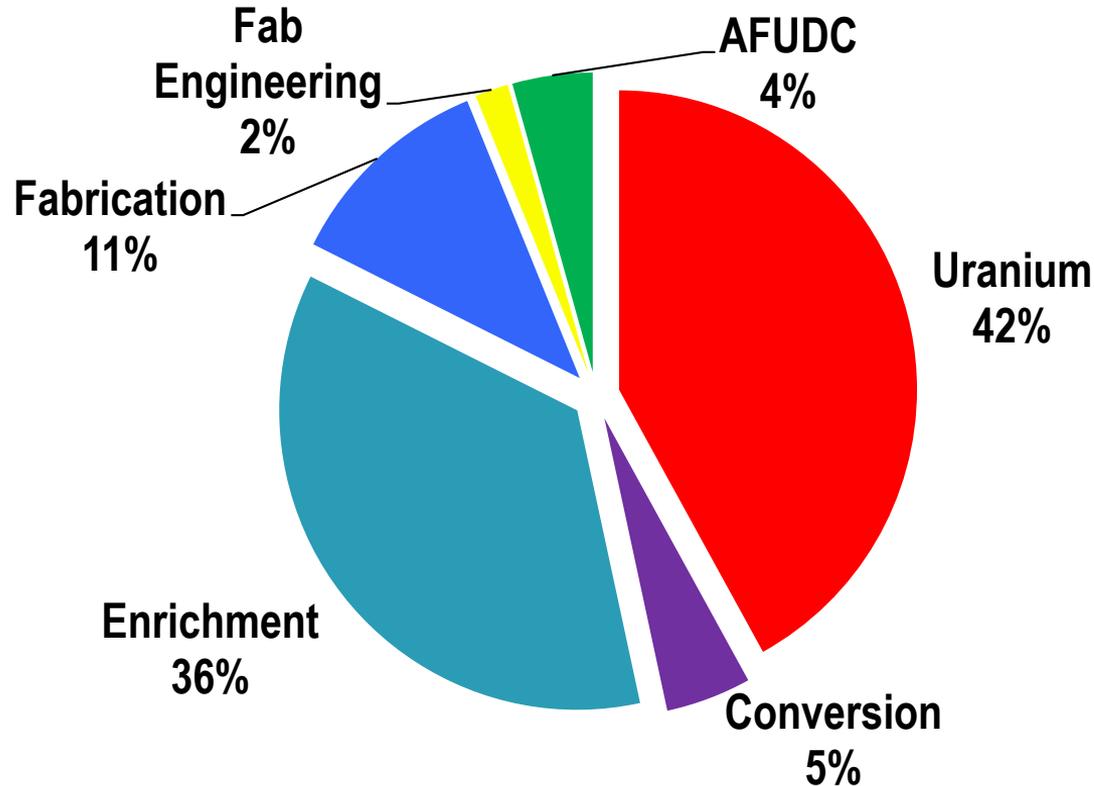
Nuclear Fuel

- Fuel as a percent of electric power industry production costs:



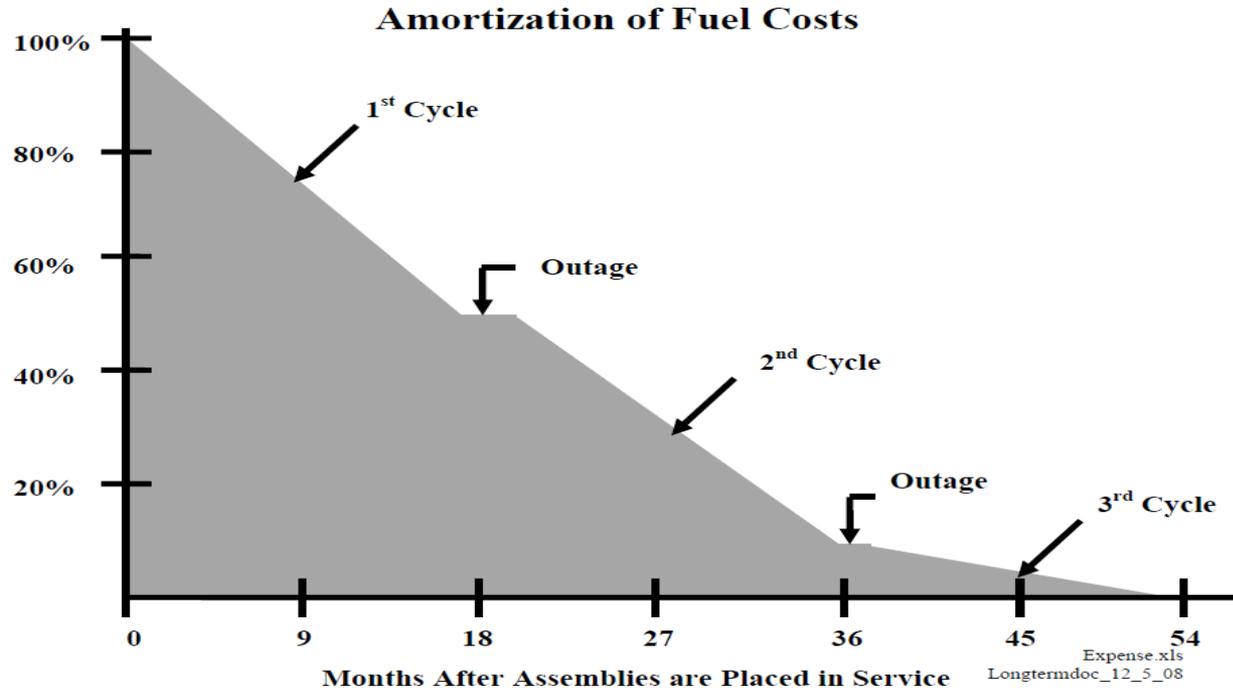
Nuclear Fuel (continued)

- Typical reload batch cost breakdown



Nuclear Fuel (continued)

- Nuclear Fuel costs are captured as Capital due to their extended life
- Costs are amortized over fuel operational life & recovered through rates via fuel adjustment clause



Nuclear Fuel (continued)

- Dry Storage costs are reimbursed annually by the Department of Energy
 - DEC – settlement
 - DEP – litigation approximately every 3 years

- Reimbursed costs:
 - Canisters
 - Overpacks
 - ISFSI & Pads
 - Dry Storage related labor

The Takeaways

- We all contribute to the bottom line financial success of Duke Energy
- Capital is king - increases the Balance Sheet & rate base
- O&M is challenged – direct reduction from revenues to arrive at net income
- The budget is built by everyone with the end goal being a reasonable & achievable plan
- \$24.00/MWH is the fleet Total Operating Cost goal
- Nuclear Fuel is different – treated as Capital



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