

Edgar Filing: Duke Energy CORP - Form 10-Q

Duke Energy CORP  
Form 10-Q  
May 10, 2018

UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549  
FORM 10-Q

(Mark One)

✓ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2018

OR

..TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number	Registrant, State of Incorporation or Organization, Address of Principal Executive Offices and Telephone Number	IRS Employer Identification No.
------------------------	---	---------------------------------

1-32853	DUKE ENERGY CORPORATION (a Delaware corporation) 550 South Tryon Street Charlotte, North Carolina 28202-1803 704-382-3853	20-2777218
---------	---	------------

Commission file number	Registrant, State of Incorporation or Organization, Address of Principal Executive Offices, Telephone Number and IRS Employer Identification Number	Commission file number	Registrant, State of Incorporation or Organization, Address of Principal Executive Offices, Telephone Number and IRS Employer Identification Number
1-4928	DUKE ENERGY CAROLINAS, LLC (a North Carolina limited liability company) 526 South Church Street Charlotte, North Carolina 28202-1803 704-382-3853 56-0205520	1-3274	DUKE ENERGY FLORIDA, LLC (a Florida limited liability company) 299 First Avenue North St. Petersburg, Florida 33701 704-382-3853 59-0247770
1-15929	PROGRESS ENERGY, INC. (a North Carolina corporation) 410 South Wilmington Street Raleigh, North Carolina 27601-1748 704-382-3853 56-2155481	1-1232	DUKE ENERGY OHIO, INC. (an Ohio corporation) 139 East Fourth Street Cincinnati, Ohio 45202 704-382-3853 31-0240030
1-3382	DUKE ENERGY PROGRESS, LLC (a North Carolina limited liability company) 410 South Wilmington Street Raleigh, North Carolina 27601-1748 704-382-3853 56-0165465	1-3543	DUKE ENERGY INDIANA, LLC (an Indiana limited liability company) 1000 East Main Street Plainfield, Indiana 46168 704-382-3853 35-0594457

1-6196

Edgar Filing: Duke Energy CORP - Form 10-Q

PIEDMONT NATURAL GAS  
COMPANY, INC.  
(a North Carolina corporation)  
4720 Piedmont Row Drive  
Charlotte, North Carolina 28210  
704-364-3120  
56-0556998

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Duke Energy Corporation (Duke Energy)	Yes x No	Duke Energy Florida, LLC (Duke Energy Florida)	Yes x No
Duke Energy Carolinas, LLC (Duke Energy Carolinas)	Yes x No	Duke Energy Ohio, Inc. (Duke Energy Ohio)	Yes x No
Progress Energy, Inc. (Progress Energy)	Yes x No	Duke Energy Indiana, LLC (Duke Energy Indiana)	Yes x No
Duke Energy Progress, LLC (Duke Energy Progress)	Yes x No	Piedmont Natural Gas Company, Inc. (Piedmont)	Yes x No

---

Edgar Filing: Duke Energy CORP - Form 10-Q

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Duke Energy Yes  No  Duke Energy Florida Yes  No   
 Duke Energy Carolinas Yes  No  Duke Energy Ohio Yes  No   
 Progress Energy Yes  No  Duke Energy Indiana Yes  No   
 Duke Energy Progress Yes  No  Piedmont Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Duke Energy	Large accelerated filer <input checked="" type="checkbox"/>	Accelerated filer <input type="checkbox"/>	Non-accelerated filer <input type="checkbox"/>	Smaller reporting company <input type="checkbox"/>	Emerging Growth Company <input type="checkbox"/>
Duke Energy Carolinas	Large accelerated filer <input type="checkbox"/>	Accelerated filer <input type="checkbox"/>	Non-accelerated filer <input checked="" type="checkbox"/>	Smaller reporting company <input type="checkbox"/>	Emerging Growth Company <input type="checkbox"/>
Progress Energy	Large accelerated filer <input type="checkbox"/>	Accelerated filer <input type="checkbox"/>	Non-accelerated filer <input checked="" type="checkbox"/>	Smaller reporting company <input type="checkbox"/>	Emerging Growth Company <input type="checkbox"/>
Duke Energy Progress	Large accelerated filer <input type="checkbox"/>	Accelerated filer <input type="checkbox"/>	Non-accelerated filer <input checked="" type="checkbox"/>	Smaller reporting company <input type="checkbox"/>	Emerging Growth Company <input type="checkbox"/>
Duke Energy Florida	Large accelerated filer <input type="checkbox"/>	Accelerated filer <input type="checkbox"/>	Non-accelerated filer <input checked="" type="checkbox"/>	Smaller reporting company <input type="checkbox"/>	Emerging Growth Company <input type="checkbox"/>
Duke Energy Ohio	Large accelerated filer <input type="checkbox"/>	Accelerated filer <input type="checkbox"/>	Non-accelerated filer <input checked="" type="checkbox"/>	Smaller reporting company <input type="checkbox"/>	Emerging Growth Company <input type="checkbox"/>
Duke Energy Indiana	Large accelerated filer <input type="checkbox"/>	Accelerated filer <input type="checkbox"/>	Non-accelerated filer <input checked="" type="checkbox"/>	Smaller reporting company <input type="checkbox"/>	Emerging Growth Company <input type="checkbox"/>
Piedmont	Large accelerated filer <input type="checkbox"/>	Accelerated filer <input type="checkbox"/>	Non-accelerated filer <input checked="" type="checkbox"/>	Smaller reporting company <input type="checkbox"/>	Emerging Growth Company <input type="checkbox"/>

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Duke Energy Yes  No  Duke Energy Florida Yes  No   
 Duke Energy Carolinas Yes  No  Duke Energy Ohio Yes  No   
 Progress Energy Yes  No  Duke Energy Indiana Yes  No   
 Duke Energy Progress Yes  No  Piedmont Yes  No

Number of shares of Common stock outstanding at March 31, 2018:

Registrant	Description	Shares
Duke Energy	Common stock, \$0.001 par value	701,007,267

This combined Form 10-Q is filed separately by eight registrants: Duke Energy, Duke Energy Carolinas, Progress Energy, Duke Energy Progress, Duke Energy Florida, Duke Energy Ohio, Duke Energy Indiana and Piedmont (collectively the Duke Energy Registrants). Information contained herein relating to any individual registrant is filed

Edgar Filing: Duke Energy CORP - Form 10-Q

by such registrant solely on its own behalf. Each registrant makes no representation as to information relating exclusively to the other registrants.

Duke Energy Carolinas, Progress Energy, Duke Energy Progress, Duke Energy Florida, Duke Energy Ohio, Duke Energy Indiana and Piedmont meet the conditions set forth in General Instructions H(1)(a) and (b) of Form 10-Q and are therefore filing this form with the reduced disclosure format specified in General Instructions H(2) of Form 10-Q.

---

TABLE OF CONTENTS

Cautionary Statement Regarding Forward-Looking Information

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

Duke Energy Corporation Financial Statements 6

Duke Energy Carolinas, LLC Financial Statements 11

Progress Energy, Inc. Financial Statements 15

Duke Energy Progress, LLC Financial Statements 19

Duke Energy Florida, LLC Financial Statements 23

Duke Energy Ohio, Inc. Financial Statements 27

Duke Energy Indiana, LLC Financial Statements 31

Piedmont Natural Gas Company, Inc. Financial Statements 35

Combined Notes to Condensed Consolidated Financial Statements

Note 1 – Organization and Basis of Presentation 39

Note 2 – Business Segments 43

Note 3 – Regulatory Matters 45

Note 4 – Commitments and Contingencies 52

Note 5 – Debt and Credit Facilities 57

Note 6 – Goodwill 58

Note 7 – Related Party Transactions 59

Note 8 – Derivatives and Hedging 60

Note 9 – Investments in Debt and Equity Securities 66

Note 10 – Fair Value Measurements 72

Note 11 – Variable Interest Entities 79

Note 12 – Revenue 84

Note 13 – Common Stock 87

Note 14 – Stock-Based Compensation 88

Note 15 – Employee Benefit Plans 89

Note 16 – Income Taxes 91

Note 17 – Subsequent Events 91

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations 92

Item 3. Quantitative and Qualitative Disclosures About Market Risk 115

Item 4. Controls and Procedures 115

PART II. OTHER INFORMATION

Item 1. Legal Proceedings 116

<u>Item 1A. Risk Factors</u>	<u>116</u>
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>116</u>
<u>Item 6. Exhibits</u>	<u>117</u>
<u>Signatures</u>	<u>120</u>

---

#### CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

This document includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Forward-looking statements are based on management's beliefs and assumptions and can often be identified by terms and phrases that include "anticipate," "believe," "intend," "estimate," "expect," "continue," "should," "could," "may," "plan," "project," "predict," "will," "potential," "forecast," "target" or other similar terminology. Various factors may cause actual results to be materially different than the suggested outcomes within forward-looking statements; accordingly, there is no assurance that such results will be realized.

These factors include, but are not limited to:

State, federal and foreign legislative and regulatory initiatives, including costs of compliance with existing and future environmental requirements, including those related to climate change, as well as rulings that affect cost and investment recovery or have an impact on rate structures or market prices;

The extent and timing of costs and liabilities to comply with federal and state laws, regulations and legal requirements related to coal ash remediation, including amounts for required closure of certain ash impoundments, are uncertain and difficult to estimate;

The ability to recover eligible costs, including amounts associated with coal ash impoundment retirement obligations and costs related to significant weather events, and to earn an adequate return on investment through rate case proceedings and the regulatory process;

The costs of decommissioning Crystal River Unit 3 and other nuclear facilities could prove to be more extensive than amounts estimated and all costs may not be fully recoverable through the regulatory process;

Costs and effects of legal and administrative proceedings, settlements, investigations and claims;

Industrial, commercial and residential growth or decline in service territories or customer bases resulting from sustained downturns of the economy and the economic health of our service territories or variations in customer usage patterns, including energy efficiency efforts and use of alternative energy sources, such as self-generation and distributed generation technologies;

Federal and state regulations, laws and other efforts designed to promote and expand the use of energy efficiency measures and distributed generation technologies, such as private solar and battery storage, in Duke Energy service territories could result in customers leaving the electric distribution system, excess generation resources as well as stranded costs;

Advancements in technology;

Additional competition in electric and natural gas markets and continued industry consolidation;

The influence of weather and other natural phenomena on operations, including the economic, operational and other effects of severe storms, hurricanes, droughts, earthquakes and tornadoes, including extreme weather associated with climate change;

The ability to successfully operate electric generating facilities and deliver electricity to customers including direct or indirect effects to the company resulting from an incident that affects the U.S. electric grid or generating resources;

The ability to complete necessary or desirable pipeline expansion or infrastructure projects in our natural gas business;

Operational interruptions to our natural gas distribution and transmission activities;

The availability of adequate interstate pipeline transportation capacity and natural gas supply;

The impact on facilities and business from a terrorist attack, cybersecurity threats, data security breaches and other catastrophic events, such as fires, explosions, pandemic health events or other similar occurrences;

The inherent risks associated with the operation of nuclear facilities, including environmental, health, safety, regulatory and financial risks, including the financial stability of third-party service providers;

The timing and extent of changes in commodity prices and interest rates and the ability to recover such costs through the regulatory process, where appropriate, and their impact on liquidity positions and the value of underlying assets;

The results of financing efforts, including the ability to obtain financing on favorable terms, which can be affected by various factors, including credit ratings, interest rate fluctuations, compliance with debt covenants and conditions and general market and economic conditions;

Credit ratings of the Duke Energy Registrants may be different from what is expected;

## Edgar Filing: Duke Energy CORP - Form 10-Q

Declines in the market prices of equity and fixed-income securities and resultant cash funding requirements for defined benefit pension plans, other post-retirement benefit plans and nuclear decommissioning trust funds;  
Construction and development risks associated with the completion of the Duke Energy Registrants' capital investment projects, including risks related to financing, obtaining and complying with terms of permits, meeting construction budgets and schedules and satisfying operating and environmental performance standards, as well as the ability to recover costs from customers in a timely manner, or at all;  
Changes in rules for regional transmission organizations, including changes in rate designs and new and evolving capacity markets, and risks related to obligations created by the default of other participants;  
The ability to control operation and maintenance costs;  
The level of creditworthiness of counterparties to transactions;  
Employee workforce factors, including the potential inability to attract and retain key personnel;  
The ability of subsidiaries to pay dividends or distributions to Duke Energy Corporation holding company (the Parent);  
The performance of projects undertaken by our nonregulated businesses and the success of efforts to invest in and develop new opportunities;

---



The effect of accounting pronouncements issued periodically by accounting standard-setting bodies;  
The impact of new U.S. tax legislation to our financial condition, results of operations or cash flows and our credit ratings;

The impacts from potential impairments of goodwill or equity method investment carrying values;

The ability to successfully complete future merger, acquisition or divestiture plans; and

The ability to implement our business strategy.

Additional risks and uncertainties are identified and discussed in the Duke Energy Registrants' reports filed with the SEC and available at the SEC's website at [sec.gov](http://sec.gov). In light of these risks, uncertainties and assumptions, the events described in the forward-looking statements might not occur or might occur to a different extent or at a different time than described. Forward-looking statements speak only as of the date they are made and the Duke Energy Registrants expressly disclaim an obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

---

## PART I. FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

## DUKE ENERGY CORPORATION

Condensed Consolidated Statements of Operations  
(Unaudited)

	Three Months Ended March 31,	
(in millions, except per-share amounts)	2018	2017
Operating Revenues		
Regulated electric	\$5,284	\$4,913
Regulated natural gas	700	646
Nonregulated electric and other	151	170
Total operating revenues	6,135	5,729
Operating Expenses		
Fuel used in electric generation and purchased power	1,676	1,449
Cost of natural gas	313	258
Operation, maintenance and other	1,464	1,468
Depreciation and amortization	967	859
Property and other taxes	316	304
Impairment charges	43	—
Total operating expenses	4,779	4,338
(Loss) Gains on Sales of Other Assets and Other, net	(100)	) 11
Operating Income	1,256	1,402
Other Income and Expenses		
Equity in (losses) earnings of unconsolidated affiliates	(24)	) 29
Other income and expenses, net	86	121
Total other income and expenses	62	150
Interest Expense	515	491
Income Before Income Taxes	803	1,061
Income Tax Expense	181	344
Net Income	622	717
Less: Net Income Attributable to Noncontrolling Interests	2	1
Net Income Attributable to Duke Energy Corporation	\$620	\$716
Earnings Per Share – Basic and Diluted		
Net income attributable to Duke Energy Corporation common stockholders		
Basic	\$0.88	\$1.02
Diluted	\$0.88	\$1.02
Weighted average shares outstanding		
Basic	701	700
Diluted	701	700

See Notes to Condensed Consolidated Financial Statements

6

## PART I

## DUKE ENERGY CORPORATION

Condensed Consolidated Statements of Comprehensive Income  
(Unaudited)

	Three Months Ended March 31,	
(in millions)	2018	2017
Net Income	\$622	\$717
Other Comprehensive Income, net of tax		
Pension and OPEB adjustments	1	1
Net unrealized gains on cash flow hedges	12	2
Reclassification into earnings from cash flow hedges	1	1
Unrealized (losses) gains on available-for-sale securities	(3	) 4
Other Comprehensive Income, net of tax	11	8
Comprehensive Income	633	725
Less: Comprehensive Income Attributable to Noncontrolling Interests	2	1
Comprehensive Income Attributable to Duke Energy Corporation	\$631	\$724

See Notes to Condensed Consolidated Financial Statements

7

## PART I

## DUKE ENERGY CORPORATION

## Condensed Consolidated Balance Sheets

(Unaudited)

(in millions)

March 31, 2018 December 31, 2017

## ASSETS

## Current Assets

Cash and cash equivalents	\$ 421	\$ 358
Receivables (net of allowance for doubtful accounts of \$17 at 2018 and \$14 at 2017)	759	779
Receivables of VIEs (net of allowance for doubtful accounts of \$57 at 2018 and \$54 at 2017)	1,984	1,995
Inventory	3,149	3,250
Regulatory assets (includes \$51 at 2018 and 2017 related to VIEs)	1,544	1,437
Other	422	634
Total current assets	8,279	8,453
Property, Plant and Equipment		
Cost	129,281	127,507
Accumulated depreciation and amortization	(42,307)	(41,537)
Generation facilities to be retired, net	399	421
Net property, plant and equipment	87,373	86,391
Other Noncurrent Assets		
Goodwill	19,396	19,396
Regulatory assets (includes \$1,082 at 2018 and \$1,091 at 2017 related to VIEs)	12,218	12,442
Nuclear decommissioning trust funds	7,024	7,097
Investments in equity method unconsolidated affiliates	1,189	1,175
Other	3,062	2,960
Total other noncurrent assets	42,889	43,070
Total Assets	\$ 138,541	\$ 137,914

## LIABILITIES AND EQUITY

## Current Liabilities

Accounts payable	\$ 2,391	\$ 3,043
Notes payable and commercial paper	2,969	2,163
Taxes accrued	422	551
Interest accrued	542	525
Current maturities of long-term debt (includes \$225 at 2018 and 2017 related to VIEs)	3,951	3,244
Asset retirement obligations	676	689
Regulatory liabilities	505	402
Other	1,542	1,865
Total current liabilities	12,998	12,482
Long-Term Debt (includes \$4,275 at 2018 and \$4,306 at 2017 related to VIEs)	49,030	49,035
Other Noncurrent Liabilities		
Deferred income taxes	6,855	6,621
Asset retirement obligations	9,484	9,486
Regulatory liabilities	15,283	15,330
Accrued pension and other post-retirement benefit costs	1,018	1,103
Investment tax credits	537	539
Other	1,538	1,581

Edgar Filing: Duke Energy CORP - Form 10-Q

Total other noncurrent liabilities	34,715	34,660
Commitments and Contingencies		
Equity		
Common stock, \$0.001 par value, 2 billion shares authorized; 701 million shares outstanding at 2018 and 700 million shares outstanding at 2017	1	1
Additional paid-in capital	38,839	38,792
Retained earnings	3,021	3,013
Accumulated other comprehensive loss	(69	) (67
Total Duke Energy Corporation stockholders' equity	41,792	41,739
Noncontrolling interests	6	(2
Total equity	41,798	41,737
Total Liabilities and Equity	\$ 138,541	\$ 137,914

See Notes to Condensed Consolidated Financial Statements

8

---

## PART I

## DUKE ENERGY CORPORATION

Condensed Consolidated Statements of Cash Flows  
(Unaudited)

	Three Months Ended March 31,	
(in millions)	2018	2017
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income	\$622	\$717
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, amortization and accretion (including amortization of nuclear fuel)	1,089	991
Equity component of AFUDC	(55 )	(62 )
Losses (gains) on sales of other assets	100	(11 )
Impairment charges	43	—
Deferred income taxes	199	342
Equity in losses (earnings) of unconsolidated affiliates	24	(29 )
Accrued pension and other post-retirement benefit costs	15	6
Contributions to qualified pension plans	(141 )	—
Payments for asset retirement obligations	(122 )	(134 )
Payment for disposal of other assets	(105 )	—
Other rate case adjustments	37	—
Provision for rate refunds	158	—
(Increase) decrease in		
Net realized and unrealized mark-to-market and hedging transactions	4	(38 )
Receivables	64	343
Inventory	101	155
Other current assets	27	(22 )
Increase (decrease) in		
Accounts payable	(327 )	(463 )
Taxes accrued	(107 )	(28 )
Other current liabilities	(171 )	(478 )
Other assets	(59 )	(45 )
Other liabilities	(5 )	2
Net cash provided by operating activities	1,391	1,246
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Capital expenditures	(2,087 )	(2,160 )
Cost of removal, net of salvage	(81 )	(39 )
Contributions to equity method investments	(74 )	(175 )
Purchases of debt and equity securities	(958 )	(1,386 )
Proceeds from sales and maturities of debt and equity securities	930	1,405
Other	6	(6 )
Net cash used in investing activities	(2,264 )	(2,361 )
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from the:		
Issuance of long-term debt	1,240	1,563
Issuance of common stock	21	—
Payments for the redemption of long-term debt	(487 )	(408 )
Proceeds from the issuance of short-term debt with original maturities greater than 90 days	135	25

Edgar Filing: Duke Energy CORP - Form 10-Q

Payments for the redemption of short-term debt with original maturities greater than 90 days	(50 )	(7 )
Notes payable and commercial paper	706	1,045
Dividends paid	(599 )	(600 )
Other	(19 )	(22 )
Net cash provided by financing activities	947	1,596
Net increase in cash, cash equivalents and restricted cash	74	481
Cash, cash equivalents and restricted cash at beginning of period	505	541
Cash, cash equivalents and restricted cash at end of period	\$579	\$1,022
Supplemental Disclosures:		
Significant non-cash transactions:		
Accrued capital expenditures	\$799	\$575
Non-cash dividends	26	—

See Notes to Condensed Consolidated Financial Statements

9

---

## PART I

## DUKE ENERGY CORPORATION

 Condensed Consolidated Statements of Changes in Equity  
 (Unaudited)

	Common Stock Shares	Additional		Retained Earnings	Cash Flow Hedges	Net Gains (Losses) on Available for-Sale Securities	Accumulated Other Comprehensive Loss Net Unrealized Gains (Losses) on Pension and OPEB Adjustments	Total Duke Energy Corporation Stockholders' Equity	Noncontrolling Interests	Total Equity
		Common Stock	Raid-in Capital							
(in millions)										
Balance at December 31, 2016	700	\$ 1	\$ 38,741	\$ 2,384	\$(20)	\$ (1 )	\$ (72 )	\$ 41,033	\$ 8	\$ 41,041
Net income	—	—	—	716	—	—	—	716	1	717
Other comprehensive income	—	—	—	—	3	4	1	8	—	8
Common stock issuances, including dividend reinvestment and employee benefits	—	—	1	—	—	—	—	1	—	1
Common stock dividends	—	—	—	(600 )	—	—	—	(600 )	—	(600 )
Distributions to noncontrolling interest in subsidiaries	—	—	—	—	—	—	—	—	(2 )	(2 )
Other <sup>(a)</sup>	—	—	—	21	—	—	—	21	—	21
Balance at March 31, 2017	700	\$ 1	\$ 38,742	\$ 2,521	\$(17)	\$ 3	\$ (71 )	\$ 41,179	\$ 7	\$ 41,186
Balance at December 31, 2017	700	\$ 1	\$ 38,792	\$ 3,013	\$(10)	\$ 12	\$ (69 )	\$ 41,739	\$ (2 )	\$ 41,737
Net income	—	—	—	620	—	—	—	620	2	622
Other comprehensive income (loss)	—	—	—	—	13	(3 )	1	11	—	11
Common stock issuances, including dividend reinvestment and employee benefits	1	—	47	—	—	—	—	47	—	47
Common stock dividends	—	—	—	(625 )	—	—	—	(625 )	—	(625 )
Distributions to noncontrolling interest in subsidiaries	—	—	—	—	—	—	—	—	(1 )	(1 )
Other <sup>(b)</sup>	—	—	—	13	—	(13 )	—	—	7	7
Balance at March 31, 2018	701	\$ 1	\$ 38,839	\$ 3,021	\$ 3	\$ (4 )	\$ (68 )	\$ 41,792	\$ 6	\$ 41,798

(a) Cumulative-effect adjustment due to implementation of a new accounting standard related to stock-based compensation and the associated income taxes.

(b)



Edgar Filing: Duke Energy CORP - Form 10-Q

Amounts in Retained Earnings and Accumulated Other Comprehensive Loss represent a cumulative-effect adjustment due to implementation of a new accounting standard related to Financial Instruments Classification and Measurement. See Note 1 for more information.

See Notes to Condensed Consolidated Financial Statements

10

---

## PART I

## DUKE ENERGY CAROLINAS, LLC

Condensed Consolidated Statements of Operations and Comprehensive Income  
(Unaudited)

(in millions)	Three Months Ended March 31,	
	2018	2017
Operating Revenues	\$1,763	\$1,716
Operating Expenses		
Fuel used in electric generation and purchased power	473	428
Operation, maintenance and other	451	495
Depreciation and amortization	272	254
Property and other taxes	72	68
Impairment charges	13	—
Total operating expenses	1,281	1,245
Operating Income	482	471
Other Income and Expenses, net	39	50
Interest Expense	107	103
Income Before Income Taxes	414	418
Income Tax Expense	91	148
Net Income	\$323	\$270
Other Comprehensive Income, net of tax		
Reclassification into earnings from cash flow hedges	1	—
Comprehensive Income	\$324	\$270

See Notes to Condensed Consolidated Financial Statements

11

## PART I

DUKE ENERGY CAROLINAS, LLC  
Condensed Consolidated Balance Sheets  
(Unaudited)

(in millions)

March 31, 2018 December 31, 2017

## ASSETS

## Current Assets

Cash and cash equivalents	\$ 3	\$ 16
Receivables (net of allowance for doubtful accounts of \$2 at 2018 and 2017)	194	200
Receivables of VIEs (net of allowance for doubtful accounts of \$7 at 2018 and 2017)	634	640
Receivables from affiliated companies	106	95
Inventory	980	971
Regulatory assets	331	299
Other	42	19
Total current assets	2,290	2,240
Property, Plant and Equipment		
Cost	43,562	42,939
Accumulated depreciation and amortization	(15,404)	(15,063)
Net property, plant and equipment	28,158	27,876
Other Noncurrent Assets		
Regulatory assets	2,825	2,853
Nuclear decommissioning trust funds	3,734	3,772
Other	1,023	979
Total other noncurrent assets	7,582	7,604
Total Assets	\$ 38,030	\$ 37,720

## LIABILITIES AND EQUITY

## Current Liabilities

Accounts payable	\$ 726	\$ 842
Accounts payable to affiliated companies	259	209
Notes payable to affiliated companies	45	104
Taxes accrued	84	234
Interest accrued	144	108
Current maturities of long-term debt	805	1,205
Asset retirement obligations	281	337
Regulatory liabilities	116	126
Other	369	486
Total current liabilities	2,829	3,651
Long-Term Debt	9,589	8,598
Long-Term Debt Payable to Affiliated Companies	300	300
Other Noncurrent Liabilities		
Deferred income taxes	3,493	3,413
Asset retirement obligations	3,318	3,273
Regulatory liabilities	6,208	6,231
Accrued pension and other post-retirement benefit costs	95	95
Investment tax credits	231	232
Other	532	566
Total other noncurrent liabilities	13,877	13,810
Commitments and Contingencies		

Edgar Filing: Duke Energy CORP - Form 10-Q

Equity		
Member's equity	11,441	11,368
Accumulated other comprehensive loss	(6	) (7
Total equity	11,435	11,361
Total Liabilities and Equity	\$ 38,030	\$ 37,720

See Notes to Condensed Consolidated Financial Statements

12

---

## PART I

## DUKE ENERGY CAROLINAS, LLC

Condensed Consolidated Statements of Cash Flows  
(Unaudited)

(in millions)	Three Months Ended March 31,	
	2018	2017
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income	\$323	\$270
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization (including amortization of nuclear fuel)	347	339
Equity component of AFUDC	(21 )	(30 )
Impairment charges	13	—
Deferred income taxes	80	162
Accrued pension and other post-retirement benefit costs	1	—
Contributions to qualified pension plans	(46 )	—
Payments for asset retirement obligations	(55 )	(65 )
Provision for rate refunds	61	—
(Increase) decrease in		
Net realized and unrealized mark-to-market and hedging transactions	—	3
Receivables	19	66
Receivables from affiliated companies	(11 )	54
Inventory	(9 )	4
Other current assets	(144 )	(26 )
Increase (decrease) in		
Accounts payable	(76 )	(131 )
Accounts payable to affiliated companies	50	3
Taxes accrued	(129 )	(53 )
Other current liabilities	(23 )	(125 )
Other assets	12	(3 )
Other liabilities	(43 )	(2 )
Net cash provided by operating activities	349	466
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Capital expenditures	(621 )	(563 )
Cost of removal, net of salvage	(17 )	(16 )
Purchases of debt and equity securities	(494 )	(722 )
Proceeds from sales and maturities of debt and equity securities	494	722
Notes receivable from affiliated companies	—	66
Other	(4 )	(4 )
Net cash used in investing activities	(642 )	(517 )
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from the issuance of long-term debt	991	—
Payments for the redemption of long-term debt	(401 )	(113 )
Notes payable to affiliated companies	(59 )	337
Distributions to parent	(250 )	(175 )
Other	(1 )	(1 )
Net cash provided by financing activities	280	48

Edgar Filing: Duke Energy CORP - Form 10-Q

Net decrease in cash and cash equivalents	(13 )	(3 )
Cash and cash equivalents at beginning of period	16	14
Cash and cash equivalents at end of period	\$3	\$11
Supplemental Disclosures:		
Significant non-cash transactions:		
Accrued capital expenditures	\$267	\$164

See Notes to Condensed Consolidated Financial Statements

13

---

## PART I

## DUKE ENERGY CAROLINAS, LLC

Condensed Consolidated Statements of Changes in Equity  
(Unaudited)

		Accumulated Other Comprehensive Loss Net Losses on		
(in millions)	Member's Equity	Cash Flow Hedges	Total Equity	
Balance at December 31, 2016	\$ 10,781	\$ (9 )	\$ 10,772	
Net income	270	—	270	
Distributions to parent	(175 )	—	(175 )	
Balance at March 31, 2017	\$ 10,876	\$ (9 )	\$ 10,867	
Balance at December 31, 2017	\$ 11,368	\$ (7 )	\$ 11,361	
Net income	323	—	323	
Other comprehensive income	—	1	1	
Distributions to parent	(250 )	—	(250 )	
Balance at March 31, 2018	\$ 11,441	\$ (6 )	\$ 11,435	

See Notes to Condensed Consolidated Financial Statements

14

## PART I

## PROGRESS ENERGY, INC.

Condensed Consolidated Statements of Operations and Comprehensive Income  
(Unaudited)

(in millions)	Three Months Ended March 31,	
	2018	2017
Operating Revenues	\$2,576	\$2,179
Operating Expenses		
Fuel used in electric generation and purchased power	976	726
Operation, maintenance and other	623	560
Depreciation and amortization	384	313
Property and other taxes	123	117
Impairment charges	29	—
Total operating expenses	2,135	1,716
Gains on Sales of Other Assets and Other, net	6	8
Operating Income	447	471
Other Income and Expenses, net	35	40
Interest Expense	209	206
Income Before Income Taxes	273	305
Income Tax Expense	36	104
Net Income	237	201
Less: Net Income Attributable to Noncontrolling Interests	2	2
Net Income Attributable to Parent	\$235	\$199
Net Income	\$237	\$201
Other Comprehensive Income, net of tax		
Pension and OPEB adjustments	—	1
Net unrealized gain on cash flow hedges	2	—
Reclassification into earnings from cash flow hedges	—	1
Unrealized gains on available-for-sale securities	—	1
Other Comprehensive Income, net of tax	2	3
Comprehensive Income	239	204
Less: Comprehensive Income Attributable to Noncontrolling Interests	2	2
Comprehensive Income Attributable to Parent	\$237	\$202

See Notes to Condensed Consolidated Financial Statements

15



## PART I

## PROGRESS ENERGY, INC.

## Condensed Consolidated Balance Sheets

(Unaudited)

(in millions)

March 31, 2018

December 31, 2017

## ASSETS

## Current Assets

Cash and cash  
equivalents

\$ 20

\$ 40

Receivables (net of  
allowance for doubtful  
accounts of \$4 at 2018  
and 2017)

122

123

Receivables of VIEs (net  
of allowance for doubtful  
accounts of \$7 at 2018  
and 2017)

815

780

Receivables from  
affiliated companies

2

31

Notes receivable from  
affiliated companies

113

240

Inventory

1,537

1,592

Regulatory assets  
(includes \$51 at 2018  
and 2017 related to  
VIEs)

869

741

Other

259

334

Total current assets

3,737

3,881

Property, Plant and  
Equipment

Cost

47,915

47,323

Accumulated  
depreciation and  
amortization

(16,060 )

(15,857 )

Generation facilities to  
be retired, net

399

421

Net property, plant and  
equipment

32,254

31,887

Other Noncurrent Assets

Goodwill

3,655

3,655

Regulatory assets

(includes \$1,082 at 2018  
and \$1,091 at 2017  
related to VIEs)

5,872

6,010

Nuclear

decommissioning trust  
funds

3,290

3,324

Other

990

931

13,807

13,920

Edgar Filing: Duke Energy CORP - Form 10-Q

Total other noncurrent assets			
Total Assets	\$	49,798	\$ 49,688
<b>LIABILITIES AND EQUITY</b>			
<b>Current Liabilities</b>			
Accounts payable	\$	760	\$ 1,006
Accounts payable to affiliated companies		284	251
Notes payable to affiliated companies		982	805
Taxes accrued		109	101
Interest accrued		213	212
Current maturities of long-term debt (includes \$53 at 2018 and 2017 related to VIEs)		1,820	771
Asset retirement obligations		326	295
Regulatory liabilities		272	213
Other		637	729
Total current liabilities		5,403	4,383
<b>Long-Term Debt</b>			
(includes \$1,660 at 2018 and \$1,689 at 2017 related to VIEs)		15,787	16,916
Long-Term Debt Payable to Affiliated Companies		150	150
<b>Other Noncurrent Liabilities</b>			
Deferred income taxes		3,603	3,502
Asset retirement obligations		5,091	5,119
Regulatory liabilities		5,227	5,306
Accrued pension and other post-retirement benefit costs		527	545
Other		307	302
Total other noncurrent liabilities		14,755	14,774
<b>Commitments and Contingencies</b>			
<b>Equity</b>			
Common stock, \$0.01 par value, 100 shares authorized and outstanding at 2018 and 2017		—	—
Additional paid-in capital		9,142	9,143
Retained earnings		4,591	4,350

Edgar Filing: Duke Energy CORP - Form 10-Q

Accumulated other comprehensive loss	(29	)	(25	)
Total Progress Energy, Inc. stockholders' equity	13,704		13,468	
Noncontrolling interests	(1	)	(3	)
Total equity	13,703		13,465	
Total Liabilities and Equity	\$	49,798	\$	49,688

See Notes to Condensed Consolidated Financial Statements

16

---

## PART I

## PROGRESS ENERGY, INC.

Condensed Consolidated Statements of Cash Flows  
(Unaudited)

(in millions)	Three Months Ended March 31,	
	2018	2017
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income	\$237	\$201
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, amortization and accretion (including amortization of nuclear fuel)	439	365
Equity component of AFUDC	(26 )	(24 )
Gains on sales of other assets	(6 )	(9 )
Impairment charges	29	—
Deferred income taxes	71	220
Accrued pension and other post-retirement benefit costs	6	(3 )
Contributions to qualified pension plans	(45 )	—
Payments for asset retirement obligations	(55 )	(60 )
Other rate case adjustments	37	—
Provision for rate refunds	33	—
(Increase) decrease in		
Net realized and unrealized mark-to-market and hedging transactions	4	(2 )
Receivables	(33 )	115
Receivables from affiliated companies	29	100
Inventory	55	65
Other current assets	(60 )	(212 )
Increase (decrease) in		
Accounts payable	(53 )	(228 )
Accounts payable to affiliated companies	33	(32 )
Taxes accrued	8	12
Other current liabilities	(82 )	(121 )
Other assets	(86 )	(58 )
Other liabilities	(8 )	(14 )
Net cash provided by operating activities	527	315
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Capital expenditures	(762 )	(1,011)
Cost of removal, net of salvage	(41 )	—
Purchases of debt and equity securities	(406 )	(629 )
Proceeds from sales and maturities of debt and equity securities	411	635
Notes receivable from affiliated companies	127	(104 )
Other	1	5
Net cash used in investing activities	(670 )	(1,104)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from the issuance of long-term debt	—	892
Payments for the redemption of long-term debt	(80 )	(288 )
Notes payable to affiliated companies	177	137
Other	(2 )	(4 )

Edgar Filing: Duke Energy CORP - Form 10-Q

Net cash provided by financing activities	95	737
Net decrease in cash, cash equivalents and restricted cash	(48 )	(52 )
Cash, cash equivalents and restricted cash at beginning of period	87	110
Cash, cash equivalents and restricted cash at end of period	\$39	\$58
Supplemental Disclosures:		
Significant non-cash transactions:		
Accrued capital expenditures	\$316	\$219

See Notes to Condensed Consolidated Financial Statements

17

---

## PART I

## PROGRESS ENERGY, INC.

Condensed Consolidated Statements of Changes in Equity  
(Unaudited)

	Additional		Accumulated Other Comprehensive Loss			Total Progress Energy, Inc. Stockholders' Equity	Noncontrolling Interests	Total Equity
	Paid-in Capital	Retained Earnings	Net Losses on Cash Flow Hedges	Net Unrealized Gains on Available-for-Sale Securities	Pension and OPEB Adjustments			
(in millions)								
Balance at December 31, 2016	\$ 8,094	\$ 3,764	\$(23)	\$ 1	\$ (16 )	\$ 11,820	\$ (13 )	\$ 11,807
Net income	—	199	—	—	—	199	2	201
Other comprehensive income	—	—	1	1	1	3	—	3
Other	—	—	—	—	—	—	1	1
Balance at March 31, 2017	\$ 8,094	\$ 3,963	\$(22)	\$ 2	\$ (15 )	\$ 12,022	\$ (10 )	\$ 12,012
Balance at December 31, 2017	\$ 9,143	\$ 4,350	\$(18)	\$ 5	\$ (12 )	\$ 13,468	\$ (3 )	\$ 13,465
Net income	—	235	—	—	—	235	2	237
Other comprehensive income	—	—	2	—	—	2	—	2
Other <sup>(a)</sup>	(1 )	6	—	(6 )	—	(1 )	—	(1 )
Balance at March 31, 2018	\$ 9,142	\$ 4,591	\$(16)	\$ (1 )	\$ (12 )	\$ 13,704	\$ (1 )	\$ 13,703

Amounts in Retained Earnings and Accumulated Other Comprehensive Loss represent a cumulative-effect

(a) adjustment due to implementation of a new accounting standard related to Financial Instruments Classification and Measurement. See Note 1 for more information.

See Notes to Condensed Consolidated Financial Statements

18

## PART I

## DUKE ENERGY PROGRESS, LLC

Condensed Consolidated Statements of Operations and Comprehensive Income  
(Unaudited)

(in millions)	Three Months Ended March 31,	
	2018	2017
Operating Revenues	\$1,460	\$1,219
Operating Expenses		
Fuel used in electric generation and purchased power	509	364
Operation, maintenance and other	381	362
Depreciation and amortization	235	181
Property and other taxes	35	40
Impairment charges	32	—
Total operating expenses	1,192	947
Gains on Sales of Other Assets and Other, net	1	2
Operating Income	269	274
Other Income and Expenses, net	18	31
Interest Expense	81	82
Income Before Income Taxes	206	223
Income Tax Expense	29	76
Net Income and Comprehensive Income	\$177	\$147

See Notes to Condensed Consolidated Financial Statements

19

## PART I

DUKE ENERGY PROGRESS, LLC  
Condensed Consolidated Balance Sheets  
(Unaudited)

(in millions)

March 31, 2018 December 31, 2017

## ASSETS

## Current Assets

Cash and cash equivalents	\$ 8	\$ 20
Receivables (net of allowance for doubtful accounts of \$2 at 2018 and \$1 at 2017)	50	56
Receivables of VIEs (net of allowance for doubtful accounts of \$5 at 2018 and 2017)	497	459
Receivables from affiliated companies	5	3
Inventory	1,002	1,017
Regulatory assets	476	352
Other	55	97
Total current assets	2,093	2,004
Property, Plant and Equipment		
Cost	29,866	29,583
Accumulated depreciation and amortization	(11,012)	(10,903)
Generation facilities to be retired, net	399	421
Net property, plant and equipment	19,253	19,101
Other Noncurrent Assets		
Regulatory assets	3,480	3,507
Nuclear decommissioning trust funds	2,568	2,588
Other	641	599
Total other noncurrent assets	6,689	6,694
Total Assets	\$ 28,035	\$ 27,799

## LIABILITIES AND EQUITY

## Current Liabilities

Accounts payable	\$ 342	\$ 402
Accounts payable to affiliated companies	208	179
Notes payable to affiliated companies	354	240
Taxes accrued	36	64
Interest accrued	86	102
Current maturities of long-term debt	603	3
Asset retirement obligations	323	295
Regulatory liabilities	184	139
Other	324	376
Total current liabilities	2,460	1,800
Long-Term Debt	6,604	7,204
Long-Term Debt Payable to Affiliated Companies	150	150
Other Noncurrent Liabilities		
Deferred income taxes	1,932	1,883
Asset retirement obligations	4,356	4,378
Regulatory liabilities	3,973	3,999
Accrued pension and other post-retirement benefit costs	246	248
Investment tax credits	142	143
Other	46	45
Total other noncurrent liabilities	10,695	10,696



Edgar Filing: Duke Energy CORP - Form 10-Q

Commitments and Contingencies

Equity

Member's Equity	8,126	7,949
Total Liabilities and Equity	\$ 28,035	\$ 27,799

See Notes to Condensed Consolidated Financial Statements

20

---

## PART I

## DUKE ENERGY PROGRESS, LLC

Condensed Consolidated Statements of Cash Flows  
(Unaudited)

(in millions)	Three Months Ended March 31,	
	2018	2017
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income	\$177	\$147
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization (including amortization of nuclear fuel)	284	228
Equity component of AFUDC	(14 )	(13 )
Gains on sales of other assets	(1 )	(3 )
Impairment charges	32	—
Deferred income taxes	42	120
Accrued pension and other post-retirement benefit costs	4	(5 )
Contributions to qualified pension plans	(25 )	—
Payments for asset retirement obligations	(44 )	(47 )
Other rate case adjustments	37	—
Provision for rate refunds	33	—
(Increase) decrease in		
Net realized and unrealized mark-to-market and hedging transactions	2	(2 )
Receivables	(31 )	65
Receivables from affiliated companies	(2 )	(1 )
Inventory	15	23
Other current assets	(88 )	(60 )
Increase (decrease) in		
Accounts payable	(39 )	(192 )
Accounts payable to affiliated companies	29	17
Taxes accrued	(28 )	(68 )
Other current liabilities	(64 )	(81 )
Other assets	18	(44 )
Other liabilities	(5 )	(10 )
Net cash provided by operating activities	332	74
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Capital expenditures	(424 )	(474 )
Cost of removal, net of salvage	(31 )	(9 )
Purchases of debt and equity securities	(284 )	(476 )
Proceeds from sales and maturities of debt and equity securities	281	470
Notes receivable from affiliated companies	—	165
Other	1	—
Net cash used in investing activities	(457 )	(324 )
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Payments for the redemption of long-term debt	—	(250 )
Notes payable to affiliated companies	114	502
Other	(1 )	(2 )
Net cash provided by financing activities	113	250

Edgar Filing: Duke Energy CORP - Form 10-Q

Net decrease in cash and cash equivalents	(12 )	—
Cash and cash equivalents at beginning of period	20	11
Cash and cash equivalents at end of period	\$8	\$11
Supplemental Disclosures:		
Significant non-cash transactions:		
Accrued capital expenditures	\$137	\$66

See Notes to Condensed Consolidated Financial Statements

21

---

PART I

DUKE ENERGY PROGRESS, LLC

Condensed Consolidated Statements of Changes in Equity  
(Unaudited)

(in millions)	Member's Equity
Balance at December 31, 2016	\$ 7,358
Net income	147
Balance at March 31, 2017	\$ 7,505
Balance at December 31, 2017	\$ 7,949
Net income	177
Balance at March 31, 2018	\$ 8,126

See Notes to Condensed Consolidated Financial Statements

22

---

## PART I

## DUKE ENERGY FLORIDA, LLC

Condensed Consolidated Statements of Operations and Comprehensive Income  
(Unaudited)

(in millions)	Three Months Ended March 31,	
	2018	2017
Operating Revenues	\$1,115	\$959
Operating Expenses		
Fuel used in electric generation and purchased power	467	362
Operation, maintenance and other	237	195
Depreciation and amortization	150	132
Property and other taxes	88	77
Impairment charges	—	1
Total operating expenses	942	767
Operating Income	173	192
Other Income and Expenses, net	21	20
Interest Expense	71	70
Income Before Income Taxes	123	142
Income Tax Expense	20	52
Net Income	\$103	\$90
Other Comprehensive Income, net of tax		
Unrealized gains on available-for-sale securities	—	1
Other Comprehensive Income, net of tax	\$—	\$1
Comprehensive Income	\$103	\$91

See Notes to Condensed Consolidated Financial Statements

23

## PART I

## DUKE ENERGY FLORIDA, LLC

## Condensed Consolidated Balance Sheets

(Unaudited)

(in millions)

March 31, 2018 December 31, 2017

## ASSETS

## Current Assets

Cash and cash equivalents	\$ 6	\$ 13
Receivables (net of allowance for doubtful accounts of \$3 at 2018 and 2017)	71	65
Receivables of VIEs (net of allowance for doubtful accounts of \$2 at 2018 and 2017)	318	321
Receivables from affiliated companies	1	2
Notes receivable from affiliated companies	153	313
Inventory	535	574
Regulatory assets (includes \$51 at 2018 and 2017 related to VIEs)	393	389
Other (includes \$13 at 2018 and \$40 at 2017 related to VIEs)	40	86
Total current assets	1,517	1,763
Property, Plant and Equipment		
Cost	18,040	17,730
Accumulated depreciation and amortization	(5,042)	(4,947)
Net property, plant and equipment	12,998	12,783
Other Noncurrent Assets		
Regulatory assets (includes \$1,082 at 2018 and \$1,091 at 2017 related to VIEs)	2,391	2,503
Nuclear decommissioning trust funds	722	736
Other	301	284
Total other noncurrent assets	3,414	3,523
Total Assets	\$ 17,929	\$ 18,069

## LIABILITIES AND EQUITY

## Current Liabilities

Accounts payable	\$ 416	\$ 602
Accounts payable to affiliated companies	82	74
Taxes accrued	72	34
Interest accrued	74	56
Current maturities of long-term debt (includes \$53 at 2018 and 2017 related to VIEs)	768	768
Asset Retirement Obligations	3	—
Regulatory liabilities	88	74
Other	299	334
Total current liabilities	1,802	1,942
Long-Term Debt (includes \$1,361 at 2018 and \$1,389 at 2017 related to VIEs)	6,247	6,327
Other Noncurrent Liabilities		
Deferred income taxes	1,812	1,761
Asset retirement obligations	735	742
Regulatory liabilities	1,254	1,307
Accrued pension and other post-retirement benefit costs	248	264
Other	110	108
Total other noncurrent liabilities	4,159	4,182
Commitments and Contingencies		
Equity		

Edgar Filing: Duke Energy CORP - Form 10-Q

Member's equity	5,723	5,614
Accumulated other comprehensive (loss) income	(2	) 4
Total equity	5,721	5,618
Total Liabilities and Equity	\$ 17,929	\$ 18,069

See Notes to Condensed Consolidated Financial Statements

24

---

## PART I

## DUKE ENERGY FLORIDA, LLC

Condensed Consolidated Statements of Cash Flows  
(Unaudited)

(in millions)	Three Months Ended March 31,	
	2018	2017
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income	\$103	\$90
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, amortization and accretion	152	134
Equity component of AFUDC	(12 )	(11 )
Impairment charges	—	1
Deferred income taxes	29	100
Accrued pension and other post-retirement benefit costs	1	1
Contributions to qualified pension plans	(20 )	—
Payments for asset retirement obligations	(11 )	(14 )
(Increase) decrease in		
Net realized and unrealized mark-to-market and hedging transactions	2	—
Receivables	(2 )	51
Receivables from affiliated companies	—	(1 )
Inventory	39	42
Other current assets	42	(72 )
Increase (decrease) in		
Accounts payable	(13 )	(35 )
Accounts payable to affiliated companies	8	(48 )
Taxes accrued	38	29
Other current liabilities	(17 )	(47 )
Other assets	(107 )	(13 )
Other liabilities	(5 )	(5 )
Net cash provided by operating activities	227	202
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Capital expenditures	(338 )	(538 )
Cost of removal, net of salvage	(10 )	9
Purchases of debt and equity securities	(122 )	(153 )
Proceeds from sales and maturities of debt and equity securities	129	165
Notes receivable from affiliated companies	160	(293 )
Other	—	4
Net cash used in investing activities	(181 )	(806 )
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from the issuance of long-term debt	—	892
Payments for the redemption of long-term debt	(80 )	(38 )
Notes payable to affiliated companies	—	(297 )
Other	—	(1 )
Net cash (used in) provided by financing activities	(80 )	556
Net decrease in cash, cash equivalents and restricted cash	(34 )	(48 )
Cash, cash equivalents and restricted cash at beginning of period	53	69



Edgar Filing: Duke Energy CORP - Form 10-Q

Cash, cash equivalents and restricted cash at end of period	\$19	\$21
Supplemental Disclosures:		
Significant non-cash transactions:		
Accrued capital expenditures	\$179	\$153

See Notes to Condensed Consolidated Financial Statements

25

---

## PART I

## DUKE ENERGY FLORIDA, LLC

Condensed Consolidated Statements of Changes in Equity  
(Unaudited)

		Accumulated Other Comprehensive Income (Loss) Net Unrealized Gains on	
(in millions)	Member's Equity	Available-for-Sale Securities	Total Equity
Balance at December 31, 2016	\$ 4,899	\$ 1	\$4,900
Net income	90	—	90
Other comprehensive income	—	1	1
Balance at March 31, 2017	\$ 4,989	\$ 2	\$4,991
Balance at December 31, 2017	\$ 5,614	\$ 4	\$5,618
Net income	103	—	103
Other <sup>(a)</sup>	6	(6 )	—
Balance at March 31, 2018	\$ 5,723	\$ (2 )	\$5,721

Amounts in Member's Equity and Accumulated Other Comprehensive Income (Loss) represent a cumulative-effect (a)adjustment due to implementation of a new accounting standard related to Financial Instruments Classification and Measurement. See Note 1 for more information.

See Notes to Condensed Consolidated Financial Statements

26

---

## PART I

## DUKE ENERGY OHIO, INC.

Condensed Consolidated Statements of Operations and Comprehensive Income  
(Unaudited)

(in millions)	Three Months Ended March 31, 2018 2017	
Operating Revenues		
Regulated electric	\$336	\$337
Regulated natural gas	174	170
Nonregulated electric and other	14	11
Total operating revenues	524	518
Operating Expenses		
Fuel used in electric generation and purchased power – regulated	92	97
Fuel used in electric generation and purchased power – nonregulated	15	15
Cost of natural gas	54	54
Operation, maintenance and other	131	131
Depreciation and amortization	70	67
Property and other taxes	77	72
Total operating expenses	439	436
Loss on Sales of Other Assets and Other, net	(106 )	—
Operating (Loss) Income	(21 )	82
Other Income and Expenses, net	6	5
Interest Expense	22	22
(Loss) Income Before Income Taxes	(37 )	65
Income Tax (Benefit) Expense	(12 )	23
Net (Loss) Income and Comprehensive (Loss) Income	\$(25 )	\$42

See Notes to Condensed Consolidated Financial Statements

27

## PART I

## DUKE ENERGY OHIO, INC.

## Condensed Consolidated Balance Sheets

(Unaudited)

(in millions)

March 31, 2018 December 31, 2017

## ASSETS

## Current Assets

Cash and cash equivalents	\$ 12	\$ 12
Receivables (net of allowance for doubtful accounts of \$3 at 2018 and 2017)	69	68
Receivables from affiliated companies	77	133
Notes receivable from affiliated companies	—	14
Inventory	108	133
Regulatory assets	43	49
Other	24	39
Total current assets	333	448
Property, Plant and Equipment		
Cost	8,892	8,732
Accumulated depreciation and amortization	(2,729)	(2,691)
Net property, plant and equipment	6,163	6,041
Other Noncurrent Assets		
Goodwill	920	920
Regulatory assets	432	445
Other	48	21
Total other noncurrent assets	1,400	1,386
Total Assets	\$ 7,896	\$ 7,875

## LIABILITIES AND EQUITY

## Current Liabilities

Accounts payable	\$ 269	\$ 313
Accounts payable to affiliated companies	72	62
Notes payable to affiliated companies	130	29
Taxes accrued	145	190
Interest accrued	33	21
Current maturities of long-term debt	3	3
Asset retirement obligations	4	3
Regulatory liabilities	53	36
Other	66	71
Total current liabilities	775	728
Long-Term Debt	2,039	2,039
Long-Term Debt Payable to Affiliated Companies	25	25
Other Noncurrent Liabilities		
Deferred income taxes	766	781
Asset retirement obligations	79	81
Regulatory liabilities	888	891
Accrued pension and other post-retirement benefit costs	81	59
Other	105	108
Total other noncurrent liabilities	1,919	1,920
Commitments and Contingencies		
Equity	762	762

Edgar Filing: Duke Energy CORP - Form 10-Q

Common stock, \$8.50 par value, 120 million shares authorized; 90 million shares  
outstanding at 2018 and 2017

Additional paid-in capital	2,670	2,670	
Accumulated deficit	(294	) (269	)
Total equity	3,138	3,163	
Total Liabilities and Equity	\$ 7,896	\$ 7,875	

See Notes to Condensed Consolidated Financial Statements

28

---

## PART I

## DUKE ENERGY OHIO, INC.

Condensed Consolidated Statements of Cash Flows  
(Unaudited)

(in millions)	Three Months Ended March 31,	
	2018	2017
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net (loss) income	\$(25)	\$42
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	71	68
Equity component of AFUDC	(4 )	(2 )
Losses on sales of other assets	106	—
Deferred income taxes	(15 )	30
Accrued pension and other post-retirement benefit costs	1	1
Payments for asset retirement obligations	(1 )	(2 )
Provision for rate refunds	16	—
(Increase) decrease in		
Net realized and unrealized mark-to-market and hedging transactions	—	1
Receivables	(1 )	7
Receivables from affiliated companies	56	41
Inventory	25	19
Other current assets	19	9
Increase (decrease) in		
Accounts payable	(27 )	(10 )
Accounts payable to affiliated companies	(95 )	1
Taxes accrued	(45 )	(52 )
Other current liabilities	20	9
Other assets	—	(6 )
Other liabilities	(13 )	(3 )
Net cash provided by operating activities	88	153
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Capital expenditures	(188)	(143)
Cost of removal, net of salvage	(14 )	(8 )
Notes receivable from affiliated companies	14	(85 )
Net cash used in investing activities	(188)	(236)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from the issuance of long-term debt	—	93
Payments for the redemption of long-term debt	—	(1 )
Notes payable to affiliated companies	101	(8 )
Other	(1 )	(1 )
Net cash provided by financing activities	100	83
Net increase in cash and cash equivalents	—	—
Cash and cash equivalents at beginning of period	12	13
Cash and cash equivalents at end of period	\$12	\$13
Supplemental Disclosures:		
Significant non-cash transactions:		

Edgar Filing: Duke Energy CORP - Form 10-Q

Accrued capital expenditures	\$64	\$57
------------------------------	------	------

See Notes to Condensed Consolidated Financial Statements

29

---

## PART I

## DUKE ENERGY OHIO, INC.

Condensed Consolidated Statements of Changes in Equity  
(Unaudited)

		Additional			
(in millions)	Common Stock	Paid-in Capital	Accumulated Deficit	Total Equity	
Balance at December 31, 2016	\$ 762	\$ 2,695	\$ (461	)	\$2,996
Net income	—	—	42		42
Balance at March 31, 2017	\$ 762	\$ 2,695	\$ (419	)	\$3,038
Balance at December 31, 2017	\$ 762	\$ 2,670	\$ (269	)	\$3,163
Net loss	—	—	(25	)	(25 )
Balance at March 31, 2018	\$ 762	\$ 2,670	\$ (294	)	\$3,138

See Notes to Condensed Consolidated Financial Statements

30



## PART I

## DUKE ENERGY INDIANA, LLC

## Condensed Consolidated Statements of Operations and Comprehensive Income

(Unaudited)

	Three Months Ended March 31,	
(in millions)	2018	2017
Operating Revenues	\$731	\$758
Operating Expenses		
Fuel used in electric generation and purchased power	232	251
Operation, maintenance and other	181	176
Depreciation and amortization	130	125
Property and other taxes	20	22
Total operating expenses	563	574
Operating Income	168	184
Other Income and Expenses, net	7	10
Interest Expense	40	44
Income Before Income Taxes	135	150
Income Tax Expense	35	59
Net Income and Comprehensive Income	\$100	\$91

See Notes to Condensed Consolidated Financial Statements

31

## PART I

DUKE ENERGY INDIANA, LLC  
Condensed Consolidated Balance Sheets  
(Unaudited)

(in millions)	March 31, 2018	December 31, 2017
<b>ASSETS</b>		
Current Assets		
Cash and cash equivalents	\$ 15	\$ 9
Receivables (net of allowance for doubtful accounts of \$2 at 2018 and 2017)	56	57
Receivables from affiliated companies	99	125
Inventory	453	450
Regulatory assets	170	165
Other	30	30
Total current assets	823	836
Property, Plant and Equipment		
Cost	15,104	14,948
Accumulated depreciation and amortization	(4,759)	(4,662)
Net property, plant and equipment	10,345	10,286
Other Noncurrent Assets		
Regulatory assets	976	978
Other	234	189
Total other noncurrent assets	1,210	1,167
Total Assets	\$ 12,378	\$ 12,289
<b>LIABILITIES AND EQUITY</b>		
Current Liabilities		
Accounts payable	\$ 157	\$ 196
Accounts payable to affiliated companies	73	78
Notes payable to affiliated companies	149	161
Taxes accrued	94	95
Interest accrued	52	57
Current maturities of long-term debt	62	3
Asset retirement obligations	65	54
Regulatory liabilities	20	24

Edgar Filing: Duke Energy CORP - Form 10-Q

Other	83	104
Total current liabilities	755	772
Long-Term Debt	3,570	3,630
Long-Term Debt Payable to Affiliated Companies	150	150
Other Noncurrent Liabilities		
Deferred income taxes	941	925
Asset retirement obligations	713	727
Regulatory liabilities	1,743	1,723
Accrued pension and other post-retirement benefit costs	110	76
Investment tax credits	147	147
Other	28	18
Total other noncurrent liabilities	3,682	3,616
Commitments and Contingencies		
Equity		
Member's Equity	4,221	4,121
Total Liabilities and Equity	\$ 12,378	\$ 12,289

See Notes to Condensed Consolidated Financial Statements

32

---

## PART I

## DUKE ENERGY INDIANA, LLC

Condensed Consolidated Statements of Cash Flows  
(Unaudited)

	Three Months Ended March 31,	
(in millions)	2018	2017
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income	\$100	\$91
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, amortization and accretion	131	126
Equity component of AFUDC	(4 )	(6 )
Deferred income taxes	17	37
Accrued pension and other post-retirement benefit costs	2	1
Contributions to qualified pension plans	(8 )	—
Payments for asset retirement obligations	(11 )	(7 )
Provision for rate refunds	26	—
(Increase) decrease in		
Receivables	—	44
Receivables from affiliated companies	26	26
Inventory	(3 )	26
Other current assets	(23 )	(2 )
Increase (decrease) in		
Accounts payable	21	(32 )
Accounts payable to affiliated companies	(5 )	1
Taxes accrued	(1 )	41
Other current liabilities	(10 )	(15 )
Other assets	(1 )	(11 )
Other liabilities	—	(3 )
Net cash provided by operating activities	257	317
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Capital expenditures	(231 )	(189)
Cost of removal, net of salvage	(7 )	(15 )
Purchases of debt and equity securities	(6 )	(4 )
Proceeds from sales and maturities of debt and equity securities	3	2
Notes receivable from affiliated companies	—	(113)
Other	3	3
Net cash used in investing activities	(238 )	(316)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Payments for the redemption of long-term debt	—	(2 )
Notes payable to affiliated companies	(12 )	—
Other	(1 )	(1 )
Net cash used in financing activities	(13 )	(3 )
Net increase (decrease) in cash and cash equivalents	6	(2 )
Cash and cash equivalents at beginning of period	9	17
Cash and cash equivalents at end of period	\$15	\$15
Supplemental Disclosures:		

Edgar Filing: Duke Energy CORP - Form 10-Q

Significant non-cash transactions:

Accrued capital expenditures	\$64	\$84
------------------------------	------	------

See Notes to Condensed Consolidated Financial Statements

33

---

PART I

DUKE ENERGY INDIANA, LLC  
Condensed Consolidated Statements of Changes in Equity  
(Unaudited)

(in millions)	Member's Equity
Balance at December 31, 2016	\$ 4,067
Net income	91
Balance at March 31, 2017	\$ 4,158
Balance at December 31, 2017	\$ 4,121
Net income	100
Balance at March 31, 2018	\$ 4,221

See Notes to Condensed Consolidated Financial Statements

34

---

## PART I

## PIEDMONT NATURAL GAS COMPANY, INC.

Condensed Consolidated Statements of Operations and Comprehensive Income  
(Unaudited)

	Three Months Ended March 31, 2018 2017	
Operating Revenues	\$553	\$500
Operating Expenses		
Cost of natural gas	259	205
Operation, maintenance and other	82	77
Depreciation and amortization	39	35
Property and other taxes	12	13
Total operating expenses	392	330
Operating Income	161	170
Other Income and Expenses		
Equity in earnings of unconsolidated affiliates	2	3
Other income and expenses, net	3	—
Total other income and expenses	5	3
Interest Expense	21	20
Income Before Income Taxes	145	153
Income Tax Expense	35	58
Net Income and Comprehensive Income	\$110	\$95

See Notes to Condensed Consolidated Financial Statements

35

## PART I

## PIEDMONT NATURAL GAS COMPANY, INC.

## Condensed Consolidated Balance Sheets

(Unaudited)

(in millions)	March 31, 2018	December 31, 2017
<b>ASSETS</b>		
Current Assets		
Cash and cash equivalents	\$ 12	\$ 19
Receivables (net of allowance for doubtful accounts of \$4 at 2018 <sup>251</sup> and \$2 at 2017)		275
Receivables from affiliated companies	7	7
Inventory	29	66
Regulatory assets	48	95
Other	21	52
Total current assets	368	514
Property, Plant and Equipment		
Cost	6,861	6,725
Accumulated depreciation and amortization	(1,500 )	(1,479 )
Net property, plant and equipment	5,361	5,246
Other Noncurrent Assets		
Goodwill	49	49
Regulatory assets	274	283
Investments in equity method unconsolidated affiliates	62	61
Other	66	65
Total other noncurrent assets	451	458
Total Assets	\$ 6,180	\$ 6,218
<b>LIABILITIES AND EQUITY</b>		
Current Liabilities		
Accounts payable	\$ 128	\$ 125
Accounts payable to affiliated companies	32	13
Notes payable to affiliated companies	107	364
Taxes accrued	65	19
Interest accrued	24	31



Edgar Filing: Duke Energy CORP - Form 10-Q

Current maturities of long-term debt	250	250
Regulatory liabilities	45	3
Other	55	69
Total current liabilities	706	874
Long-Term Debt	1,787	1,787
Other Noncurrent Liabilities		
Deferred income taxes	558	564
Asset retirement obligations	15	15
Regulatory liabilities	1,179	1,141
Accrued pension and other post-retirement benefit costs	4	5
Other	159	170
Total other noncurrent liabilities	1,915	1,895
Commitments and Contingencies		
Equity		
Common stock, no par value: 100 shares authorized and outstanding at 2018 and 2017	860	860
Retained earnings	912	802
Total equity	1,772	1,662
Total Liabilities and Equity	\$ 6,180	\$ 6,218

See Notes to Condensed Consolidated Financial Statements

36

---

## PART I

PIEDMONT NATURAL GAS COMPANY, INC.  
Condensed Consolidated Statements of Cash Flows  
(Unaudited)

	Three Months Ended March 31,	
(in millions)	2018	2017
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income	\$110	\$95
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	39	37
Deferred income taxes	(7 )	50
Equity in earnings from unconsolidated affiliates	(2 )	(3 )
Accrued pension and other post-retirement benefit costs	(1 )	3
Provision for rate refunds	23	—
(Increase) decrease in		
Net realized and unrealized mark-to-market and hedging transactions	—	(41 )
Receivables	22	40
Inventory	37	37
Other current assets	79	24
Increase (decrease) in		
Accounts payable	(15 )	(31 )
Accounts payable to affiliated companies	19	(5 )
Taxes accrued	46	2
Other current liabilities	18	(17 )
Other assets	4	25
Other liabilities	(1 )	(1 )
Net cash provided by operating activities	371	215
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Capital expenditures	(121 )	(141)
Cost of removal, net of salvage	(2 )	(1 )
Contributions to equity method investments	—	(12 )
Other	2	(2 )
Net cash used in investing activities	(121 )	(156)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Notes payable and commercial paper	—	(330)
Notes payable to affiliated companies	(257 )	261
Net cash used in financing activities	(257 )	(69 )
Net decrease in cash and cash equivalents	(7 )	(10 )
Cash and cash equivalents at beginning of period	19	25
Cash and cash equivalents at end of period	\$12	\$15
<b>Supplemental Disclosures:</b>		
<b>Significant non-cash transactions:</b>		
Accrued capital expenditures	\$52	\$24

See Notes to Condensed Consolidated Financial Statements



## PART I

## PIEDMONT NATURAL GAS COMPANY, INC.

Condensed Consolidated Statements of Changes in Equity  
(Unaudited)

(in millions)	Common Stock	Retained Earnings	Total Equity
Balance at December 31, 2016	\$ 860	\$ 812	\$1,672
Net income	—	95	95
Balance at March 31, 2017	\$ 860	\$ 907	\$1,767
Balance at December 31, 2017	\$ 860	\$ 802	\$1,662
Net income	—	110	110
Balance at March 31, 2018	\$ 860	\$ 912	\$1,772

See Notes to Condensed Consolidated Financial Statements

38

PART I

DUKE ENERGY CORPORATION – DUKE ENERGY CAROLINAS, LLC – PROGRESS ENERGY, INC. – DUKE ENERGY PROGRESS, LLC – DUKE ENERGY FLORIDA, LLC – DUKE ENERGY OHIO, INC. – DUKE ENERGY INDIANA, LLC – PIEDMONT NATURAL GAS COMPANY, INC.

Combined Notes to Condensed Consolidated Financial Statements – (Unaudited)

Index to Combined Notes to Condensed Consolidated Financial Statements

The unaudited notes to the condensed consolidated financial statements that follow are a combined presentation. The following list indicates the registrants to which the footnotes apply.

Registrant	Applicable Notes																
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17
Duke Energy Corporation	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•
Duke Energy Carolinas, LLC	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•
Progress Energy, Inc.	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•
Duke Energy Progress, LLC	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•
Duke Energy Florida, LLC	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•
Duke Energy Ohio, Inc.	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•
Duke Energy Indiana, LLC	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•
Piedmont Natural Gas Company, Inc.	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•

Tables within the notes may not sum across due to (i) Progress Energy's consolidation of Duke Energy Progress, Duke Energy Florida and other subsidiaries that are not registrants and (ii) subsidiaries that are not registrants but included in the consolidated Duke Energy balances.

1. ORGANIZATION AND BASIS OF PRESENTATION

NATURE OF OPERATIONS AND BASIS OF CONSOLIDATION

Duke Energy Corporation (collectively with its subsidiaries, Duke Energy) is an energy company headquartered in Charlotte, North Carolina, subject to regulation by the Federal Energy Regulatory Commission (FERC). Duke Energy operates in the United States (U.S.) primarily through its direct and indirect subsidiaries. Certain Duke Energy subsidiaries are also subsidiary registrants, including Duke Energy Carolinas, LLC (Duke Energy Carolinas); Progress Energy, Inc. (Progress Energy); Duke Energy Progress, LLC (Duke Energy Progress); Duke Energy Florida, LLC (Duke Energy Florida); Duke Energy Ohio, Inc. (Duke Energy Ohio), Duke Energy Indiana, LLC (Duke Energy Indiana) and Piedmont Natural Gas Company, Inc. (Piedmont). When discussing Duke Energy's consolidated financial information, it necessarily includes the results of its separate subsidiary registrants (collectively referred to as the Subsidiary Registrants), which, along with Duke Energy, are collectively referred to as the Duke Energy Registrants. These Condensed Consolidated Financial Statements include, after eliminating intercompany transactions and balances, the accounts of the Duke Energy Registrants and subsidiaries where the respective Duke Energy Registrants have control. These Condensed Consolidated Financial Statements also reflect the Duke Energy Registrants' proportionate share of certain jointly owned generation and transmission facilities. Substantially all of the Subsidiary Registrants' operations qualify for regulatory accounting.

Duke Energy Carolinas is a regulated public utility primarily engaged in the generation, transmission, distribution and sale of electricity in portions of North Carolina and South Carolina. Duke Energy Carolinas is subject to the regulatory provisions of the North Carolina Utilities Commission (NCUC), Public Service Commission of South Carolina (PSCSC), U.S. Nuclear Regulatory Commission (NRC) and FERC.

Progress Energy is a public utility holding company headquartered in Raleigh, North Carolina, subject to regulation by FERC. Progress Energy conducts operations through its wholly owned subsidiaries, Duke Energy Progress and Duke Energy Florida.

Duke Energy Progress is a regulated public utility primarily engaged in the generation, transmission, distribution and sale of electricity in portions of North Carolina and South Carolina. Duke Energy Progress is subject to the regulatory provisions of the NCUC, PSCSC, NRC and FERC.

Duke Energy Florida is a regulated public utility primarily engaged in the generation, transmission, distribution and sale of electricity in portions of Florida. Duke Energy Florida is subject to the regulatory provisions of the Florida Public Service Commission (FPSC), NRC and FERC.

Duke Energy Ohio is a regulated public utility primarily engaged in the transmission and distribution of electricity in portions of Ohio and Kentucky, the generation and sale of electricity in portions of Kentucky and the transportation and sale of natural gas in portions of Ohio and Kentucky. Duke Energy Ohio conducts competitive auctions for retail electricity supply in Ohio whereby the energy price is recovered from retail customers and recorded in Operating Revenues on the Condensed Consolidated Statements of Operations and Comprehensive Income. Operations in Kentucky are conducted through its wholly owned subsidiary, Duke Energy Kentucky, Inc. (Duke Energy Kentucky). References herein to Duke Energy Ohio collectively include Duke Energy Ohio and its subsidiaries, unless otherwise noted. Duke Energy Ohio is subject to the regulatory provisions of the Public Utilities Commission of Ohio (PUCO), Kentucky Public Service Commission (KPSC) and FERC.

Duke Energy Indiana is a regulated public utility primarily engaged in the generation, transmission, distribution and sale of electricity in portions of Indiana. Duke Energy Indiana is subject to the regulatory provisions of the Indiana Utility Regulatory Commission (IURC) and FERC.

Piedmont is a regulated public utility primarily engaged in the distribution of natural gas in portions of North Carolina, South Carolina and Tennessee. Piedmont is subject to the regulatory provisions of the NCUC, PSCSC, Tennessee Public Utility Commission (TPUC) and FERC.

PART I

DUKE ENERGY CORPORATION – DUKE ENERGY CAROLINAS, LLC – PROGRESS ENERGY, INC. – DUKE ENERGY PROGRESS, LLC – DUKE ENERGY FLORIDA, LLC – DUKE ENERGY OHIO, INC. – DUKE ENERGY INDIANA, LLC – PIEDMONT NATURAL GAS COMPANY, INC.

Combined Notes to Condensed Consolidated Financial Statements – (Unaudited) – (Continued)

BASIS OF PRESENTATION

These Condensed Consolidated Financial Statements have been prepared in accordance with generally accepted accounting principles (GAAP) in the U.S. for interim financial information and with the instructions to Form 10-Q and Regulation S-X. Accordingly, these Condensed Consolidated Financial Statements do not include all information and notes required by GAAP in the U.S. for annual financial statements. Since the interim Condensed Consolidated Financial Statements and Notes do not include all information and notes required by GAAP in the U.S. for annual financial statements, the Condensed Consolidated Financial Statements and other information included in this quarterly report should be read in conjunction with the Consolidated Financial Statements and Notes in the Duke Energy Registrants’ combined Annual Report on Form 10-K/A for the year ended December 31, 2017.

The information in these combined notes relates to each of the Duke Energy Registrants as noted in the Index to Combined Notes to Condensed Consolidated Financial Statements. However, none of the registrants make any representations as to information related solely to Duke Energy or the subsidiaries of Duke Energy other than itself. These Condensed Consolidated Financial Statements, in the opinion of the respective companies’ management, reflect all normal recurring adjustments necessary to fairly present the financial position and results of operations of each of the Duke Energy Registrants. Amounts reported in Duke Energy’s interim Condensed Consolidated Statements of Operations and each of the Subsidiary Registrants’ interim Condensed Consolidated Statements of Operations and Comprehensive Income are not necessarily indicative of amounts expected for the respective annual periods due to effects of seasonal temperature variations on energy consumption, regulatory rulings, timing of maintenance on electric generating units, changes in mark-to-market valuations, changing commodity prices and other factors. In preparing financial statements that conform to GAAP, management must make estimates and assumptions that affect the reported amounts of assets and liabilities, the reported amounts of revenues and expenses, and the disclosure of contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates.

Certain prior year amounts have been reclassified to conform to the current year presentation.

REVENUE

Duke Energy recognizes revenue as customers obtain control of promised goods and services in an amount that reflects consideration expected in exchange for those goods or services. Generally, the delivery of electricity and natural gas results in the transfer of control to customers at the time the commodity is delivered and the amount of revenue recognized is equal to the amount billed to each customer, including estimated volumes delivered when billings have not yet occurred. See Note 12 for further information.

CASH, CASH EQUIVALENTS AND RESTRICTED CASH

Duke Energy, Progress Energy and Duke Energy Florida have restricted cash balances related primarily to collateral assets, escrow deposits and variable interest entities (VIEs). See Note 11 for additional information. Restricted cash amounts are included in Other within Current Assets and Other Noncurrent Assets. The following table presents the components of Cash, cash equivalents and restricted cash included in the Condensed Consolidated Balance Sheets.

	March 31, 2018	December 31, 2017
	Duke	Duke
	DukeProgressEnergy	DukeProgressEnergy
	Energy Florida	Energy Florida

Current Assets

Edgar Filing: Duke Energy CORP - Form 10-Q

Cash and cash equivalents	\$421\$ 20	\$ 6	\$358\$ 40	\$ 13
Other	149 13	13	138 40	40
Other Noncurrent Assets				
Other	9 6	—	9 7	—
Total Cash, cash equivalents and restricted cash	\$579\$ 39	\$ 19	\$505\$ 87	\$ 53

40

---



## PART I

DUKE ENERGY CORPORATION – DUKE ENERGY CAROLINAS, LLC – PROGRESS ENERGY, INC. – DUKE ENERGY PROGRESS, LLC – DUKE ENERGY FLORIDA, LLC – DUKE ENERGY OHIO, INC. – DUKE ENERGY INDIANA, LLC – PIEDMONT NATURAL GAS COMPANY, INC.

Combined Notes to Condensed Consolidated Financial Statements – (Unaudited) – (Continued)

## INVENTORY

Inventory is used for operations and is recorded primarily using the average cost method. Inventory related to regulated operations is valued at historical cost. Inventory related to nonregulated operations is valued at the lower of cost or market. Materials and supplies are recorded as inventory when purchased and subsequently charged to expense or capitalized to property, plant and equipment when installed. Inventory, including excess or obsolete inventory, is written-down to the lower of cost or market value. Once inventory has been written-down, it creates a new cost basis for the inventory that is not subsequently written-up. Provisions for inventory write-offs were not material at March 31, 2018, and December 31, 2017. The components of inventory are presented in the tables below.

	March 31, 2018							
	Duke Energy	Duke Energy Carolinas	Progress Energy	Duke Energy Progress	Duke Energy Florida	Duke Energy Ohio	Duke Energy Indiana	Duke Energy Piedmont
(in millions)								
Materials and supplies	\$2,293	\$ 763	\$ 1,095	\$ 767	\$ 329	\$ 82	\$ 310	\$ 1
Coal	551	176	221	125	96	13	141	—
Natural gas, oil and other fuel	305	41	221	110	110	13	2	28
Total inventory	\$3,149	\$ 980	\$ 1,537	\$ 1,002	\$ 535	\$ 108	\$ 453	\$ 29
	December 31, 2017							
	Duke Energy	Duke Energy Carolinas	Progress Energy	Duke Energy Progress	Duke Energy Florida	Duke Energy Ohio	Duke Energy Indiana	Duke Energy Piedmont
(in millions)								
Materials and supplies	\$2,293	\$ 744	\$ 1,118	\$ 774	\$ 343	\$ 82	\$ 309	\$ 2
Coal	603	192	255	139	116	17	139	—
Natural gas, oil and other fuel	354	35	219	104	115	34	2	64
Total inventory	\$3,250	\$ 971	\$ 1,592	\$ 1,017	\$ 574	\$ 133	\$ 450	\$ 66

## EXCISE TAXES

Certain excise taxes levied by state or local governments are required to be paid even if not collected from the customer. These taxes are recognized on a gross basis. Otherwise, excise taxes are accounted for on a net basis. Excise taxes accounted for on a gross basis within both Operating revenues and Property and other taxes on the Condensed Consolidated Statements of Operations were as follows.

	Three Months Ended	
	March 31, 2018	March 31, 2017
(in millions)		
Duke Energy	\$ 99	\$ 91
Duke Energy Carolinas	8	9
Progress Energy	54	46
Duke Energy Progress	5	5
Duke Energy Florida	49	41
Duke Energy Ohio	30	28

Duke Energy Indiana 6 7  
Piedmont 1 1

NEW ACCOUNTING STANDARDS

The new accounting standards adopted for 2018 and 2017 had no material impact on the presentation or results of operations, cash flows or financial position of the Duke Energy Registrants. While immaterial, adoption of the following accounting standards had the most significant impact on the Duke Energy results of operations, cash flows and financial position for the three months ended March 31, 2018.

Revenue from Contracts with Customers. In May 2014, the Financial Accounting Standards Board (FASB) issued revised accounting guidance for revenue recognition from contracts with customers. The core principle of this guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration expected in exchange for those goods or services. The amendments also required disclosure of sufficient information to allow users to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. The majority of Duke Energy's revenue is in scope of the new guidance. Other revenue arrangements, such as alternative revenue programs and certain purchase power agreements (PPAs) and lighting tariffs accounted for as leases, are excluded from the scope of this guidance and, therefore, are accounted for and evaluated for separate presentation and disclosure under other relevant accounting guidance.

PART I

DUKE ENERGY CORPORATION – DUKE ENERGY CAROLINAS, LLC – PROGRESS ENERGY, INC. – DUKE ENERGY PROGRESS, LLC – DUKE ENERGY FLORIDA, LLC – DUKE ENERGY OHIO, INC. – DUKE ENERGY INDIANA, LLC – PIEDMONT NATURAL GAS COMPANY, INC.

Combined Notes to Condensed Consolidated Financial Statements – (Unaudited) – (Continued)

Duke Energy elected the modified retrospective method of adoption effective January 1, 2018. Under the modified retrospective method of adoption, prior year reported results are not restated. Adoption of this standard did not result in a material change in the timing or pattern of revenue recognition and a cumulative-effect adjustment was not recorded at January 1, 2018. Duke Energy utilized certain practical expedients including applying this guidance to open contracts at the date of adoption, expensing costs to obtain a contract where the amortization period of the asset would have been one year or less, ignoring the effects of a significant financing when the period between transfer of the good or service and payment is one year or less and recognizing revenues for certain contracts under the invoice practical expedient, which allows revenue recognition to be consistent with invoiced amounts (including estimated billings) provided certain criteria are met, including consideration of whether the invoiced amounts reasonably represent the value provided to customers.

In preparation for adoption, Duke Energy identified material revenue streams and reviewed representative contracts and tariffs, including those associated with certain long-term customer contracts such as wholesale contracts, PPAs, and other customer arrangements. Duke Energy also monitored the activities of the power and utilities industry revenue recognition task force and has reviewed published positions on specific industry issues to evaluate the impact, if any, on Duke Energy's specific contracts and conclusions.

Duke Energy applied the available practical expedient to portfolios of tariffs and contracts with similar characteristics. The vast majority of sales, including energy provided to retail customers, are from tariff offerings that provide natural gas or electricity without a defined contractual term ("at-will"). In most circumstances, revenue from contracts with customers is equivalent to the electricity or natural gas supplied and billed in that period (including estimated billings). As such, adoption of the new rules did not result in a shift in the timing or pattern of revenue recognition for such sales. While there have been changes to the captions and descriptions of revenues in Duke Energy's financial statements, the most significant impact as a result of adopting the standard are additional disclosures around the nature, amount, timing, and uncertainty of revenues and cash flows arising from contracts with customers. See Note 12 for further information.

Financial Instruments Classification and Measurement. In January 2018, Duke Energy adopted FASB guidance, which revised the classification and measurement of certain financial instruments. The adopted guidance changes the presentation of realized and unrealized gains and losses in certain equity securities that were previously recorded in accumulated other comprehensive income (AOCI). These gains and losses are now recorded in net income. An entity's equity investments that are accounted for under the equity method of accounting are not included within the scope of the new guidance. This guidance had a minimal impact on the Duke Energy Registrant's Condensed Consolidated Statements of Operations and Comprehensive Income as changes in the fair value of most of the Duke Energy Registrants' equity securities are deferred as regulatory assets or liabilities pursuant to accounting guidance for regulated operations. The resulting adjustment of unrealized gains and losses in AOCI to retained earnings was immaterial. The primary impact to Duke Energy as a result of implementing this guidance is adding disclosure requirements to present separately the financial assets and financial liabilities by measurement category and form of financial asset. See Notes 9 and 10 for further information.

Statement of Cash Flows. In November 2016, the FASB issued revised accounting guidance to reduce diversity in practice for the presentation and classification of restricted cash on the Condensed Consolidated Statements of Cash Flows. Under the updated guidance, restricted cash and restricted cash equivalents are included within beginning-of-period and end-of-period cash and cash equivalents on the Condensed Consolidated Statements of Cash

Flows. Duke Energy adopted this guidance on January 1, 2018. The guidance has been applied using a retrospective transition method to each period presented. The adoption by Duke Energy of the revised guidance resulted in a change to the amount of Cash, cash equivalents and restricted cash explained when reconciling the beginning-of-period and end-of-period total amounts shown on the Condensed Consolidated Statements of Cash Flows. In addition, a reconciliation has been provided of Cash, cash equivalents and restricted cash reported within the Condensed Consolidated Balance Sheets that sums to the total of the same such amounts in the Condensed Consolidated Statements of Cash Flows. Prior to adoption, the Duke Energy Registrants reflected changes in noncurrent restricted cash within Cash Flows from Investing Activities and changes in current restricted cash within Cash Flows from Operating Activities on the Condensed Consolidated Statement of Cash Flows.

In August 2016, the FASB issued accounting guidance addressing diversity in practice for eight separate cash flow issues. The guidance requires entities to classify distributions received from equity method investees using either the cumulative earnings approach or the nature of the distribution approach. Duke Energy adopted this guidance on January 1, 2018, and has elected the nature of distribution approach. Duke Energy will categorize all distributions received based on legal documentation describing the nature of the activities generating the distribution. Cash inflows resulting in a return on investment (surplus) will be reflected in Cash Flows from Operating Activities on the Condensed Consolidated Statements of Cash Flows, whereas cash inflows resulting in a return of investment (capital) will be reflected in Cash Flows from Investing Activities on the Condensed Consolidated Statements of Cash Flows. The guidance has been applied using the retrospective transition method to each period presented. There are no changes to the Condensed Consolidated Statements of Cash Flows for the periods presented as a result of this accounting change.

Retirement Benefits. In March 2017, the FASB issued revised accounting guidance for the presentation of net periodic costs related to benefit plans. Previous guidance required the aggregation of all the components of net periodic costs on the Condensed Consolidated Statement of Operations and did not require the disclosure of the location of net periodic costs on the Condensed Consolidated Statement of Operations. Under the amended guidance, the service cost component of net periodic costs is included within Operating Income within the same line as other compensation expenses. All other components of net periodic costs are outside of Operating Income. In addition, the updated guidance permits only the service cost component of net periodic costs to be capitalized to Inventory or Property, Plant and Equipment. This represents a change from previous guidance, which permitted all components of net periodic costs to be eligible for capitalization.

Duke Energy adopted this guidance on January 1, 2018. Under previous guidance, Duke Energy presented the total non-capitalized net periodic costs within Operation, maintenance and other on the Condensed Consolidated Statement of Operations. The adoption of this guidance resulted in a retrospective change to reclassify the presentation of the non-service cost (benefit) components of net periodic costs to Other income and expenses. Duke Energy utilized the practical expedient for retrospective presentation. The change in components of net periodic costs eligible for capitalization is applicable prospectively. Since Duke Energy's service cost component is greater than the total net periodic costs, the change results in increased capitalization of net periodic costs, higher Operation, maintenance and other and higher Other income and expenses. The resulting prospective impact to Duke Energy is an immaterial increase in Net Income. See Note 15 for further information.

PART I

DUKE ENERGY CORPORATION – DUKE ENERGY CAROLINAS, LLC – PROGRESS ENERGY, INC. – DUKE ENERGY PROGRESS, LLC – DUKE ENERGY FLORIDA, LLC – DUKE ENERGY OHIO, INC. – DUKE ENERGY INDIANA, LLC – PIEDMONT NATURAL GAS COMPANY, INC.

Combined Notes to Condensed Consolidated Financial Statements – (Unaudited) – (Continued)

For Duke Energy, the retrospective change resulted in higher Operation, maintenance and other and higher Other income and expenses, net, of \$156 million, \$131 million and \$96 million for the years ended December 31, 2017, 2016 and 2015, respectively. There was no change to Net Income for these prior periods.

The following new Accounting Standards Updates (ASUs) have been issued, but have not yet been adopted by Duke Energy, as of March 31, 2018.

Leases. In February 2016, the FASB issued revised accounting guidance for leases. The core principle of this guidance is that a lessee should recognize the assets and liabilities that arise from leases on the balance sheet. For Duke Energy, this guidance is effective for interim and annual periods beginning January 1, 2019. The guidance will be applied using a modified retrospective approach. Upon adoption, Duke Energy expects to elect certain of the practical expedients upon adoption:

Practical Expedient	Description
Package of transition practical expedients (for leases commenced prior to adoption date and must be adopted as a package)	Do not need to reassess whether any expired or existing contracts are/or contain leases, do not need to reassess the lease classification for any expired or existing leases and do not need to reassess initial direct costs for any existing leases.
Short-term lease expedient (elect by class of underlying asset)	Elect as an accounting policy to not apply the recognition requirements to short-term leases by asset class.
Lease and non-lease components (elect by class of underlying asset)	Duke Energy will likely elect as an accounting policy to not separate non-lease components from lease components and instead account for each lease and associated non-lease component as a single lease component.
Hindsight expedient (when determining lease term)	Elect to use hindsight to determine the lease term.
Easement expedient	Elect to carry forward current accounting treatment for existing easements.

Duke Energy is currently evaluating the financial statement impact of adopting this standard and is continuing to monitor industry implementation issues, including pipeline laterals, pole attachments and renewable PPAs. Other than an expected increase in assets and liabilities, the ultimate impact of the new standard has not yet been determined. Significant system enhancements, including additional processes and controls, will be required to facilitate the identification, tracking and reporting of potential leases based upon requirements of the new lease standard. Duke Energy has begun the implementation of a third-party software tool to help with the adoption and ongoing accounting under the new standard.

2. BUSINESS SEGMENTS

Operating segments are determined based on information used by the chief operating decision-maker in deciding how to allocate resources and evaluate the performance of the business. Duke Energy evaluates segment performance based on segment income. Segment income is defined as income from continuing operations net of income attributable to noncontrolling interests. Segment income includes intercompany revenues and expenses that are eliminated on the Condensed Consolidated Financial Statements. Certain governance costs are allocated to each segment. In addition, direct interest expense and income taxes are included in segment income.

Duke Energy

Duke Energy's segment structure includes the following segments: Electric Utilities and Infrastructure, Gas Utilities and Infrastructure and Commercial Renewables.

The Electric Utilities and Infrastructure segment includes Duke Energy's regulated electric utilities in the Carolinas, Florida and the Midwest. The regulated electric utilities conduct operations through the Subsidiary Registrants that are substantially all regulated and, accordingly, qualify for regulatory accounting treatment. Electric Utilities and Infrastructure also includes Duke Energy's electric transmission infrastructure investments.

The Gas Utilities and Infrastructure segment includes Piedmont, Duke Energy's natural gas local distribution companies in Ohio and Kentucky, and Duke Energy's natural gas storage and midstream pipeline investments. Gas Utilities and Infrastructure's operations are substantially all regulated and, accordingly, qualify for regulatory accounting treatment.

Commercial Renewables is primarily comprised of nonregulated utility scale wind and solar generation assets located throughout the U.S.

The remainder of Duke Energy's operations is presented as Other, which is primarily comprised of interest expense on holding company debt, unallocated corporate costs and Duke Energy's wholly owned captive insurance company, Bison Insurance Company Limited (Bison). Other also includes Duke Energy's 17.5 percent interest in National Methanol Company (NMC), a large regional producer of methyl tertiary butyl ether located in Saudi Arabia. The investment in NMC is accounted for under the equity method of accounting.

PART I

DUKE ENERGY CORPORATION – DUKE ENERGY CAROLINAS, LLC – PROGRESS ENERGY, INC. – DUKE ENERGY PROGRESS, LLC – DUKE ENERGY FLORIDA, LLC – DUKE ENERGY OHIO, INC. – DUKE ENERGY INDIANA, LLC – PIEDMONT NATURAL GAS COMPANY, INC.

Combined Notes to Condensed Consolidated Financial Statements – (Unaudited) – (Continued)

Business segment information is presented in the following tables. Segment assets presented exclude intercompany assets.

	Three Months Ended March 31, 2018						
	Electric Utilities and Infrastructure	Gas Utilities and Infrastructure	Renewables	Commercial Segments	Reportable Other	Eliminations	Consolidated
(in millions)							
Unaffiliated revenues	\$5,315	\$ 702	\$ 101	\$ 6,118	\$17	\$ —	\$ 6,135
Intersegment revenues	8	25	—	33	18	(51 )	—
Total revenues	\$5,323	\$ 727	\$ 101	\$ 6,151	\$35	\$ (51 )	\$ 6,135
Segment income (loss) <sup>(a)(b)(c)</sup>	\$750	\$ 116	\$ 20	\$ 886	\$(266 )	\$ —	\$ 620
Add back noncontrolling interests							2
Net income							\$ 622
Segment assets	\$120,021	\$ 11,396	\$ 4,265	\$ 135,682	\$2,682	\$ 177	\$ 138,541
	Three Months Ended March 31, 2017						
	Electric Utilities and Infrastructure	Gas Utilities and Infrastructure	Renewables	Commercial Segments	Reportable Other	Eliminations	Consolidated
(in millions)							
Unaffiliated revenues	\$4,939	\$ 648	\$ 128	\$ 5,715	\$14	\$ —	\$ 5,729
Intersegment revenues	8	22	—	30	19	(49 )	—
Total revenues	\$4,947	\$ 670	\$ 128	\$ 5,745	\$33	\$ (49 )	\$ 5,729
Segment income (loss)	\$635	\$ 133	\$ 25	\$ 793	\$(77)	\$ —	\$ 716
Add back noncontrolling interests							1
Net income							\$ 717

(a) Electric Utilities and Infrastructure includes regulatory charges related to NCUC orders and settlements. See Note 3 for additional information.

(b) Gas Utilities and Infrastructure includes an impairment of the investment in Constitution Pipeline Company, LLC (Constitution). See Note 3 for additional information.

Other includes the loss on the sale of the retired Beckjord generating station (Beckjord) described below and a (c) valuation allowance recorded against the alternative minimum tax credits subject to sequestration. See Note 16 for additional information on the valuation allowance.

Beckjord, a nonregulated facility retired during 2014, was sold on February 26, 2018, at a pretax loss of \$106 million recorded within (Loss) Gains on Sales of Other Assets and Other, net and \$1 million recorded within Operation, maintenance and other on Duke Energy's Condensed Consolidated Statements of Operations. The sale included the transfer of coal ash basins and other real property and indemnification from any and all potential future claims related to the property, whether arising under environmental laws or otherwise.

Duke Energy Ohio

Duke Energy Ohio has two reportable operating segments, Electric Utilities and Infrastructure and Gas Utilities and Infrastructure.

Electric Utilities and Infrastructure transmits and distributes electricity in portions of Ohio and generates, distributes and sells electricity in portions of Northern Kentucky. Gas Utilities and Infrastructure transports and sells natural gas in portions of Ohio and Northern Kentucky. It conducts operations primarily through Duke Energy Ohio and its wholly owned subsidiary, Duke Energy Kentucky.



PART I

DUKE ENERGY CORPORATION – DUKE ENERGY CAROLINAS, LLC – PROGRESS ENERGY, INC. – DUKE ENERGY PROGRESS, LLC – DUKE ENERGY FLORIDA, LLC – DUKE ENERGY OHIO, INC. – DUKE ENERGY INDIANA, LLC – PIEDMONT NATURAL GAS COMPANY, INC.

Combined Notes to Condensed Consolidated Financial Statements – (Unaudited) – (Continued)

The remainder of Duke Energy Ohio's operations is presented as Other, which is primarily comprised of governance costs allocated by its parent, Duke Energy, and revenues and expenses related to Duke Energy Ohio's contractual arrangement to buy power from the Ohio Valley Electric Corporation's (OVEC) power plants. See Note 7 for additional information on related party transactions.

	Three Months Ended March 31, 2018					
	Electric	Gas	Total			
	Utilities	Utilities and	Reportable			
(in millions)	and	Infrastructure	Segments	Other	Eliminations	Consolidated
Total revenues	\$336	\$ 174	\$ 510	\$ 14	\$ —	\$ 524
Segment income (loss)/Net income (loss) <sup>(a)</sup>	33	34	67	(92 )	—	(25 )
Segment assets	\$5,165	\$ 2,709	\$ 7,874	\$ 25	\$ (3 )	\$ 7,896

	Three Months Ended March 31, 2017					
	Electric	Gas	Total			
	Utilities	Utilities and	Reportable			
(in millions)	and	Infrastructure	Segments	Other	Consolidated	
Total revenues	\$337	\$ 170	\$ 507	\$ 11	\$ 518	
Segment income (loss)/Net income (loss)	24	26	50	(8 )	42	

(a) Other includes the loss on the sale of the retired Beckjord generating station described above.

3. REGULATORY MATTERS

RATE-RELATED INFORMATION

The NCUC, PSCSC, FPSC, IURC, PUCO, TPUC and KPSC approve rates for retail electric and natural gas services within their states. The FERC approves rates for electric sales to wholesale customers served under cost-based rates (excluding Ohio and Indiana), as well as sales of transmission service. The FERC also regulates certification and siting of new interstate natural gas pipeline projects.

Duke Energy Carolinas and Duke Energy Progress

Ash Basin Closure Costs Deferral – North Carolina

On December 30, 2016, Duke Energy Carolinas and Duke Energy Progress filed a joint petition with the NCUC seeking an accounting order authorizing deferral of certain costs incurred in connection with federal and state environmental remediation requirements related to the permanent closure of ash basins and other ash storage units at coal-fired generating facilities that have provided or are providing generation to customers located in North Carolina. Initial comments were received in March 2017, and reply comments were filed on April 19, 2017. The NCUC has consolidated Duke Energy Carolinas' and Duke Energy Progress' coal ash deferral requests into their respective general rate case dockets for decision. See "2017 North Carolina Rate Case" sections below for additional discussion. Duke Energy Carolinas is still awaiting an order in its case and, as such, cannot predict the outcome of this matter.

Duke Energy Carolinas

2017 North Carolina Rate Case

On August 25, 2017, Duke Energy Carolinas filed an application with the NCUC for a rate increase for retail customers of approximately \$647 million, which represents an approximate 13.6 percent increase in annual base

revenues. The rate increase is driven by capital investments subsequent to the previous base rate case, including the William States Lee Combined Cycle Facility discussed below, grid improvement projects, AMI, investments in customer service technologies, costs of complying with coal combustion residuals (CCR) regulations and the North Carolina Coal Ash Management Act of 2014 (Coal Ash Act) and recovery of costs related to licensing and development of the William States Lee III Nuclear Station (Lee Nuclear Station) discussed below. On February 28, 2018, Duke Energy Carolinas and the North Carolina Public Staff filed an Agreement and Stipulation of Partial Settlement resolving certain portions of the proceeding, pending NCUC approval. Terms of the settlement include a return on equity of 9.9 percent and a capital structure of 52 percent equity and 48 percent debt. As a result of the settlement, Duke Energy Carolinas recorded a pretax charge of approximately \$4 million to Operations, maintenance and other on the Condensed Consolidated Statements of Operations. The settlement does not include agreement on portions of the rate case relating to recovery of costs for Lee Nuclear Station and coal ash basin deferred costs, a rider for recovery of grid improvement projects or the manner in which the Federal Tax Cut and Jobs Act (Tax Act) should be addressed in this case, which will be decided by the NCUC separately. Taking into consideration the settled portions and Duke Energy Carolinas' requested recovery of the non-settled portions, the requested base rate increase is reduced to approximately \$472 million. The evidentiary hearing for this matter concluded on March 22, 2018, and a decision and revised customer rates are expected by mid-2018. Duke Energy Carolinas cannot predict the outcome of this matter.

PART I

DUKE ENERGY CORPORATION – DUKE ENERGY CAROLINAS, LLC – PROGRESS ENERGY, INC. – DUKE ENERGY PROGRESS, LLC – DUKE ENERGY FLORIDA, LLC – DUKE ENERGY OHIO, INC. – DUKE ENERGY INDIANA, LLC – PIEDMONT NATURAL GAS COMPANY, INC.

Combined Notes to Condensed Consolidated Financial Statements – (Unaudited) – (Continued)

FERC Formula Rate Matter

On July 31, 2017, Piedmont Municipal Power Agency (PMPA) filed a complaint with FERC against Duke Energy Carolinas alleging that Duke Energy Carolinas misapplied the formula rate under the PPA between the parties by including in its rates amortization expense associated with regulatory assets and recorded in a certain account without FERC approval. Duke Energy Carolinas disagreed with PMPA as it believed it was properly applying its FERC filed rate. On February 15, 2018, FERC issued an order ruling in favor of PMPA and ordered Duke Energy Carolinas to refund to PMPA all amounts improperly collected under the PPA. Duke Energy Carolinas has issued to PMPA and similarly situated wholesale customers refunds of approximately \$25 million.

William States Lee Combined Cycle Facility

On April 9, 2014, the PSCSC granted Duke Energy Carolinas and North Carolina Electric Membership Corporation (NCEMC) a Certificate of Environmental Compatibility and Public Convenience and Necessity for the construction and operation of a 750-megawatt (MW) combined-cycle natural gas-fired generating plant at Duke Energy Carolinas' existing William States Lee Generating Station in Anderson, South Carolina. Duke Energy Carolinas began construction in July 2015 and its share of the cost to build the facility was approximately \$650 million, including allowance for funds used during construction (AFUDC). The project commenced commercial operation on April 5, 2018. NCEMC will own approximately 13 percent of the project.

Lee Nuclear Station

In December 2007, Duke Energy Carolinas applied to the NRC for combined operating licenses (COLs) for two Westinghouse Electric Company (Westinghouse) AP1000 reactors for the proposed William States Lee III Nuclear Station to be located at a site in Cherokee County, South Carolina. The NCUC and PSCSC concurred with the prudence of Duke Energy Carolinas incurring certain project development and preconstruction costs through several separately issued orders, although full cost recovery is not guaranteed. In December 2016, the NRC issued a COL for each reactor. Duke Energy Carolinas is not required to build the nuclear reactors as a result of the COLs being issued. On March 29, 2017, Westinghouse filed for voluntary Chapter 11 bankruptcy in the U.S. Bankruptcy Court for the Southern District of New York. As part of its 2017 North Carolina Rate Case discussed above, Duke Energy Carolinas is seeking NCUC approval to cancel the development of the Lee Nuclear Station project due to the Westinghouse bankruptcy filing and other market activity and is requesting recovery of incurred licensing and development costs. Duke Energy Carolinas will maintain the license issued by the NRC in December 2016 as an option for potential future development. AFUDC was suspended effective January 1, 2018, as currently only immaterial costs to maintain the license are being incurred. As of March 31, 2018, Duke Energy Carolinas has incurred approximately \$558 million of costs, including AFUDC, related to the project. These project costs are included in Net property, plant and equipment on Duke Energy Carolinas' Condensed Consolidated Balance Sheets. Duke Energy Carolinas cannot predict the outcome of this matter.

Duke Energy Progress

2017 North Carolina Rate Case

On June 1, 2017, Duke Energy Progress filed an application with the NCUC for a rate increase for retail customers of approximately \$477 million, which represented an approximate 14.9 percent increase in annual base revenues. Subsequent to the filing, Duke Energy Progress adjusted the requested amount to \$420 million, representing an approximate 13 percent increase. The rate increase is driven by capital investments subsequent to the previous base rate case, costs of complying with CCR regulations and the Coal Ash Act, costs relating to storm recovery,

investments in customer service technologies and recovery of costs associated with renewable purchased power. On December 16, 2016, Duke Energy Progress filed a petition with the NCUC requesting an accounting order to defer certain costs incurred in connection with response to Hurricane Matthew and other significant storms in 2016. The final estimate of incremental operation and maintenance and capital costs of \$116 million was filed with the NCUC in September 2017. On July 10, 2017, the NCUC consolidated Duke Energy Progress' storm deferral request into the Duke Energy Progress rate case docket for decision.

On November 22, 2017, Duke Energy Progress and the North Carolina Public Staff filed an Agreement and Stipulation of Partial Settlement resolving certain portions of the proceeding. Terms of the settlement included a return on equity of 9.9 percent and a capital structure of 52 percent equity and 48 percent debt. As a result of the settlement, in 2017 Duke Energy Progress recorded pretax charges totaling approximately \$25 million to Impairment charges and Operation, maintenance and other on the Condensed Consolidated Statements of Operations, principally related to disallowances from rate base of certain projects at the Mayo and Sutton plants. On February 23, 2018, the NCUC issued an order approving the stipulation. The order also included the following material components not covered in the stipulation:

recovery of the remaining \$234 million of deferred coal ash basin closure costs over a five-year period with a return at Duke Energy Progress' weighted average cost of capital, excluding \$9.5 million of retail deferred coal ash basin costs related to ash hauling at Duke Energy Progress' Asheville Plant;

assessment of a \$30 million management penalty ratably over a five-year period by reducing the annual recovery of the deferred coal ash costs;

denial of Duke Energy Progress' request for recovery of future estimated ongoing annual coal ash costs of \$129 million with approval to defer such costs with a return at Duke Energy Progress' weighted average cost of capital, to be considered for recovery in the next rate case;

and approval to recover \$51 million of the approximately \$80 million deferred storm costs over a five-year period with amortization beginning in October 2016. The order did not allow the deferral of the associated capital costs or a return on the deferred balance during the deferral period.

PART I

DUKE ENERGY CORPORATION – DUKE ENERGY CAROLINAS, LLC – PROGRESS ENERGY, INC. – DUKE ENERGY PROGRESS, LLC – DUKE ENERGY FLORIDA, LLC – DUKE ENERGY OHIO, INC. – DUKE ENERGY INDIANA, LLC – PIEDMONT NATURAL GAS COMPANY, INC.

Combined Notes to Condensed Consolidated Financial Statements – (Unaudited) – (Continued)

The order also impacted certain amounts that were similarly recorded on Duke Energy Carolinas' Condensed Consolidated Balance Sheets. As a result of the order, Duke Energy Progress and Duke Energy Carolinas recorded pretax charges of \$68 million and \$14 million, respectively, in the first quarter of 2018 to Impairment charges, Operation, maintenance and other and Interest Expense on the Condensed Consolidated Statements of Operations. These charges primarily related to the coal ash basin disallowance and management penalty and deferred storm cost adjustments. Revised customer rates became effective on March 16, 2018.

South Carolina Rate Case

In December 2016, the PSCSC approved a rate case settlement agreement among the Office of Regulatory Staff, intervenors and Duke Energy Progress. Terms of the settlement agreement included an approximate \$56 million increase in revenues over a two-year period. An increase of approximately \$38 million in revenues was effective January 1, 2017, and an additional increase of approximately \$18.5 million in revenues was effective January 1, 2018. Duke Energy Progress amortized approximately \$18.5 million from the cost of removal reserve in 2017. Other settlement terms included a rate of return on equity of 10.1 percent, recovery of coal ash costs incurred from January 1, 2015, through June 30, 2016, over a 15 year period and ongoing deferral of allocated ash basin closure costs from July 1, 2016, until the next base rate case. The settlement also provides that Duke Energy Progress will not seek an increase in rates in South Carolina to occur prior to 2019, with limited exceptions.

Western Carolinas Modernization Plan

On November 4, 2015, Duke Energy Progress announced a Western Carolinas Modernization Plan, which included retirement of the existing Asheville coal-fired plant, the construction of two 280 MW combined-cycle natural gas plants having dual-fuel capability, with the option to build a third natural gas simple cycle unit in 2023 based upon the outcome of initiatives to reduce the region's power demand. The plan also included upgrades to existing transmission lines and substations, installation of solar generation and a pilot battery storage project. These investments will be made within the next seven years. Duke Energy Progress is also working with the local natural gas distribution company to upgrade an existing natural gas pipeline to serve the natural gas plant.

On March 28, 2016, the NCUC issued an order approving a CPCN for the new combined-cycle natural gas plants, but denying the CPCN for the contingent simple cycle unit without prejudice to Duke Energy Progress to refile for approval in the future. On March 28, 2018, Duke Energy Progress filed an annual progress report for the construction of the combined-cycle plants with the NCUC, with an estimated cost of \$893 million. Site preparation activities for the combined-cycle plants are complete and construction of these plants began in 2017, with an expected in-service date in late 2019. Duke Energy Progress plans to file for future approvals related to the proposed solar generation and pilot battery storage project.

The carrying value of the 376-MW Asheville coal-fired plant, including associated ash basin closure costs, of \$365 million and \$385 million is included in Generation facilities to be retired, net on Duke Energy Progress' Condensed Consolidated Balance Sheets as of March 31, 2018, and December 31, 2017, respectively. Duke Energy Progress' request for a regulatory asset at the time of retirement with amortization over a 10-year period was approved by the NCUC on February 23, 2018.

Shearon Harris Nuclear Plant Expansion

In 2006, Duke Energy Progress selected a site at Harris to evaluate for possible future nuclear expansion. On February 19, 2008, Duke Energy Progress filed its COL application with the NRC for two Westinghouse AP1000 reactors at Harris, which the NRC docketed for review. On May 2, 2013, Duke Energy Progress filed a letter with the NRC

requesting the NRC to suspend its review activities associated with the COL at the Harris site. The NCUC and PSCSC approved deferral of retail costs. Total deferred costs were approximately \$47 million as of December 31, 2017, and are recorded in Regulatory assets on Duke Energy Progress' Condensed Consolidated Balance Sheets. On November 17, 2016, the FERC approved Duke Energy Progress' rate recovery request filing for the wholesale ratepayers' share of the abandonment costs, including a debt only return to be recovered through revised formula rates and amortized over a 15-year period beginning May 1, 2014. As part of the settlement agreement for the 2017 North Carolina Rate Case discussed above, Duke Energy Progress will amortize the regulatory asset over an eight-year period. NCUC approved the settlement on February 23, 2018.

#### Duke Energy Florida

##### Storm Restoration Cost Recovery

In September 2017, Duke Energy Florida's service territory suffered significant damage from Hurricane Irma, resulting in approximately 1.3 million customers experiencing outages. In the fourth quarter of 2017, Duke Energy Florida also incurred preparation costs related to Hurricane Nate. On December 28, 2017, Duke Energy Florida filed a petition with the FPSC to recover incremental storm restoration costs for hurricanes Irma and Nate and to replenish the storm reserve. The estimated recovery amount is approximately \$513 million, which includes reestablishment of a \$132 million storm reserve. On February 6, 2018, the FPSC approved a stipulation that would apply tax savings resulting from the Tax Act toward storm costs effective January 2018 in lieu of implementing a storm surcharge. Storm costs are currently expected to be fully recovered by approximately mid-2021. The evidentiary hearing in this matter is scheduled for the week of October 15, 2018. At March 31, 2018, Duke Energy Florida's Condensed Consolidated Balance Sheets included approximately \$338 million of recoverable costs under the FPSC's storm rule in Regulatory assets within Current Assets and Other Noncurrent Assets related to storm recovery.

PART I

DUKE ENERGY CORPORATION – DUKE ENERGY CAROLINAS, LLC – PROGRESS ENERGY, INC. – DUKE ENERGY PROGRESS, LLC – DUKE ENERGY FLORIDA, LLC – DUKE ENERGY OHIO, INC. – DUKE ENERGY INDIANA, LLC – PIEDMONT NATURAL GAS COMPANY, INC.

Combined Notes to Condensed Consolidated Financial Statements – (Unaudited) – (Continued)

Citrus County Combined Cycle Facility

On October 2, 2014, the FPSC granted Duke Energy Florida a Determination of Need for the construction of a 1,640-MW combined-cycle natural gas plant in Citrus County, Florida. On May 5, 2015, the Florida Department of Environmental Protection approved Duke Energy Florida's Site Certification Application. The project has received all required permits and approvals and construction began in October 2015. The facility is expected to be commercially available by the end of 2018 at an estimated cost of \$1.5 billion, including AFUDC. On April 2, 2018, Duke Energy Florida filed a petition seeking approval to include in base rates the revenue requirements associated with the new facility. The annual retail revenue requirement is approximately \$200 million. The plant will receive natural gas from the Sabal Trail Transmission, LLC (Sabal Trail) pipeline discussed below.

Duke Energy Ohio

2017 Electric Security Plan Filing

On June 1, 2017, Duke Energy Ohio filed with the PUCO a request for a standard service offer in the form of an electric security plan (ESP). If approved by the PUCO, the term of the ESP would be from June 1, 2018, to May 31, 2024. Terms of the ESP include continuation of market-based customer rates through competitive procurement processes for generation, continuation and expansion of existing rider mechanisms and proposed new rider mechanisms relating to regulatory mandates, costs incurred to enhance the customer experience and transform the grid and a service reliability rider for vegetation management. On February 15, 2018, the procedural schedule was suspended to facilitate ongoing settlement discussions. On April 13, 2018, Duke Energy Ohio filed a Motion to consolidate this proceeding with several other cases currently pending before the Commission, including, but not limited to, its Electric Base Rate Case. Additionally, on April 13, 2018, Duke Energy Ohio, along with certain intervenors, filed a Stipulation and Recommendation (Stipulation) with the PUCO resolving certain issues in this proceeding. The Stipulation establishes a regulatory model for the next seven years via the approval of the ESP and continues the current model for procuring supply for non-shopping customers, including recovery mechanisms. The Stipulation is subject to the review and approval of PUCO. An evidentiary hearing to review the Stipulation and other issues in the cases will be scheduled at a later date. Duke Energy Ohio cannot predict the outcome of this matter.

Electric Base Rate Case

Duke Energy Ohio filed with the PUCO an electric distribution base rate case application and supporting testimony in March 2017. Duke Energy Ohio has requested an estimated annual increase of approximately \$15 million and a return on equity of 10.4 percent. The application also includes requests to continue certain current riders and establish new riders. On September 26, 2017, the PUCO staff filed a report recommending a revenue decrease between approximately \$18 million and \$29 million and a return on equity between 9.22 percent and 10.24 percent. On February 15, 2018, the procedural schedule was suspended to facilitate ongoing settlement discussions. On April 13, 2018, Duke Energy Ohio filed a Motion to consolidate this proceeding with several other cases currently pending before the Commission. On April 13, 2018, Duke Energy Ohio, along with certain intervenors, filed the Stipulation with the PUCO resolving certain issues in this proceeding. Major components of the Stipulation include a \$19 million annual base distribution rate decrease with a return on equity of 9.84 percent based upon a capital structure of 50.75 percent equity and 49.25 percent debt. Upon approval of new rates, Duke Energy Ohio's rider for recovering its initial SmartGrid implementation ends as the costs will be recovered through base rates. The Stipulation also renews 14 existing riders, some of which were included in the Company's ESP, and two new riders including the Enhanced Service Reliability Rider to recover vegetation management costs not included in base rates, up to \$10 million per

year (operation and maintenance only) and the Power Forward Rider to recover costs incurred to enhance the customer experience and further transform the grid (operation and maintenance and capital). The Stipulation is subject to the review and approval of PUCO. An evidentiary hearing to review the Stipulation and other issues in the cases will be scheduled at a later date. Duke Energy Ohio has requested new rates go into effect June 1, 2018. In addition to the changes in revenue attributable to the Stipulation, Duke Energy Ohio's capital-related riders, including the Distribution Capital Investments Rider, will begin to reflect the lower federal income tax rate associated with the Tax Act beginning with updates to be reflected in customers' bills beginning April 1, 2018. At that time, all impacts of the lower federal income tax rate will be incorporated into customer rates, resulting in lower electric revenue of approximately \$20 million on an annualized basis. All other implications of the Tax Act, including the quantification and timing of any refunds associated with excess accumulated deferred income taxes, will be deferred to PUCO's open investigation, which is pending. Duke Energy Ohio cannot predict the outcome of this matter.

Ohio Valley Electric Corporation

On March 31, 2017, Duke Energy Ohio filed for approval to adjust its existing price stabilization rider (Rider PSR), which is currently set at zero dollars, to pass through net costs related to its contractual entitlement to capacity and energy from the generating assets owned by OVEC. Duke Energy Ohio is seeking deferral authority for net costs incurred from January 1, 2018, until the new rates under Rider PSR are put into effect. Various intervenors have filed motions to dismiss or stay the proceeding and Duke Energy Ohio has opposed these filings. On April 13, 2018, Duke Energy Ohio filed a Motion to consolidate this proceeding with several other cases currently pending before the Commission. Also on April 13, 2018, Duke Energy Ohio, along with certain intervenors, filed a Stipulation with the PUCO resolving certain issues in this proceeding. The Stipulation, if approved, would activate Rider PSR for recovery of net costs incurred since January 1, 2018. The Stipulation is subject to the review and approval of PUCO. An evidentiary hearing to review the Stipulation and other issues in the cases will be scheduled at a later date. See Note 11 for additional discussion of Duke Energy Ohio's ownership interest in OVEC. Duke Energy Ohio cannot predict the outcome of this matter.



PART I

DUKE ENERGY CORPORATION – DUKE ENERGY CAROLINAS, LLC – PROGRESS ENERGY, INC. – DUKE ENERGY PROGRESS, LLC – DUKE ENERGY FLORIDA, LLC – DUKE ENERGY OHIO, INC. – DUKE ENERGY INDIANA, LLC – PIEDMONT NATURAL GAS COMPANY, INC.

Combined Notes to Condensed Consolidated Financial Statements – (Unaudited) – (Continued)

Energy Efficiency Cost Recovery

On March 28, 2014, Duke Energy Ohio filed an application for recovery of program costs, lost distribution revenue and performance incentives related to its energy efficiency and peak demand reduction programs. These programs are undertaken to comply with environmental mandates set forth in Ohio law. The PUCO approved Duke Energy Ohio's application but found that Duke Energy Ohio was not permitted to use banked energy savings from previous years in order to calculate the amount of allowed incentive. This conclusion represented a change to the cost recovery mechanism that had been agreed upon by intervenors and approved by the PUCO in previous cases. The PUCO granted the applications for rehearing filed by Duke Energy Ohio and an intervenor. On January 6, 2016, Duke Energy Ohio and the PUCO Staff entered into a stipulation, pending the PUCO's approval, to resolve issues related to performance incentives and the PUCO Staff audit of 2013 costs, among other issues. In December 2015, based upon the stipulation, Duke Energy Ohio re-established approximately \$20 million of the revenues that had been previously reversed. On October 26, 2016, the PUCO issued an order approving the stipulation without modification. In December 2016, the PUCO granted the intervenors request for rehearing for the purpose of further review. Duke Energy Ohio cannot predict the outcome of this matter.

On June 15, 2016, Duke Energy Ohio filed an application for approval of a three-year energy efficiency and peak demand reduction portfolio of programs. A stipulation and modified stipulation were filed on December 22, 2016, and January 27, 2017, respectively. Under the terms of the stipulations, which included support for deferral authority of all costs and a cap on shared savings incentives, Duke Energy Ohio has offered its energy efficiency and peak demand reduction programs throughout 2017. On February 3, 2017, Duke Energy Ohio filed for deferral authority of its costs incurred in 2017 in respect of its proposed energy efficiency and peak demand reduction portfolio. On September 27, 2017, the PUCO issued an order approving a modified stipulation. The modifications impose an annual cap of approximately \$38 million on program costs and shared savings incentives combined, but allowed for Duke Energy Ohio to file for a waiver of costs in excess of the cap in 2017. The PUCO approved the waiver request up to a total cost of \$56 million. On November 21, 2017, the PUCO granted Duke Energy Ohio's and intervenor's applications for rehearing of the September 27, 2017, order. On January 10, 2018, the PUCO denied the Ohio Consumers' Counsel's application for rehearing of the PUCO order granting Duke Energy Ohio's waiver request. Duke Energy Ohio cannot predict the outcome of this matter.

2014 Electric Security Plan

In April 2015, the PUCO modified and approved Duke Energy Ohio's proposed ESP, with a three-year term and an effective date of June 1, 2015. The PUCO approved a competitive procurement process for SSO load, a distribution capital investment rider and a tracking mechanism for incremental distribution expenses caused by major storms. The PUCO also approved a placeholder tariff for a price stabilization rider, but denied Duke Energy Ohio's specific request to include Duke Energy Ohio's entitlement to generation from OVEC in the rider at this time; however, the order allows Duke Energy Ohio to submit additional information to request recovery in the future. On May 4, 2015, Duke Energy Ohio filed an application for rehearing requesting the PUCO to modify or amend certain aspects of the order. On May 28, 2015, the PUCO granted all applications for rehearing filed in the case for future consideration. On March 21, 2018, the PUCO issued an order denying the Company's issues on rehearing. On April 20, 2018, Duke Energy Ohio filed a second application for rehearing based upon the Commission's March 21, 2018, Order.

Natural Gas Pipeline Extension

Duke Energy Ohio is proposing to install a new natural gas pipeline (the Central Corridor Project) in its Ohio service territory to increase system reliability and enable the retirement of older infrastructure. The pipeline is expected to cost approximately \$112 million, excluding AFUDC. On January 20, 2017, Duke Energy Ohio filed an amended application with the Ohio Power Siting Board (OPSB) for approval of one of two proposed routes. A public hearing was held on June 15, 2017, and an adjudicatory hearing was scheduled to begin September 11, 2017. On August 24, 2017, an administrative law judge (ALJ) granted a request made by Duke Energy Ohio to delay the procedural schedule while it works through various issues related to the pipeline route. In April 2018, Duke Energy Ohio filed a motion with OPSB to establish a procedural schedule and filed supplemental information supporting its application. If approved, construction of the pipeline extension is expected to be completed before the 2020/2021 winter season. Duke Energy Ohio cannot predict the outcome of this matter.

#### Duke Energy Kentucky Rate Case

On September 1, 2017, Duke Energy Kentucky filed a rate case with the KPSC requesting an increase in electric base rates of approximately \$49 million, which represents an approximate 15 percent increase on the average customer bill. Subsequent to the filing, Duke Energy Kentucky adjusted the requested amount to \$30.1 million, in part to reflect the benefits of the Tax Act, representing an approximate 9 percent increase on the average customer bill. The rate increase is driven by increased investment in utility plant, increased operations and maintenance expenses, and recovery of regulatory assets. The application also includes implementation of the Environmental Surcharge Mechanism to recover environmental costs not recovered in base rates, requests to establish a Distribution Capital Investment Rider to recover incremental costs of specific programs, requests to establish a FERC Transmission Cost Reconciliation Rider to recover escalating transmission costs and modification to the Profit Sharing Mechanism to increase customers' share of proceeds from the benefits of owning generation and to mitigate shareholder risks associated with that generation. An evidentiary hearing ended on March 8, 2018, and the KPSC issued an order on April 13, 2018. Major components of the Order include approval of an \$8.4 million increase in base rates with a return on equity at 9.725 percent based upon a capital structure of 49 percent equity on a total allocable capitalization of approximately \$650 million. The Order excludes \$50 million of rate base being recovered with carrying costs elsewhere (e.g., through rider mechanisms). The Order approves the Environmental Surcharge Mechanism Rider to begin recovery in June 2018 of capital-related environmental costs, including costs related to ash and ash disposal and environmental operation and maintenance expenses formerly recovered in base rates, including expenses for environmental reagents and emission allowances. The incremental revenue from this rider will be approximately \$13 million on an annualized basis. The order implements the impact of the Tax Act by lowering the income tax component of the revenue requirement, flowing back protected excess deferred income taxes (EDIT) under allowable normalization rules and unprotected EDIT over 10 years. The Order settles all matters related to the Tax Act. The Order denies requests to implement riders for certain transmission costs and distribution capital investments. Duke Energy Kentucky implemented new base rates on May 1, 2018.

PART I

DUKE ENERGY CORPORATION – DUKE ENERGY CAROLINAS, LLC – PROGRESS ENERGY, INC. – DUKE ENERGY PROGRESS, LLC – DUKE ENERGY FLORIDA, LLC – DUKE ENERGY OHIO, INC. – DUKE ENERGY INDIANA, LLC – PIEDMONT NATURAL GAS COMPANY, INC.

Combined Notes to Condensed Consolidated Financial Statements – (Unaudited) – (Continued)

Duke Energy Indiana

FERC Transmission Return on Equity Complaint

Customer groups have filed with the FERC complaints against MISO and its transmission-owning members, including Duke Energy Indiana, alleging, among other things, that the current base rate of return on equity earned by MISO transmission owners of 12.38 percent is unjust and unreasonable. The complaints claim, among other things, that the current base rate of return on equity earned by MISO transmission owners should be reduced to 8.67 percent. On January 5, 2015, the FERC issued an order accepting the MISO transmission owners' adder of 0.50 percent to the base rate of return on equity based on participation in an RTO subject to it being applied to a return on equity that is shown to be just and reasonable in the pending return on equity complaints. On December 22, 2015, the presiding FERC ALJ in the first complaint issued an Initial Decision in which the base rate of return on equity was set at 10.32 percent. On September 28, 2016, the Initial Decision in the first complaint was affirmed by FERC, but is subject to rehearing requests. On June 30, 2016, the presiding FERC ALJ in the second complaint issued an Initial Decision setting the base rate of return on equity at 9.70 percent. The Initial Decision in the second complaint is pending FERC review. On April 14, 2017, the U.S. Court of Appeals for the District of Columbia Circuit, in *Emera Maine v. FERC*, reversed and remanded certain aspects of the methodology employed by FERC to establish rates of return on equity. This decision may affect the outcome of the complaints against Duke Energy Indiana. Duke Energy Indiana currently believes these matters will not have a material impact on its results of operations, cash flows and financial position.

Benton County Wind Farm Dispute

On December 16, 2013, Benton County Wind Farm LLC (BCWF) filed a lawsuit against Duke Energy Indiana seeking damages for past generation losses alleging Duke Energy Indiana violated its obligations under a 2006 PPA by refusing to offer electricity to the market at negative prices. Damage claims continue to increase during times that BCWF is not dispatched. Under 2013 revised MISO market rules, Duke Energy Indiana is required to make a price offer to MISO for the power it proposes to sell into MISO markets and MISO determines whether BCWF is dispatched. Because market prices would have been negative due to increased market participation, Duke Energy Indiana determined it would not bid at negative prices in order to balance customer needs against BCWF's need to run. BCWF contends Duke Energy Indiana must bid at the lowest negative price to ensure dispatch, while Duke Energy Indiana contends it is not obligated to bid at any particular price, that it cannot ensure dispatch with any bid and that it has reasonably balanced the parties' interests. On July 6, 2015, the U.S. District Court for the Southern District of Indiana entered judgment against BCWF on all claims. BCWF appealed the decision and on December 9, 2016, the appeals court ruled in favor of BCWF. Duke Energy Indiana recorded an obligation and a regulatory asset related to the settlement amount in fourth quarter 2016. On June 30, 2017, the parties finalized a settlement agreement. Terms of the settlement included Duke Energy Indiana paying \$29 million for back damages. Additionally, the parties agreed on the method by which the contract will be bid into the market in the future. The settlement amount was paid in June 2017. The IURC issued an order on September 27, 2017, approving recovery of the settlement amount through Duke Energy Indiana's fuel clause. The IURC order has been appealed to the Indiana Court of Appeals. Duke Energy Indiana cannot predict the outcome of this matter.

Piedmont

Tennessee Integrity Management Rider Filing

In November 2017, Piedmont filed a petition with the TPUC under the IMR mechanism to collect an additional \$3.3 million in annual revenues, effective January 2018, based on the eligible capital investments for integrity and safety

projects through October 31, 2017. In January 2018, Piedmont filed an amended computation under the IMR mechanism, revising the proposed increase in annual revenues to approximately \$0.4 million based on the decrease in the corporate federal income tax rate effective January 1, 2018. A hearing on this matter was held on April 9, 2018, and a decision is expected mid-2018. Piedmont cannot predict the outcome of this matter.

#### OTHER REGULATORY MATTERS

##### Atlantic Coast Pipeline, LLC

On September 2, 2014, Duke Energy, Dominion Resources (Dominion), Piedmont and Southern Company Gas announced the formation of Atlantic Coast Pipeline, LLC (ACP) to build and own the proposed Atlantic Coast Pipeline (ACP pipeline), an approximately 600-mile interstate natural gas pipeline running from West Virginia to North Carolina. The ACP pipeline is designed to meet, in part, the needs identified by Duke Energy Carolinas, Duke Energy Progress and Piedmont. Dominion will build and operate the ACP pipeline and holds a leading ownership percentage in ACP of 48 percent. Duke Energy owns a 47 percent interest through its Gas Utilities and Infrastructure segment. Southern Company Gas maintains a 5 percent interest. See Note 11 for additional information related to Duke Energy's ownership interest.

Duke Energy Carolinas, Duke Energy Progress and Piedmont, among others, will be customers of the pipeline. Purchases will be made under several 20-year supply contracts, subject to state regulatory approval. On September 18, 2015, ACP filed an application with the FERC requesting a CPCN authorizing ACP to construct the pipeline. ACP executed a construction agreement in September 2016. ACP also requested approval of an open access tariff and the precedent agreements it entered into with future pipeline customers. In December 2016, FERC issued a draft Environmental Impact Statement (EIS) indicating that the proposed pipeline would not cause significant harm to the environment or protected populations. The FERC issued the final EIS in July 2017. On October 13, 2017, FERC issued an order approving the CPCN, subject to conditions. On October 16, 2017, ACP accepted the FERC order subject to reserving its right to file a request for rehearing or clarification on a timely basis. On November 9, 2017, ACP filed a request for rehearing on several limited issues. On December 12, 2017, ACP filed an answer to intervenors' request for rehearing of the certificate order and for stay of the certificate order.

PART I

DUKE ENERGY CORPORATION – DUKE ENERGY CAROLINAS, LLC – PROGRESS ENERGY, INC. – DUKE ENERGY PROGRESS, LLC – DUKE ENERGY FLORIDA, LLC – DUKE ENERGY OHIO, INC. – DUKE ENERGY INDIANA, LLC – PIEDMONT NATURAL GAS COMPANY, INC.

Combined Notes to Condensed Consolidated Financial Statements – (Unaudited) – (Continued)

In December 2017, West Virginia issued a waiver of the state water quality permit in reliance on the U.S. Army Corps of Engineers national water quality permit and Virginia issued a conditional water quality permit subject to completion of additional studies and stormwater plans. In 2018, the FERC issued a series of Partial Notices to Proceed, which authorized the project to begin limited construction-related activities along the pipeline route, including supply header and compressors. North Carolina issued the state water quality permit in January 2018. The project remains subject to other pending federal and state approvals, which will allow full construction activities to begin. The ACP pipeline project has a targeted in-service date of late 2019.

Due to delays in obtaining the required permits to commence construction and the conditions imposed upon the project by the permits, ACP's project manager estimates the project's pipeline development costs have increased from a range of \$5.0 billion to \$5.5 billion to a range of \$6.0 billion and \$6.5 billion, excluding financing costs. Project construction activities, schedule and final costs are still subject to uncertainty due to potential additional permitting delays, construction productivity and other conditions and risks which could result in potential higher project costs and a potential delay in the targeted in-service date.

Sabal Trail Transmission, LLC

On May 4, 2015, Duke Energy acquired a 7.5 percent ownership interest in Sabal Trail from Spectra Energy Partners, LP, a master limited partnership, formed by Enbridge Inc. (formerly Spectra Energy Corp.). Spectra Energy Partners, LP holds a 50 percent ownership interest in Sabal Trail and NextEra Energy has a 42.5 percent ownership interest. Sabal Trail is a joint venture to construct a 515-mile natural gas pipeline (Sabal Trail pipeline) to transport natural gas to Florida. Total estimated project costs are approximately \$3.2 billion. The Sabal Trail pipeline traverses Alabama, Georgia and Florida. The primary customers of the Sabal Trail pipeline, Duke Energy Florida and Florida Power & Light Company (FP&L), have each contracted to buy pipeline capacity for 25-year initial terms. See Note 11 for additional information related to Duke Energy's ownership interest.

On February 3, 2016, the FERC issued an order granting the request for a CPCN to construct and operate the pipeline. The Sabal Trail pipeline received other required regulatory approvals and the Phase 1 mainline was placed in service in July 2017. On October 12, 2017, Sabal Trail filed a request with FERC to place in service a lateral line to Duke Energy Florida's Citrus County Combined Cycle facility. This request is required to support commissioning and testing activities at the facility. On March 16, 2018, FERC approved the Citrus lateral and it was placed in service. On September 21, 2016, intervenors filed an appeal of FERC's CPCN orders to the U.S. Court of Appeals for the District of Columbia Circuit (D.C. Circuit Court of Appeals). On August 22, 2017, the appeals court ruled against FERC in the case for failing to include enough information on the impact of greenhouse-gas emissions carried by the pipeline, vacated the CPCN order and remanded the case to FERC. In response to the August 2017 court decision, the FERC issued a draft Supplemental Environmental Impact Statement (SEIS) on September 27, 2017. On October 6, 2017, FERC and a group of industry intervenors, including Sabal Trail and Duke Energy Florida, filed separate petitions with the D.C. Circuit Court of Appeals requesting rehearing regarding the court's decision to vacate the CPCN order. On January 31, 2018, the D.C. Circuit Court of Appeals denied the requests for rehearing. On February 2, 2018, Sabal Trail filed a request with FERC for expedited issuance of its order on remand and reissuance of the CPCN. In the alternative, the pipeline requested that FERC issue a temporary emergency CPCN to allow for continued operations. On February 5, 2018, FERC issued the final SEIS but did not issue the order on remand. On February 6, 2018, FERC and the intervenors in this case each filed motions for stay with the D.C. Circuit Court to stay the court's mandate. The February 6, 2018, motions automatically stay the issuance of the court's mandate until the

later of seven days after the court denies the motions or the expiration of any stay granted by the court. On March 7, 2018, the D.C. Circuit Court of Appeals granted Sabal Trail's stay request. On March 14, 2018, FERC issued its final order on remand.

#### Constitution Pipeline Company, LLC

Duke Energy owns a 24 percent ownership interest in Constitution, which is accounted for as an equity method investment. Constitution is a natural gas pipeline project slated to transport natural gas supplies from the Marcellus supply region in northern Pennsylvania to major northeastern markets. The pipeline will be constructed and operated by Williams Partners L.P., which has a 41 percent ownership share. The remaining interest is held by Cabot Oil and Gas Corporation and WGL Holdings, Inc. Before the permitting delays discussed below, Duke Energy's total anticipated contributions were approximately \$229 million. As a result of the permitting delays and project uncertainty, total anticipated contributions by Duke Energy can no longer be reasonably estimated. Since April 2016, with the actions of the New York State Department of Environmental Conservation (NYSDEC), Constitution stopped construction and discontinued capitalization of future development costs until the project's uncertainty is resolved. In December 2014, Constitution received approval from the FERC to construct and operate the proposed pipeline. However, on April 22, 2016, the NYSDEC denied Constitution's application for a necessary water quality certification for the New York portion of the Constitution pipeline. Constitution filed legal actions in the U.S. Court of Appeals for the Second Circuit (U.S. Court of Appeals) challenging the legality and appropriateness of the NYSDEC's decision and on August 18, 2017, the petition was denied in part and dismissed in part. In September 2017, Constitution filed a petition for a rehearing of portions of the decision unrelated to the water quality certification, which was denied by the U.S. Court of Appeals. In January 2018, Constitution petitioned the Supreme Court of the United States to review the U.S. Court of Appeals decision, and on April 30, 2018, the Supreme Court denied Constitution's petition. In October 2017, Constitution filed a petition for declaratory order requesting FERC to find that the NYSDEC waived its rights to issue a Section 401 water quality certification by not acting on Constitution's application within a reasonable period of time as required by statute. This petition was based on precedent established by another pipeline's successful petition with FERC following a District of Columbia Circuit Court ruling. On January 11, 2018, FERC denied Constitution's petition. In February 2018, Constitution filed a rehearing request with FERC of its finding that the NYSDEC did not waive the Section 401 certification requirement. Constitution is currently unable to approximate an in-service date for the project due to the NYSDEC's denial of the water quality certification. The Constitution partners remain committed to the project and are evaluating next steps to move the project forward. Duke Energy cannot predict the outcome of this matter.

PART I

DUKE ENERGY CORPORATION – DUKE ENERGY CAROLINAS, LLC – PROGRESS ENERGY, INC. – DUKE ENERGY PROGRESS, LLC – DUKE ENERGY FLORIDA, LLC – DUKE ENERGY OHIO, INC. – DUKE ENERGY INDIANA, LLC – PIEDMONT NATURAL GAS COMPANY, INC.

Combined Notes to Condensed Consolidated Financial Statements – (Unaudited) – (Continued)

During the three months ended March 31, 2018, Duke Energy recorded an other-than-temporary impairment (OTTI) of \$55 million within Equity in (losses) earnings of unconsolidated affiliates on Duke Energy's Condensed Consolidated Statements of Income. The charge represents the excess carrying value over the estimated fair value of the project, which was based on a Level 3 Fair Value measurement that was determined from the income approach using discounted cash flows. The impairment was primarily due to the recent actions taken by the courts and regulators to uphold the NYSDEC's denial of the certification and uncertainty associated with the remaining legal and regulatory challenges.

See Note 11 for additional information related to ownership interest and carrying value of the investment.

Potential Coal Plant Retirements

The Subsidiary Registrants periodically file Integrated Resource Plans (IRP) with their state regulatory commissions. The IRPs provide a view of forecasted energy needs over a long term (10 to 20 years) and options being considered to meet those needs. Recent IRPs filed by the Subsidiary Registrants included planning assumptions to potentially retire certain coal-fired generating facilities in Florida and Indiana earlier than their current estimated useful lives primarily because facilities do not have the requisite emission control equipment to meet EPA regulations recently approved or proposed.

The table below contains the net carrying value of generating facilities planned for retirement or included in recent IRPs as evaluated for potential retirement due to a lack of requisite environmental control equipment. Dollar amounts in the table below are included in Net property, plant and equipment on the Condensed Consolidated Balance Sheets as of March 31, 2018, and exclude capitalized asset retirement costs.

	Capacity (in MW)	Remaining Net Book Value (in millions)
Duke Energy Carolinas		
Allen Steam Station Units 1-3 <sup>(a)</sup>	585	\$ 161
Progress Energy and Duke Energy Florida		
Crystal River Units 1 and 2 <sup>(b)</sup>	873	104
Duke Energy Indiana		
Gallagher Units 2 and 4 <sup>(c)</sup>	280	126
Total Duke Energy	1,738	\$ 391

<sup>(a)</sup> Duke Energy Carolinas will retire Allen Steam Station Units 1 through 3 by December 31, 2024, as part of the resolution of a lawsuit involving alleged New Source Review violations.

<sup>(b)</sup> Duke Energy Florida expects to retire these coal units by the end of 2018 to comply with environmental regulations.

<sup>(c)</sup> Duke Energy Indiana committed to either retire or stop burning coal at Gallagher Units 2 and 4 by December 31, 2022, as part of the settlement of Edwardsport IGCC matters.

Refer to the "Western Carolinas Modernization Plan" discussion above for details of Duke Energy Progress' planned retirements.

#### 4. COMMITMENTS AND CONTINGENCIES

##### ENVIRONMENTAL

The Duke Energy Registrants are subject to federal, state and local regulations regarding air and water quality, hazardous and solid waste disposal and other environmental matters. These regulations can be changed from time to time, imposing new obligations on the Duke Energy Registrants. The following environmental matters impact all of the Duke Energy Registrants.

##### Remediation Activities

In addition to asset retirement obligations (ARO) recorded as a result of various environmental regulations, the Duke Energy Registrants are responsible for environmental remediation at various sites. These include certain properties that are part of ongoing operations and sites formerly owned or used by Duke Energy entities. These sites are in various stages of investigation, remediation and monitoring. Managed in conjunction with relevant federal, state and local agencies, remediation activities vary based upon site conditions and location, remediation requirements, complexity and sharing of responsibility. If remediation activities involve joint and several liability provisions, strict liability, or cost recovery or contribution actions, the Duke Energy Registrants could potentially be held responsible for environmental impacts caused by other potentially responsible parties and may also benefit from insurance policies or contractual indemnities that cover some or all cleanup costs. Liabilities are recorded when losses become probable and are reasonably estimable. The total costs that may be incurred cannot be estimated because the extent of environmental impact, allocation among potentially responsible parties, remediation alternatives and/or regulatory decisions have not yet been determined at all sites. Additional costs associated with remediation activities are likely to be incurred in the future and could be significant. Costs are typically expensed as Operation, maintenance and other on the Condensed Consolidated Statements of Operations unless regulatory recovery of the costs is deemed probable.



PART I

DUKE ENERGY CORPORATION – DUKE ENERGY CAROLINAS, LLC – PROGRESS ENERGY, INC. – DUKE ENERGY PROGRESS, LLC – DUKE ENERGY FLORIDA, LLC – DUKE ENERGY OHIO, INC. – DUKE ENERGY INDIANA, LLC – PIEDMONT NATURAL GAS COMPANY, INC.

Combined Notes to Condensed Consolidated Financial Statements – (Unaudited) – (Continued)

The following tables contain information regarding reserves for probable and estimable costs related to the various environmental sites. These reserves are recorded in Accounts Payable within Current Liabilities and Other within Other Noncurrent Liabilities on the Condensed Consolidated Balance Sheets.

Three Months Ended March 31, 2018

(in millions)	Duke		Duke		Duke	Duke	Duke	Duke
	Duke Energy	Progress	Duke Energy	Progress	Duke Energy	Duke Energy	Duke Energy	Duke Energy
	Carolinas	Energy	Energy	Progress	Florida	Ohio	Indiana	Piedmont
Balance at beginning of period	\$81	\$ 10	\$ 15	\$ 3	\$ 12	\$ 47	\$ 5	\$ 2
Provisions/adjustments	4	1	3	1	1	—	1	—
Cash reductions	(5 )	—	(2 )	(1 )	(1 )	(3 )	—	—
Balance at end of period	\$80	\$ 11	\$ 16	\$ 3	\$ 12	\$ 44	\$ 6	\$ 2

Three Months Ended March 31, 2017

(in millions)	Duke		Duke		Duke	Duke	Duke	Duke
	Duke Energy	Progress	Duke Energy	Progress	Duke Energy	Duke Energy	Duke Energy	Duke Energy
	Carolinas	Energy	Energy	Progress	Florida	Ohio	Indiana	Piedmont
Balance at beginning of period	\$98	\$ 10	\$ 18	\$ 3	\$ 14	\$ 59	\$ 10	\$ 1
Provisions/adjustments	6	1	—	—	1	4	(1 )	1
Cash reductions	(6 )	—	(1 )	—	(1 )	(4 )	—	—
Balance at end of period	\$98	\$ 11	\$ 17	\$ 3	\$ 14	\$ 59	\$ 9	\$ 2

Additional losses in excess of recorded reserves that could be incurred for the stages of investigation, remediation and monitoring for environmental sites that have been evaluated at this time are not material except as presented in the table below.

(in millions)

Duke Energy	\$57
Duke Energy Carolinas	19
Duke Energy Ohio	30
Piedmont	2

LITIGATION

Duke Energy Carolinas and Duke Energy Progress

Coal Ash Insurance Coverage Litigation

In March 2017, Duke Energy Carolinas and Duke Energy Progress filed a civil action in North Carolina Superior Court against various insurance providers. The lawsuit seeks payment for coal ash-related liabilities covered by third-party liability insurance policies. The insurance policies were issued between 1971 and 1986 and provide third-party liability insurance for property damage. The civil action seeks damages for breach of contract and indemnification for costs arising from the Coal Ash Act and the EPA CCR rule at 15 coal-fired plants in North Carolina and South Carolina. The parties are engaged in discovery. Duke Energy Carolinas and Duke Energy Progress cannot predict the outcome of this matter.

NCDEQ State Enforcement Actions

In the first quarter of 2013, the Southern Environmental Law Center (SELC) sent notices of intent to sue Duke Energy Carolinas and Duke Energy Progress related to alleged Clean Water Act (CWA) violations from coal ash basins at two

of their coal-fired power plants in North Carolina. The NCDEQ filed enforcement actions against Duke Energy Carolinas and Duke Energy Progress alleging violations of water discharge permits and North Carolina groundwater standards. The cases have been consolidated and are being heard before a single judge in the North Carolina Superior Court.

On August 16, 2013, the NCDEQ filed an enforcement action against Duke Energy Carolinas and Duke Energy Progress related to their remaining plants in North Carolina, alleging violations of the CWA and violations of the North Carolina groundwater standards. Both of these cases have been assigned to the judge handling the enforcement actions discussed above. SELC is representing several environmental groups who have been permitted to intervene in these cases.

PART I

DUKE ENERGY CORPORATION – DUKE ENERGY CAROLINAS, LLC – PROGRESS ENERGY, INC. – DUKE ENERGY PROGRESS, LLC – DUKE ENERGY FLORIDA, LLC – DUKE ENERGY OHIO, INC. – DUKE ENERGY INDIANA, LLC – PIEDMONT NATURAL GAS COMPANY, INC.

Combined Notes to Condensed Consolidated Financial Statements – (Unaudited) – (Continued)

The court issued orders in 2016 granting Motions for Partial Summary Judgment for seven of the 14 North Carolina plants named in the enforcement actions. On February 13, 2017, the court issued an order denying motions for partial summary judgment brought by both the environmental groups and Duke Energy Carolinas and Duke Energy Progress for the remaining seven plants. On March 15, 2017, Duke Energy Carolinas and Duke Energy Progress filed a Notice of Appeal to challenge the trial court's order. The parties were unable to reach an agreement at mediation in April 2017. The parties submitted briefs to the court on remaining issues to be tried and a ruling is pending. On August 22, 2017, Duke Energy Carolinas and Duke Energy Progress filed a Petition for Discretionary Review, requesting the North Carolina Supreme Court to accept the appeal. On August 24, 2017, SELC filed a motion to dismiss the appeal. Duke Energy Carolinas' and Duke Energy Progress' opening appellate briefs were filed on October 12, 2017, and briefing is now complete. Argument was held on February 8, 2018.

It is not possible to predict any liability or estimate any damages Duke Energy Carolinas or Duke Energy Progress might incur in connection with these matters.

Federal Citizens Suits

On June 13, 2016, the Roanoke River Basin Association (RRBA) filed a federal citizen suit in the Middle District of North Carolina alleging unpermitted discharges to surface water and groundwater violations at the Mayo Plant. On August 19, 2016, Duke Energy Progress filed a Motion to Dismiss. On April 26, 2017, the court entered an order dismissing four of the claims in the federal citizen suit. Two claims relating to alleged violations of National Pollutant Discharge Elimination System (NPDES) permit provisions survived the motion to dismiss, and Duke Energy Progress filed its response on May 10, 2017. Duke Energy Progress and RRBA each filed motions for summary judgment on March 23, 2018.

On May 16, 2017, RRBA filed a federal citizen suit in the U.S. District Court for the Middle District of North Carolina, which asserts two claims relating to alleged violations of NPDES permit provisions at the Roxboro plant and one claim relating to the use of nearby water bodies. Duke Energy Progress and RRBA each filed motions for summary judgment on April 17, 2018.

On May 8, 2018, on motion from Duke Energy Progress, the Court ordered trial in both of the above matters to be consolidated and has set a trial date for December 3, 2018.

On June 20, 2017, RRBA filed a federal citizen suit in the U.S. District Court for the Middle District of North Carolina challenging the closure plans at the Mayo Plant under the EPA CCR Rule. Duke Energy Progress filed a motion to dismiss, which was granted by the court on March 30, 2018. RRBA had until April 30, 2018 to file an appeal to the Fourth Circuit but did not do so.

On August 2, 2017, RRBA filed a federal citizen suit in the U.S. District Court for the Middle District of North Carolina challenging the closure plans at the Roxboro Plant under the EPA CCR Rule. Duke Energy Progress filed a motion to dismiss on October 2, 2017.

On December 6, 2017, various parties filed a federal citizen suit in the U.S. District Court for the Middle District of North Carolina for alleged violations at Duke Energy Carolinas' Belews Creek Steam Station (Belews Creek) under the CWA. Duke Energy Carolinas filed a motion to dismiss on February 5, 2018.

It is not possible to predict whether Duke Energy Carolinas or Duke Energy Progress will incur any liability or to estimate the damages, if any, they might incur in connection with these matters.

Groundwater Contamination Claims

Beginning in May 2015, a number of residents living in the vicinity of the North Carolina facilities with ash basins received letters from the NCDEQ advising them not to drink water from the private wells on their land tested by the NCDEQ as the samples were found to have certain substances at levels higher than the criteria set by the North Carolina Department of Health and Human Services (DHHS). Results of Comprehensive Site Assessments testing performed by Duke Energy under the Coal Ash Act have been consistent with historical data provided to state regulators over many years. The DHHS and NCDEQ sent follow-up letters on October 15, 2015, to residents near coal ash basins who had their wells tested, stating that private well samplings at a considerable distance from coal ash basins, as well as some municipal water supplies, contain similar levels of vanadium and hexavalent chromium, which led investigators to believe these constituents are naturally occurring. In March 2016, DHHS rescinded the advisories. Duke Energy Carolinas and Duke Energy Progress have received formal demand letters from residents near Duke Energy Carolinas' and Duke Energy Progress' coal ash basins. The residents claim damages for nuisance and diminution in property value, among other things. The parties held three days of mediation discussions that ended at an impasse. On January 6, 2017, Duke Energy Carolinas and Duke Energy Progress received the plaintiffs' notice of their intent to file suits should the matter not settle. The NCDEQ preliminarily approved Duke Energy's permanent water solution plans on January 13, 2017, and as a result shortly thereafter, Duke Energy issued a press release, providing additional details regarding the homeowner compensation package. This package consists of three components: (i) a \$5,000 goodwill payment to each eligible well owner to support the transition to a new water supply, (ii) where a public water supply is available and selected by the eligible well owner, a stipend to cover 25 years of water bills and (iii) the Property Value Protection Plan. The Property Value Protection Plan is a program offered by Duke Energy designed to guarantee eligible plant neighbors the fair market value of their residential property should they decide to sell their property during the time that the plan is offered. Duke Energy Carolinas and Duke Energy Progress have recognized reserves of \$16 million and \$3 million, respectively.

PART I

DUKE ENERGY CORPORATION – DUKE ENERGY CAROLINAS, LLC – PROGRESS ENERGY, INC. – DUKE ENERGY PROGRESS, LLC – DUKE ENERGY FLORIDA, LLC – DUKE ENERGY OHIO, INC. – DUKE ENERGY INDIANA, LLC – PIEDMONT NATURAL GAS COMPANY, INC.

Combined Notes to Condensed Consolidated Financial Statements – (Unaudited) – (Continued)

On August 23, 2017, a class-action suit was filed in Wake County Superior Court, North Carolina, against Duke Energy Carolinas and Duke Energy Progress on behalf of certain property owners living near coal ash impoundments at Allen, Asheville, Belews Creek, Buck, Cliffside, Lee, Marshall, Mayo and Roxboro. The class is defined as those who are “well-eligible” under the Coal Ash Act or those to whom Duke Energy has promised a permanent replacement water supply and seeks declaratory and injunctive relief, along with compensatory damages. Plaintiffs allege that Duke Energy’s improper maintenance of coal ash impoundments caused harm, particularly through groundwater contamination. Despite NCDEQ’s preliminary approval, Plaintiffs contend that Duke Energy’s proposed permanent water solutions plan fails to comply with the Coal Ash Act. On September 28, 2017, Duke Energy Carolinas and Duke Energy Progress filed a Motion to Dismiss and Motion to Strike the class designation. The parties entered into a Settlement Agreement on January 24, 2018, which resulted in the dismissal of the underlying class action on January 25, 2018.

On September 14, 2017, a complaint was filed against Duke Energy Progress in New Hanover County Superior Court by a group of homeowners residing approximately one mile from Duke Energy Progress' Sutton Steam Plant (Sutton). The homeowners allege that coal ash constituents have been migrating from ash impoundments at Sutton into their groundwater for decades and that in 2015, Duke Energy Progress discovered these releases of coal ash, but failed to notify any officials or neighbors and failed to take remedial action. The homeowners claim unspecified physical and mental injuries as a result of consuming their well water and seek actual damages for personal injury, medical monitoring and punitive damages. On March 6, 2018, Plaintiffs' counsel voluntarily dismissed the action without prejudice.

It is not possible to estimate the maximum exposure of loss, if any, that may occur in connection with future claims that might be made by these residents.

Asbestos-related Injuries and Damages Claims

Duke Energy Carolinas has experienced numerous claims for indemnification and medical cost reimbursement related to asbestos exposure. These claims relate to damages for bodily injuries alleged to have arisen from exposure to or use of asbestos in connection with construction and maintenance activities conducted on its electric generation plants prior to 1985. As of March 31, 2018, there were 143 asserted claims for non-malignant cases with cumulative relief sought of up to \$37 million, and 58 asserted claims for malignant cases with cumulative relief sought of up to \$19 million. Based on Duke Energy Carolinas’ experience, it is expected that the ultimate resolution of most of these claims likely will be less than the amount claimed.

Duke Energy Carolinas has recognized asbestos-related reserves of \$487 million at March 31, 2018, and \$489 million at December 31, 2017. These reserves are classified in Other within Other Noncurrent Liabilities and Other within Current Liabilities on the Condensed Consolidated Balance Sheets. These reserves are based upon the minimum amount of the range of loss for current and future asbestos claims through 2037, are recorded on an undiscounted basis and incorporate anticipated inflation. In light of the uncertainties inherent in a longer-term forecast, management does not believe they can reasonably estimate the indemnity and medical costs that might be incurred after 2037 related to such potential claims. It is possible Duke Energy Carolinas may incur asbestos liabilities in excess of the recorded reserves.

Duke Energy Carolinas has third-party insurance to cover certain losses related to asbestos-related injuries and damages above an aggregate self-insured retention. Duke Energy Carolinas’ cumulative payments began to exceed the self-insurance retention in 2008. Future payments up to the policy limit will be reimbursed by the third-party

insurance carrier. The insurance policy limit for potential future insurance recoveries indemnification and medical cost claim payments is \$797 million in excess of the self-insured retention. Receivables for insurance recoveries were \$585 million at March 31, 2018, and December 31, 2017. These amounts are classified in Other within Other Noncurrent Assets and Receivables within Current Assets on the Condensed Consolidated Balance Sheets. Duke Energy Carolinas is not aware of any uncertainties regarding the legal sufficiency of insurance claims. Duke Energy Carolinas believes the insurance recovery asset is probable of recovery as the insurance carrier continues to have a strong financial strength rating.

#### Duke Energy Progress and Duke Energy Florida

##### Spent Nuclear Fuel Matters

On October 16, 2014, Duke Energy Progress and Duke Energy Florida sued the U.S. in the U.S. Court of Federal Claims. The lawsuit claimed the Department of Energy breached a contract in failing to accept spent nuclear fuel under the Nuclear Waste Policy Act of 1982 and asserted damages for the cost of on-site storage. Duke Energy Progress and Duke Energy Florida asserted damages for the period January 1, 2011, through December 31, 2013, of \$48 million and \$25 million, respectively. On November 17, 2017, the Court awarded Duke Energy Progress and Duke Energy Florida \$48 million and \$21 million, respectively, subject to appeal. No appeals were filed and Duke Energy Progress and Duke Energy Florida recognized the recoveries in the first quarter of 2018. Claims for all periods through 2013 have been resolved. Additional claims will be filed in 2018.

##### Duke Energy Progress

##### Gypsum Supply Agreement Matter

On June 30, 2017, CertainTeed Gypsum NC, Inc. (CertainTeed) filed a declaratory judgment action against Duke Energy Progress in the North Carolina Business Court relating to a gypsum supply agreement. In its complaint, CertainTeed sought an order from the court declaring that the minimum amount of gypsum Duke Energy Progress must provide to CertainTeed under the supply agreement is 50,000 tons per month through 2029. On January 29, 2018, CertainTeed filed a request to amend its Complaint and seek a preliminary injunction requiring Duke Energy Progress to provide 50,000 tons of gypsum per month through the trial date. In advance of the hearing on the Motion for Preliminary Injunction, the parties reached an agreement under which Duke Energy Progress would deliver 50,000 tons of gypsum per month through June 2018. If the Court determines that Duke Energy Progress was not obligated to provide that amount per month, CertainTeed will reimburse Duke Energy Progress. Discovery is currently underway and trial is set for July 2018. If Duke Energy Progress does not prevail at trial, Duke Energy Progress will either have to purchase additional gypsum on the open market to fulfill its contractual obligation through 2029 or pay some amount of liquidated damages. Duke Energy Progress cannot predict the outcome of this matter.

PART I

DUKE ENERGY CORPORATION – DUKE ENERGY CAROLINAS, LLC – PROGRESS ENERGY, INC. – DUKE ENERGY PROGRESS, LLC – DUKE ENERGY FLORIDA, LLC – DUKE ENERGY OHIO, INC. – DUKE ENERGY INDIANA, LLC – PIEDMONT NATURAL GAS COMPANY, INC.

Combined Notes to Condensed Consolidated Financial Statements – (Unaudited) – (Continued)

Duke Energy Florida  
Class Action Lawsuit

On February 22, 2016, a lawsuit was filed in the U.S. District Court for the Southern District of Florida on behalf of a putative class of Duke Energy Florida and FP&L's customers in Florida. The suit alleges the State of Florida's nuclear power plant cost recovery statutes (NCRS) are unconstitutional and pre-empted by federal law. Plaintiffs claim they are entitled to repayment of all money paid by customers of Duke Energy Florida and FP&L as a result of the NCRS, as well as an injunction against any future charges under those statutes. The constitutionality of the NCRS has been challenged unsuccessfully in a number of prior cases on alternative grounds. Duke Energy Florida and FP&L filed motions to dismiss the complaint on May 5, 2016. On September 21, 2016, the Court granted the motions to dismiss with prejudice. Plaintiffs filed a motion for reconsideration, which was denied. On January 4, 2017, plaintiffs filed a notice of appeal to the Eleventh Circuit U.S. Court of Appeals. The appeal, which has been fully briefed, was heard on August 22, 2017, and a decision is pending. Duke Energy Florida cannot predict the outcome of this appeal.

Westinghouse Contract Litigation

On March 28, 2014, Duke Energy Florida filed a lawsuit against Westinghouse in the U.S. District Court for the Western District of North Carolina. The lawsuit seeks recovery of \$54 million in milestone payments in excess of work performed under an EPC for Levy as well as a determination by the court of the amounts due to Westinghouse as a result of the termination of an EPC contract. Duke Energy Florida recognized an exit obligation as a result of the termination of the EPC. On March 31, 2014, Westinghouse filed a separate lawsuit against Duke Energy Florida in U.S. District Court for the Western District of Pennsylvania alleging damages under the same EPC contract in excess of \$510 million for engineering and design work, costs to end supplier contracts and an alleged termination fee. On June 9, 2014, the judge in the North Carolina case ruled that the litigation would proceed in the Western District of North Carolina.

On July 11, 2016, Duke Energy Florida and Westinghouse filed separate Motions for Summary Judgment. On September 29, 2016, the court issued its ruling, granting Westinghouse a \$30 million termination fee claim and dismissing Duke Energy Florida's \$54 million refund claim. Westinghouse's claim for termination costs continued to trial. Following a trial on the matter, the court issued an order in December 2016 denying Westinghouse's claim for termination costs and reaffirming its earlier ruling in favor of Westinghouse on the \$30 million termination fee. Judgment was entered against Duke Energy Florida in the amount of approximately \$34 million, which includes prejudgment interest. Westinghouse has appealed the trial court's order to the U.S. Court of Appeals for the Fourth Circuit (Fourth Circuit Court) and Duke Energy Florida has cross-appealed.

On March 29, 2017, Westinghouse filed Chapter 11 bankruptcy in the Southern District of New York, which automatically stayed the appeal. On May 23, 2017, the bankruptcy court entered an order lifting the stay with respect to the appeal. Briefing of the appeal concluded on October 20, 2017. Westinghouse and Duke Energy Florida executed a settlement agreement resolving this matter on April 5, 2018, which has been filed with the bankruptcy court for approval. The settlement provides that the appeal will be dismissed and Duke Energy Florida will pay the judgment amount of approximately \$34 million. This reserve is classified in Other within Other Noncurrent Liabilities on the Condensed Consolidated Balance Sheet. In light of the settlement, the Fourth Circuit Court agreed to stay the appeal pending bankruptcy court approval of the settlement. Duke Energy cannot predict the ultimate outcome of this appeal or the bankruptcy court's approval of the pending settlement.

MGP Cost Recovery Action

On December 30, 2011, Duke Energy Florida filed a lawsuit against FirstEnergy Corp. (FirstEnergy) to recover investigation and remediation costs incurred by Duke Energy Florida in connection with the restoration of two former MGP sites in Florida. Duke Energy Florida alleged that FirstEnergy, as the successor to Associated Gas & Electric Co., owes past and future contribution and response costs of up to \$43 million for the investigation and remediation of MGP sites. On December 6, 2016, the trial court entered judgment against Duke Energy Florida in the case. In January 2017, Duke Energy Florida appealed the decision to the U.S. Court of Appeals for the 6th Circuit, which affirmed the trial court's ruling on April 10, 2018. Duke Energy Florida cannot predict the outcome of this appeal.

Other Litigation and Legal Proceedings

The Duke Energy Registrants are involved in other legal, tax and regulatory proceedings arising in the ordinary course of business, some of which involve significant amounts. The Duke Energy Registrants believe the final disposition of these proceedings will not have a material effect on their results of operations, cash flows or financial position.

The table below presents recorded reserves based on management's best estimate of probable loss for legal matters, excluding asbestos-related reserves and the exit obligation related to the termination of an EPC contract discussed above. Reserves are classified on the Condensed Consolidated Balance Sheets in Other within Other Noncurrent Liabilities and Accounts payable and Other within Current Liabilities. The reasonably possible range of loss in excess of recorded reserves is not material, other than as described above.

(in millions)                      March 31, 2018    December 31, 2017

Reserves for Legal Matters

Duke Energy	\$ 74	\$ 88
Duke Energy Carolinas	20	30
Progress Energy	51	55
Duke Energy Progress	10	13
Duke Energy Florida	24	24
Piedmont	2	2



## PART I

DUKE ENERGY CORPORATION – DUKE ENERGY CAROLINAS, LLC – PROGRESS ENERGY, INC. – DUKE ENERGY PROGRESS, LLC – DUKE ENERGY FLORIDA, LLC – DUKE ENERGY OHIO, INC. – DUKE ENERGY INDIANA, LLC – PIEDMONT NATURAL GAS COMPANY, INC.

Combined Notes to Condensed Consolidated Financial Statements – (Unaudited) – (Continued)

## OTHER COMMITMENTS AND CONTINGENCIES

## General

As part of their normal business, the Duke Energy Registrants are party to various financial guarantees, performance guarantees and other contractual commitments to extend guarantees of credit and other assistance to various subsidiaries, investees and other third parties. These guarantees involve elements of performance and credit risk, which are not fully recognized on the Condensed Consolidated Balance Sheets and have unlimited maximum potential payments. However, the Duke Energy Registrants do not believe these guarantees will have a material effect on their results of operations, cash flows or financial position.

In addition, the Duke Energy Registrants enter into various fixed-price, noncancelable commitments to purchase or sell power or natural gas, take-or-pay arrangements, transportation, or throughput agreements and other contracts that may or may not be recognized on their respective Condensed Consolidated Balance Sheets. Some of these arrangements may be recognized at fair value on their respective Condensed Consolidated Balance Sheets if such contracts meet the definition of a derivative and the normal purchase/normal sale (NPNS) exception does not apply. In most cases, the Duke Energy Registrants' purchase obligation contracts contain provisions for price adjustments, minimum purchase levels and other financial commitments.

## 5. DEBT AND CREDIT FACILITIES

## SUMMARY OF SIGNIFICANT DEBT ISSUANCES

The following table summarizes significant debt issuances (in millions).

Issuance Date	Maturity Date	Interest Rate	Three Months Ended March 31, 2018		
			Duke Energy	Duke Energy (Parent)	Duke Energy Carolinas
Unsecured Debt					
March 2018 <sup>(a)</sup>	April 2025	3.950 %	\$ 250	\$ 250	\$ —
First Mortgage Bonds					
March 2018 <sup>(b)</sup>	March 2023	3.050 %	500	—	500
March 2018 <sup>(b)</sup>	March 2048	3.950 %	500	—	500
Total issuances			\$ 1,250	\$ 250	\$ 1,000

(a) Debt issued to pay down short-term debt.

(b) Debt issued to repay at maturity a \$300 million first mortgage bond due April 2018, pay down intercompany short-term debt and for general corporate purposes.

## CURRENT MATURITIES OF LONG-TERM DEBT

The following table shows the significant components of Current Maturities of Long-Term Debt on the Condensed Consolidated Balance Sheets. The Duke Energy Registrants currently anticipate satisfying these obligations with cash on hand and proceeds from additional borrowings.

(in millions)	Maturity Date	Interest Rate	March 31, 2018
Unsecured Debt			
Duke Energy (Parent)	June 2018	6.250 %	\$ 250
Duke Energy (Parent)	June 2018	2.100 %	500

Edgar Filing: Duke Energy CORP - Form 10-Q

Piedmont	December 2018	2.821	% <sup>(b)</sup>	250
Progress Energy	March 2019	7.050	%	450
First Mortgage Bonds				
Duke Energy Carolinas	April 2018	5.100	%	300
Duke Energy Florida	June 2018	5.650	%	500
Duke Energy Carolinas	November 2018	7.000	%	500
Duke Energy Progress	January 2019	5.300	%	600
Other <sup>(a)</sup>				601
Current maturities of long-term debt				\$ 3,951

(a) Includes capital lease obligations, amortizing debt and small bullet maturities.

(b) Debt issuance has a floating interest rate.

## PART I

DUKE ENERGY CORPORATION – DUKE ENERGY CAROLINAS, LLC – PROGRESS ENERGY, INC. – DUKE ENERGY PROGRESS, LLC – DUKE ENERGY FLORIDA, LLC – DUKE ENERGY OHIO, INC. – DUKE ENERGY INDIANA, LLC – PIEDMONT NATURAL GAS COMPANY, INC.

Combined Notes to Condensed Consolidated Financial Statements – (Unaudited) – (Continued)

## AVAILABLE CREDIT FACILITIES

## Master Credit Facility

In January 2018, Duke Energy extended the termination date of substantially all of its existing \$8 billion Master Credit Facility capacity from March 16, 2022 to March 16, 2023. In May 2018, Duke Energy completed the extension process with 100 percent of all commitments to the Master Credit Facility extending to March 16, 2023. The Duke Energy Registrants, excluding Progress Energy (Parent), have borrowing capacity under the Master Credit Facility up to a specified sublimit for each borrower. Duke Energy has the unilateral ability at any time to increase or decrease the borrowing sublimits of each borrower, subject to a maximum sublimit for each borrower. The amount available under the Master Credit Facility has been reduced to backstop issuances of commercial paper, certain letters of credit and variable-rate demand tax-exempt bonds that may be put to the Duke Energy Registrants at the option of the holder. Duke Energy Carolinas and Duke Energy Progress are also required to each maintain \$250 million of available capacity under the Master Credit Facility as security to meet obligations under plea agreements reached with the U.S. Department of Justice in 2015 related to violations at North Carolina facilities with ash basins. The table below includes the current borrowing sublimits and available capacity under the Master Credit Facility.

	March 31, 2018							
	Duke Energy	Duke Energy (Parent)	Duke Energy Carolinas	Duke Energy Progress	Duke Energy Florida	Duke Energy Ohio	Duke Energy Indiana	Duke Energy Piedmont
(in millions)								
Facility size <sup>(a)</sup>	\$8,000	\$2,650	\$1,550	\$1,250	\$800	\$450	\$600	\$700
Reduction to backstop issuances								
Commercial paper <sup>(b)</sup>	(2,602)	(1,281)	(340)	(464)	—	(140)	(282)	(95)
Outstanding letters of credit	(59)	(50)	(4)	(2)	(1)	—	—	(2)
Tax-exempt bonds	(81)	—	—	—	—	—	(81)	—
Coal ash set-aside	(500)	—	(250)	(250)	—	—	—	—
Available capacity under the Master Credit Facility	\$4,758	\$1,319	\$956	\$534	\$799	\$310	\$237	\$603

(a) Represents the sublimit of each borrower.

Duke Energy issued \$625 million of commercial paper and loaned the proceeds through the money pool to Duke Energy Carolinas, Duke Energy Progress, Duke Energy Ohio and Duke Energy Indiana. The balances are classified as Long-Term Debt Payable to Affiliated Companies on the Condensed Consolidated Balance Sheets.

## Three-Year Revolving Credit Facility

Duke Energy (Parent) has a \$1.0 billion revolving credit facility (the Three Year Revolver) through June 2020. As of March 31, 2018, \$500 million has been drawn under the Three Year Revolver. This balance is classified as Long-Term Debt on Duke Energy's Condensed Consolidated Balance Sheets. Any undrawn commitments can be drawn, and borrowings can be prepaid, at any time throughout the term of the facility. The terms and conditions of the Three Year Revolver are generally consistent with those governing Duke Energy's Master Credit Facility.

## 6. GOODWILL

## Duke Energy

The following table presents the goodwill by reportable operating segment included on Duke Energy's Condensed Consolidated Balance Sheets at March 31, 2018, and December 31, 2017.

Edgar Filing: Duke Energy CORP - Form 10-Q

(in millions)	Electric Utilities and Infrastructure	Gas Utilities and Infrastructure	Commercial Renewables	Total
Goodwill balance	\$ 17,379	\$ 1,924	\$ 122	\$19,425
Accumulated impairment charges	—	—	(29	) (29 )
Goodwill, adjusted for accumulated impairment charges	\$ 17,379	\$ 1,924	\$ 93	\$19,396

Duke Energy Ohio

Duke Energy Ohio's Goodwill balance of \$920 million, allocated \$596 million to Electric Utilities and Infrastructure and \$324 million to Gas Utilities and Infrastructure, is presented net of accumulated impairment charges of \$216 million on the Condensed Consolidated Balance Sheets at March 31, 2018, and December 31, 2017.

Progress Energy

Progress Energy's Goodwill is included in the Electric Utilities and Infrastructure operating segment and there are no accumulated impairment charges.

Piedmont

Piedmont's Goodwill is included in the Gas Utilities and Infrastructure operating segment and there are no accumulated impairment charges.

## PART I

DUKE ENERGY CORPORATION – DUKE ENERGY CAROLINAS, LLC – PROGRESS ENERGY, INC. – DUKE ENERGY PROGRESS, LLC – DUKE ENERGY FLORIDA, LLC – DUKE ENERGY OHIO, INC. – DUKE ENERGY INDIANA, LLC – PIEDMONT NATURAL GAS COMPANY, INC.

Combined Notes to Condensed Consolidated Financial Statements – (Unaudited) – (Continued)

## 7. RELATED PARTY TRANSACTIONS

The Subsidiary Registrants engage in related party transactions in accordance with applicable state and federal commission regulations. Refer to the Condensed Consolidated Balance Sheets of the Subsidiary Registrants for balances due to or due from related parties. Material amounts related to transactions with related parties included on the Condensed Consolidated Statements of Operations and Comprehensive Income are presented in the following table.

(in millions)	Three Months Ended March 31, 2018 2017	
Duke Energy Carolinas		
Corporate governance and shared service expenses <sup>(a)</sup>	\$220	\$221
Indemnification coverages <sup>(b)</sup>	6	6
JDA revenue <sup>(c)</sup>	34	16
JDA expense <sup>(c)</sup>	54	31
Intercompany natural gas purchases <sup>(d)</sup>	4	1
Progress Energy		
Corporate governance and shared service expenses <sup>(a)</sup>	\$191	\$170
Indemnification coverages <sup>(b)</sup>	8	10
JDA revenue <sup>(c)</sup>	54	31
JDA expense <sup>(c)</sup>	34	16
Intercompany natural gas purchases <sup>(d)</sup>	19	19
Duke Energy Progress		
Corporate governance and shared service expenses <sup>(a)</sup>	\$118	\$100
Indemnification coverages <sup>(b)</sup>	3	4
JDA revenue <sup>(c)</sup>	54	31
JDA expense <sup>(c)</sup>	34	16
Intercompany natural gas purchases <sup>(d)</sup>	19	19
Duke Energy Florida		
Corporate governance and shared service expenses <sup>(a)</sup>	\$73	\$70
Indemnification coverages <sup>(b)</sup>	5	6
Duke Energy Ohio		
Corporate governance and shared service expenses <sup>(a)</sup>	\$89	\$92
Indemnification coverages <sup>(b)</sup>	1	1
Duke Energy Indiana		
Corporate governance and shared service expenses <sup>(a)</sup>	\$101	\$95
Indemnification coverages <sup>(b)</sup>	2	2
Piedmont		

Edgar Filing: Duke Energy CORP - Form 10-Q

Corporate governance and shared service expenses <sup>(a)</sup>	\$36	\$5
Indemnification coverages <sup>(b)</sup>	1	1
Intercompany natural gas sales <sup>(d)</sup>	23	20

The Subsidiary Registrants are charged their proportionate share of corporate governance and other shared services costs, primarily related to human resources, employee benefits, information technology, legal and accounting fees, as well as other third-party costs. These amounts are primarily recorded in Operation, maintenance and other on the Condensed Consolidated Statements of Operations and Comprehensive Income.

The Subsidiary Registrants incur expenses related to certain indemnification coverages through Bison, Duke Energy's wholly owned captive insurance subsidiary. These expenses are recorded in Operation, maintenance and other on the Condensed Consolidated Statements of Operations and Comprehensive Income.

Duke Energy Carolinas and Duke Energy Progress participate in a Joint Dispatch Agreement (JDA), which allows the collective dispatch of power plants between the service territories to reduce customer rates. Revenues from the sale of power and expenses from the purchase of power pursuant to the JDA are recorded in Operating Revenues and Fuel used in electric generation and purchased power, respectively, on the Condensed Consolidated Statements of Operations and Comprehensive Income.

Piedmont provides long-term natural gas delivery service to certain Duke Energy Carolinas and Duke Energy Progress natural gas-fired generation facilities. Piedmont records the sales in Regulated natural gas revenues, and Duke Energy Carolinas and Duke Energy Progress record the related purchases in Fuel used in electric generation and purchased power on their respective Condensed Consolidated Statements of Operations and Comprehensive Income. The amounts are not eliminated in accordance with rate-based accounting regulations.

## PART I

DUKE ENERGY CORPORATION – DUKE ENERGY CAROLINAS, LLC – PROGRESS ENERGY, INC. – DUKE ENERGY PROGRESS, LLC – DUKE ENERGY FLORIDA, LLC – DUKE ENERGY OHIO, INC. – DUKE ENERGY INDIANA, LLC – PIEDMONT NATURAL GAS COMPANY, INC.

Combined Notes to Condensed Consolidated Financial Statements – (Unaudited) – (Continued)

In addition to the amounts presented above, the Subsidiary Registrants have other affiliate transactions, including rental of office space, participation in a money pool arrangement, other operational transactions and their proportionate share of certain charged expenses. See Note 6 to the Consolidated Financial Statements in the Annual Report on Form 10-K/A for the year ended December 31, 2017, for more information regarding the money pool. These transactions of the Subsidiary Registrants were not material for the three months ended March 31, 2018, and 2017.

As discussed in Note 11, certain trade receivables have been sold by Duke Energy Ohio and Duke Energy Indiana to Cinergy Receivables Company LLC (CRC), an affiliate formed by a subsidiary of Duke Energy. The proceeds obtained from the sales of receivables are largely cash but also include a subordinated note from the affiliate for a portion of the purchase price.

## Equity Method Investments

Piedmont has related party transactions as a customer of its equity method investments in natural gas storage and transportation facilities. The following table presents expenses for the three months ended March 31, 2018, and 2017, which are included in Cost of natural gas on Piedmont's Condensed Consolidated Statements of Operations and Comprehensive Income.

(in millions)	Type of expense	Three Months Ended March 31,	
		2018	2017
Cardinal	Transportation Costs	\$ 2	\$ 2
Pine Needle	Natural Gas Storage Costs	2	2
Hardy Storage	Natural Gas Storage Costs	2	2
Total		\$ 6	\$ 6

Piedmont had accounts payable to its equity method investments of \$2 million at March 31, 2018, and December 31, 2017, related to these transactions. These amounts are included in Accounts payable on the Condensed Consolidated Balance Sheets.

## Intercompany Income Taxes

Duke Energy and the Subsidiary Registrants file a consolidated federal income tax return and other state and jurisdictional returns. The Subsidiary Registrants have a tax sharing agreement with Duke Energy for the allocation of consolidated tax liabilities and benefits. Income taxes recorded represent amounts the Subsidiary Registrants would incur as separate C-Corporations. The following table includes the balance of intercompany income tax receivables and payables for the Subsidiary Registrants.

(in millions)		Duke	Duke	Duke	Duke	Duke	Piedmont
		Energy Carolinas	Progress Energy	Energy Progress Florida	Energy Ohio	Energy Indiana	
March 31, 2018							
Intercompany income tax receivable	\$	—	\$ 183	\$ 13	\$ 9	\$ —	\$ —
Intercompany income tax payable	9	—	—	—	3	18	43

December 31, 2017

Intercompany income tax receivable	\$	—	\$	—	\$	44	\$	22	\$	—	\$	7
Intercompany income tax payable	44	—	21	—	—	35	—					

**8. DERIVATIVES AND HEDGING**

The Duke Energy Registrants use commodity and interest rate contracts to manage commodity price risk and interest rate risk. The primary use of commodity derivatives is to hedge the generation portfolio against changes in the prices of electricity and natural gas. Piedmont enters into natural gas supply contracts to provide diversification, reliability and natural gas cost benefits to its customers. Interest rate swaps are used to manage interest rate risk associated with borrowings.

All derivative instruments not identified as NPNS are recorded at fair value as assets or liabilities on the Condensed Consolidated Balance Sheets. Cash collateral related to derivative instruments executed under master netting arrangements is offset against the collateralized derivatives on the Condensed Consolidated Balance Sheets. The cash impacts of settled derivatives are recorded as operating activities on the Condensed Consolidated Statements of Cash Flows.

**INTEREST RATE RISK**

The Duke Energy Registrants are exposed to changes in interest rates as a result of their issuance or anticipated issuance of variable-rate and fixed-rate debt and commercial paper. Interest rate risk is managed by limiting variable-rate exposures to a percentage of total debt and by monitoring changes in interest rates. To manage risk associated with changes in interest rates, the Duke Energy Registrants may enter into interest rate swaps, U.S. Treasury lock agreements and other financial contracts. In anticipation of certain fixed-rate debt issuances, a series of forward-starting interest rate swaps or Treasury locks may be executed to lock in components of current market interest rates. These instruments are later terminated prior to or upon the issuance of the corresponding debt.



## PART I

DUKE ENERGY CORPORATION – DUKE ENERGY CAROLINAS, LLC – PROGRESS ENERGY, INC. – DUKE ENERGY PROGRESS, LLC – DUKE ENERGY FLORIDA, LLC – DUKE ENERGY OHIO, INC. – DUKE ENERGY INDIANA, LLC – PIEDMONT NATURAL GAS COMPANY, INC.

Combined Notes to Condensed Consolidated Financial Statements – (Unaudited) – (Continued)

## Cash Flow Hedges

For a derivative designated as hedging the exposure to variable cash flows of a future transaction, referred to as a cash flow hedge, the effective portion of the derivative's gain or loss is initially reported as a component of other comprehensive income and subsequently reclassified into earnings once the future transaction impacts earnings.

Amounts for interest rate contracts are reclassified to earnings as interest expense over the term of the related debt. Gains and losses reclassified out of AOCI for the three months ended March 31, 2018 and 2017 were not material.

Duke Energy's interest rate derivatives designated as hedges include interest rate swaps used to hedge existing debt within the Commercial Renewables business.

## Undesignated Contracts

Undesignated contracts include contracts not designated as a hedge because they are accounted for under regulatory accounting and contracts that do not qualify for hedge accounting.

Duke Energy's interest rate swaps for its regulated operations employ regulatory accounting. With regulatory accounting, the mark-to-market gains or losses on the swaps are deferred as regulatory liabilities or regulatory assets, respectively. Regulatory assets and liabilities are amortized consistent with the treatment of the related costs in the ratemaking process. The accrual of interest on the swaps is recorded as Interest Expense.

The following table shows notional amounts of outstanding derivatives related to interest rate risk.

	March 31, 2018					
	Duke	Duke	Duke	Duke	Duke	Duke
(in millions)	Energy	Energy	Progress	Energy	Energy	Energy
	Energy	Carolin	Energy	Progress	Florida	Ohio
Cash flow hedges <sup>(a)</sup>	\$660	\$ —	\$ —	\$ —	\$ —	\$ —
Undesignated contracts	527	—	500	250	250	27
Total notional amount	\$1,187	\$ —	\$ 500	\$ 250	\$ 250	\$ 27
	December 31, 2017					
	Duke	Duke	Duke	Duke	Duke	Duke
(in millions)	Energy	Energy	Progress	Energy	Energy	Energy
	Energy	Carolin	Energy	Progress	Florida	Ohio
Cash flow hedges <sup>(a)</sup>	\$660	\$ —	\$ —	\$ —	\$ —	\$ —
Undesignated contracts	927	400	500	250	250	27
Total notional amount	\$1,587	\$ 400	\$ 500	\$ 250	\$ 250	\$ 27

<sup>(a)</sup> Duke Energy includes amounts related to consolidated VIEs of \$660 million as of March 31, 2018, and December 31, 2017.

## COMMODITY PRICE RISK

The Duke Energy Registrants are exposed to the impact of changes in the prices of electricity purchased and sold in bulk power markets and coal and natural gas purchases, including Piedmont's natural gas supply contracts. Exposure to commodity price risk is influenced by a number of factors including the term of contracts, the liquidity of markets and delivery locations. For the Subsidiary Registrants, bulk power electricity and coal and natural gas purchases flow through fuel adjustment clauses, formula-based contracts or other cost-sharing mechanisms. Differences between the costs included in rates and the incurred costs, including undesignated derivative contracts, are largely deferred as regulatory assets or regulatory liabilities. Piedmont policies allow for the use of financial instruments to hedge

commodity price risks. The strategy and objective of these hedging programs are to use the financial instruments to reduce natural gas costs volatility for customers.

61

---

PART I

DUKE ENERGY CORPORATION – DUKE ENERGY CAROLINAS, LLC – PROGRESS ENERGY, INC. – DUKE ENERGY PROGRESS, LLC – DUKE ENERGY FLORIDA, LLC – DUKE ENERGY OHIO, INC. – DUKE ENERGY INDIANA, LLC – PIEDMONT NATURAL GAS COMPANY, INC.

Combined Notes to Condensed Consolidated Financial Statements – (Unaudited) – (Continued)

Volumes

The tables below include volumes of outstanding commodity derivatives. Amounts disclosed represent the absolute value of notional volumes of commodity contracts excluding NPNS. The Duke Energy Registrants have netted contractual amounts where offsetting purchase and sale contracts exist with identical delivery locations and times of delivery. Where all commodity positions are perfectly offset, no quantities are shown.

	March 31, 2018						
	Duke Energy	Duke Energy Carolinas	Progress Energy	Duke Energy Progress	Duke Energy Florida	Duke Energy Indiana	Duke Energy Piedmont
Electricity (gigawatt-hours)	16	—	—	—	—	16	—
Natural gas (millions of dekatherms)	765	110	179	149	30	2	474
	December 31, 2017						
	Duke Energy	Duke Energy Carolinas	Progress Energy	Duke Energy Progress	Duke Energy Florida	Duke Energy Indiana	Duke Energy Piedmont
Electricity (gigawatt-hours)	34	—	—	—	—	34	—
Natural gas (millions of dekatherms)	770	105	183	133	50	2	480

PART I

DUKE ENERGY CORPORATION – DUKE ENERGY CAROLINAS, LLC – PROGRESS ENERGY, INC. – DUKE ENERGY PROGRESS, LLC – DUKE ENERGY FLORIDA, LLC – DUKE ENERGY OHIO, INC. – DUKE ENERGY INDIANA, LLC – PIEDMONT NATURAL GAS COMPANY, INC.

Combined Notes to Condensed Consolidated Financial Statements – (Unaudited) – (Continued)

LOCATION AND FAIR VALUE OF DERIVATIVE ASSETS AND LIABILITIES RECOGNIZED ON THE CONDENSED CONSOLIDATED BALANCE SHEETS

The following tables show the fair value and balance sheet location of derivative instruments. Although derivatives subject to master netting arrangements are netted on the Condensed Consolidated Balance Sheets, the fair values presented below are shown gross and cash collateral on the derivatives has not been netted against the fair values shown.

Derivative Assets	March 31, 2018							
(in millions)	Duke Energy	Duke Energy Carolinas	Progress Energy	Duke Energy Progress	Duke Energy Florida	Duke Energy Ohio	Duke Energy Indiana	Piedmont
Commodity Contracts								
Not Designated as Hedging Instruments								
Current	\$14	\$ 2	\$ 3	\$ 2	\$ 1	\$ 1	\$ 7	\$ 1
Noncurrent	1	—	—	—	—	—	—	—
Total Derivative Assets – Commodity Contracts	\$15	\$ 2	\$ 3	\$ 2	\$ 1	\$ 1	\$ 7	\$ 1
Interest Rate Contracts								
Designated as Hedging Instruments								
Current	\$1	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Noncurrent	21	—	—	—	—	—	—	—
Total Derivative Assets – Interest Rate Contracts	\$22	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Total Derivative Assets	\$37	\$ 2	\$ 3	\$ 2	\$ 1	\$ 1	\$ 7	\$ 1
Derivative Liabilities	March 31, 2018							
(in millions)	Duke Energy	Duke Energy Carolinas	Progress Energy	Duke Energy Progress	Duke Energy Florida	Duke Energy Ohio	Duke Energy Indiana	Piedmont
Commodity Contracts								
Not Designated as Hedging Instruments								
Current	\$26	\$ 5	\$ 8	\$ 6	\$ 3	\$ —	\$ —	\$ 13
Noncurrent	140	6	15	6	—	—	—	119
Total Derivative Liabilities – Commodity Contracts	\$166	\$ 11	\$ 23	\$ 12	\$ 3	\$ —	\$ —	\$ 132
Interest Rate Contracts								
Designated as Hedging Instruments								
Current	\$4	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Noncurrent	3	—	—	—	—	—	—	—
Not Designated as Hedging Instruments								
Current	3	—	3	2	1	—	—	—
Noncurrent	14	—	11	7	3	4	—	—
Total Derivative Liabilities – Interest Rate Contracts	\$24	\$ —	\$ 14	\$ 9	\$ 4	\$ 4	\$ —	\$ —

Edgar Filing: Duke Energy CORP - Form 10-Q

Total Derivative Liabilities                      \$190 \$ 11    \$ 37    \$ 21    \$ 7    \$ 4    \$    —\$ 132

63

---

PART I

DUKE ENERGY CORPORATION – DUKE ENERGY CAROLINAS, LLC – PROGRESS ENERGY, INC. – DUKE ENERGY PROGRESS, LLC – DUKE ENERGY FLORIDA, LLC – DUKE ENERGY OHIO, INC. – DUKE ENERGY INDIANA, LLC – PIEDMONT NATURAL GAS COMPANY, INC.

Combined Notes to Condensed Consolidated Financial Statements – (Unaudited) – (Continued)

Derivative Assets	December 31, 2017							
	Duke Energy	Duke Energy Carolinas	Progress Energy	Duke Energy Progress	Duke Energy Florida	Duke Energy Ohio	Duke Energy Indiana	Piedmont
(in millions)								
Commodity Contracts								
Not Designated as Hedging Instruments								
Current	\$34	\$ 2	\$ 2	\$ 1	\$ 1	\$ 1	\$ 27	\$ 2
Noncurrent	1	—	1	1	—	—	—	—
Total Derivative Assets – Commodity Contracts	\$35	\$ 2	\$ 3	\$ 2	\$ 1	\$ 1	\$ 27	\$ 2
Interest Rate Contracts								
Designated as Hedging Instruments								
Current	\$1	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Noncurrent	15	—	—	—	—	—	—	—
Total Derivative Assets – Interest Rate Contracts	\$16	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Total Derivative Assets	\$51	\$ 2	\$ 3	\$ 2	\$ 1	\$ 1	\$ 27	\$ 2
Derivative Liabilities	December 31, 2017							
	Duke Energy	Duke Energy Carolinas	Progress Energy	Duke Energy Progress	Duke Energy Florida	Duke Energy Ohio	Duke Energy Indiana	Piedmont
(in millions)								
Commodity Contracts								
Not Designated as Hedging Instruments								
Current	\$36	\$ 6	\$ 18	\$ 8	\$ 10	\$ —	\$ —	\$ 11
Noncurrent	146	4	10	4	—	—	—	131
Total Derivative Liabilities – Commodity Contracts	\$182	\$ 10	\$ 28	\$ 12	\$ 10	\$ —	\$ —	\$ 142
Interest Rate Contracts								
Designated as Hedging Instruments								
Current	\$29	\$ 25	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Noncurrent	6	—	—	—	—	—	—	—
Not Designated as Hedging Instruments								
Current	1	—	1	—	—	1	—	—
Noncurrent	12	—	7	6	2	4	—	—
Total Derivative Liabilities – Interest Rate Contracts	\$48	\$ 25	\$ 8	\$ 6	\$ 2	\$ 5	\$ —	\$ —
Total Derivative Liabilities	\$230	\$ 35	\$ 36	\$ 18	\$ 12	\$ 5	\$ —	\$ 142

OFFSETTING ASSETS AND LIABILITIES

The following tables present the line items on the Condensed Consolidated Balance Sheets where derivatives are reported. Substantially all of Duke Energy's outstanding derivative contracts are subject to enforceable master netting arrangements. The gross amounts offset in the tables below show the effect of these netting arrangements on financial position, and include collateral posted to offset the net position. The amounts shown are calculated by counterparty.

Accounts receivable or accounts payable may also be available to offset exposures in the event of bankruptcy. These amounts are not included in the tables below.

PART I

DUKE ENERGY CORPORATION – DUKE ENERGY CAROLINAS, LLC – PROGRESS ENERGY, INC. – DUKE ENERGY PROGRESS, LLC – DUKE ENERGY FLORIDA, LLC – DUKE ENERGY OHIO, INC. – DUKE ENERGY INDIANA, LLC – PIEDMONT NATURAL GAS COMPANY, INC.

Combined Notes to Condensed Consolidated Financial Statements – (Unaudited) – (Continued)

Derivative Assets	March 31, 2018							
	Duke Energy Carolinas		Progress Energy		Duke Energy Florida		Duke Energy Ohio Indiana Piedmont	
(in millions)								
Current								
Gross amounts recognized	\$15	\$ 2	\$ 3	\$ 2	\$ 1	\$ 1	\$ 7	\$ 1
Gross amounts offset	(2 )	(1 )	(1 )	(1 )	—	—	—	—
Net amounts presented in Current Assets: Other	\$13	\$ 1	\$ 2	\$ 1	\$ 1	\$ 1	\$ 7	\$ 1
Noncurrent								
Gross amounts recognized	\$22	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Gross amounts offset	—	—	—	—	—	—	—	—
Net amounts presented in Other Noncurrent Assets: Other	\$22	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Derivative Liabilities	March 31, 2018							
	Duke Energy Carolinas		Progress Energy		Duke Energy Florida		Duke Energy Ohio Indiana Piedmont	
(in millions)								
Current								
Gross amounts recognized	\$33	\$ 5	\$ 11	\$ 8	\$ 4	\$ —	\$ —	\$ 13
Gross amounts offset	(4 )	(2 )	(2 )	(2 )	—	—	—	—
Net amounts presented in Current Liabilities: Other	\$29	\$ 3	\$ 9	\$ 6	\$ 4	\$ —	\$ —	\$ 13
Noncurrent								
Gross amounts recognized	\$157	\$ 6	\$ 26	\$ 13	\$ 3	\$ 4	\$ —	\$ 119
Gross amounts offset	(1 )	—	(1 )	(1 )	—	—	—	—
Net amounts presented in Other Noncurrent Liabilities: Other	\$156	\$ 6	\$ 25	\$ 12	\$ 3	\$ 4	\$ —	\$ 119
Derivative Assets	December 31, 2017							
	Duke Energy Carolinas		Progress Energy		Duke Energy Florida		Duke Energy Ohio Indiana Piedmont	
(in millions)								
Current								
Gross amounts recognized	\$35	\$ 2	\$ 2	\$ 1	\$ 1	\$ 1	\$ 27	\$ 2
Gross amounts offset	—	—	—	—	—	—	—	—
Net amounts presented in Current Assets: Other	\$35	\$ 2	\$ 2	\$ 1	\$ 1	\$ 1	\$ 27	\$ 2
Noncurrent								
Gross amounts recognized	\$16	\$ —	\$ 1	\$ 1	\$ —	\$ —	\$ —	\$ —
Gross amounts offset	—	—	—	—	—	—	—	—
Net amounts presented in Other Noncurrent Assets: Other	\$16	\$ —	\$ 1	\$ 1	\$ —	\$ —	\$ —	\$ —





PART I

DUKE ENERGY CORPORATION – DUKE ENERGY CAROLINAS, LLC – PROGRESS ENERGY, INC. – DUKE ENERGY PROGRESS, LLC – DUKE ENERGY FLORIDA, LLC – DUKE ENERGY OHIO, INC. – DUKE ENERGY INDIANA, LLC – PIEDMONT NATURAL GAS COMPANY, INC.

Combined Notes to Condensed Consolidated Financial Statements – (Unaudited) – (Continued)

Derivative Liabilities	December 31, 2017							
	Duke Energy Carolinas		Progress Energy		Duke Energy Florida		Duke Energy Ohio Indiana Piedmont	
(in millions)								
Current								
Gross amounts recognized	\$66	\$ 31	\$ 19	\$ 8	\$ 10	\$ 1	\$	—\$ 11
Gross amounts offset	(3 )	(2 )	(2 )	(2 )	—	—	—	—
Net amounts presented in Current Liabilities: Other	\$63	\$ 29	\$ 17	\$ 6	\$ 10	\$ 1	\$	—\$ 11
Noncurrent								
Gross amounts recognized	\$164	\$ 4	\$ 17	\$ 10	\$ 2	\$ 4	\$	—\$ 131
Gross amounts offset	(1 )	—	(1 )	(1 )	—	—	—	—
Net amounts presented in Other Noncurrent Liabilities: Other	\$163	\$ 4	\$ 16	\$ 9	\$ 2	\$ 4	\$	—\$ 131

OBJECTIVE CREDIT CONTINGENT FEATURES

Certain derivative contracts contain objective credit contingent features. These features include the requirement to post cash collateral or letters of credit if specific events occur, such as a credit rating downgrade below investment grade. The following tables show information with respect to derivative contracts that are in a net liability position and contain objective credit-risk-related payment provisions.

(in millions)	March 31, 2018				
	Duke Energy Carolinas		Progress Energy		Duke Energy Florida
Aggregate fair value of derivatives in a net liability position	\$30	\$ 10	\$ 20	\$ 18	\$ 2
Fair value of collateral already posted	—	—	—	—	—
Additional cash collateral or letters of credit in the event credit-risk-related contingent features were triggered	30	10	20	18	2

(in millions)	December 31, 2017				
	Duke Energy Carolinas		Progress Energy		Duke Energy Florida
Aggregate fair value of derivatives in a net liability position	\$59	\$ 35	\$ 25	\$ 15	\$ 10
Fair value of collateral already posted	—	—	—	—	—
Additional cash collateral or letters of credit in the event credit-risk-related contingent features were triggered	59	35	25	15	10

The Duke Energy Registrants have elected to offset cash collateral and fair values of derivatives. For amounts to be netted, the derivative and cash collateral must be executed with the same counterparty under the same master netting arrangement.

9. INVESTMENTS IN DEBT AND EQUITY SECURITIES

Duke Energy's investments in debt and equity securities are primarily comprised of investments held in (i) the nuclear decommissioning trust fund (NDTF) at Duke Energy Carolinas, Duke Energy Progress and Duke Energy Florida, (ii)

grantor trusts at Duke Energy Progress, Duke Energy Florida and Duke Energy Indiana related to Other Post-Retirement Benefit Obligations (OPEB) plans and (iii) Bison. The Duke Energy Registrants classify investments in debt securities as available-for-sale (AFS) and investments in equity securities as fair value through net income (FV-NI).

For investments in debt securities classified as AFS, the unrealized gains and losses are included in other comprehensive income until realized, at which time, they are reported through net income. For investments in equity securities classified as FV-NI, both realized and unrealized gains and losses are reported through net income. Substantially all of Duke Energy's investments in debt and equity securities qualify for regulatory accounting, and accordingly, all associated realized and unrealized gains and losses on these investments are deferred as a regulatory asset or liability.

Duke Energy classifies the majority of investments in debt and equity securities as long term, unless otherwise noted.

## PART I

DUKE ENERGY CORPORATION – DUKE ENERGY CAROLINAS, LLC – PROGRESS ENERGY, INC. – DUKE ENERGY PROGRESS, LLC – DUKE ENERGY FLORIDA, LLC – DUKE ENERGY OHIO, INC. – DUKE ENERGY INDIANA, LLC – PIEDMONT NATURAL GAS COMPANY, INC.

Combined Notes to Condensed Consolidated Financial Statements – (Unaudited) – (Continued)

## Investment Trusts

The investments within the NDTF investments and the Duke Energy Progress, Duke Energy Florida and Duke Energy Indiana grantor trusts (Investment Trusts) are managed by independent investment managers with discretion to buy, sell and invest pursuant to the objectives set forth by the trust agreements. The Duke Energy Registrants have limited oversight of the day-to-day management of these investments. As a result, the ability to hold investments in unrealized loss positions is outside the control of the Duke Energy Registrants. Accordingly, all unrealized losses associated with debt securities within the Investment Trusts are considered OTTI and are recognized immediately and deferred to regulatory accounts where appropriate.

## Other AFS Securities

Unrealized gains and losses on all other AFS securities are included in other comprehensive income until realized, unless it is determined the carrying value of an investment is other-than-temporarily impaired. The Duke Energy Registrants analyze all investment holdings each reporting period to determine whether a decline in fair value should be considered other-than-temporary. If an OTTI exists, the unrealized credit loss is included in earnings. There were no material credit losses as of March 31, 2018, and December 31, 2017.

Other Investments amounts are recorded in Other within Other Noncurrent Assets on the Condensed Consolidated Balance Sheets.

## DUKE ENERGY

The following table presents the estimated fair value of investments in debt and equity securities; equity investments are classified as FV-NI and debt investments are classified as AFS.

	March 31, 2018 <sup>(a)</sup>			December 31, 2017		
	Unrealized Holding Gains	Unrealized Holding Losses	Estimated Fair Value	Unrealized Holding Gains	Unrealized Holding Losses	Estimated Fair Value
(in millions)						
<b>NDTF</b>						
Cash and cash equivalents	\$—	\$ —	\$ 143	\$—	\$ —	\$ 115
Equity securities	2,751	38	4,857	2,805	27	4,914
Corporate debt securities	7	8	549	17	2	570
Municipal bonds	1	5	333	4	3	344
U.S. government bonds	6	18	1,014	11	7	1,027
Other debt securities	—	2	130	—	1	118
<b>Total NDTF Investments</b>	<b>\$2,765</b>	<b>\$ 71</b>	<b>\$ 7,026</b>	<b>\$2,837</b>	<b>\$ 40</b>	<b>\$ 7,088</b>
<b>Other Investments</b>						
Cash and cash equivalents	\$—	\$ —	\$ 15	\$—	\$ —	\$ 15
Equity securities	57	—	130	59	—	123
Corporate debt securities	—	1	64	1	—	57
Municipal bonds	1	1	80	2	1	83
U.S. government bonds	—	1	51	—	—	41
Other debt securities	—	—	48	—	1	44
<b>Total Other Investments</b>	<b>\$58</b>	<b>\$ 3</b>	<b>\$ 388</b>	<b>\$62</b>	<b>\$ 2</b>	<b>\$ 363</b>

Edgar Filing: Duke Energy CORP - Form 10-Q

Total Investments           \$2,823 \$ 74       \$ 7,414   \$2,899 \$ 42       \$ 7,451

Where regulatory accounting is applied, realized and unrealized gains and losses are deferred as regulatory assets (a) or liabilities, and there is no impact to net income or other comprehensive income until the gain or loss is amortized or collected.

The table below summarizes the maturity date for debt securities.

(in millions)                   March 31, 2018

Due in one year or less	\$ 100
Due after one through five years	535
Due after five through 10 years	530
Due after 10 years	1,104
Total	\$ 2,269

PART I

DUKE ENERGY CORPORATION – DUKE ENERGY CAROLINAS, LLC – PROGRESS ENERGY, INC. – DUKE ENERGY PROGRESS, LLC – DUKE ENERGY FLORIDA, LLC – DUKE ENERGY OHIO, INC. – DUKE ENERGY INDIANA, LLC – PIEDMONT NATURAL GAS COMPANY, INC.

Combined Notes to Condensed Consolidated Financial Statements – (Unaudited) – (Continued)

Realized gains and losses, which were determined on a specific identification basis, from sales of FV-NI and AFS securities for the three months ended March 31, 2018 and from sales of AFS securities for the three months ended March 31, 2017 were as follows.

Three Months  
Ended  
March 31, 2018

(in millions)

FV-NI:  
Realized gains \$ 19  
Realized losses 13

AFS:

Realized gains 5  
Realized losses 13

Three  
Months  
Ended  
March 31,  
2017

(in millions)  
Realized gains \$ 93  
Realized losses 62

DUKE ENERGY CAROLINAS

The following table presents the estimated fair value of investments in debt and equity securities; equity investments are classified as FV-NI and debt investments are classified as AFS.

(in millions)	March 31, 2018 <sup>(a)</sup>			December 31, 2017		
	Gross Holding Gains	Gross Holding Losses	Estimated Fair Value	Gross Holding Gains	Gross Holding Losses	Estimated Fair Value
NDTF						
Cash and cash equivalents	\$—	\$ —	\$ 50	\$—	\$ —	\$ 32
Equity securities	1,502	20	2,669	1,531	12	2,692
Corporate debt securities	3	5	333	9	2	359
Municipal bonds	—	1	69	—	1	60
U.S. government bonds	2	11	494	3	4	503
Other debt securities	—	2	122	—	1	112
Total NDTF Investments	\$1,507	\$ 39	\$ 3,737	\$1,543	\$ 20	\$ 3,758

Where regulatory accounting is applied, realized and unrealized gains and losses are deferred as regulatory assets (a) or liabilities, and there is no impact to net income or other comprehensive income until the gain or loss is amortized or collected.

The table below summarizes the maturity date for debt securities.

(in millions) March 31, 2018

Edgar Filing: Duke Energy CORP - Form 10-Q

Due in one year or less	\$ 11
Due after one through five years	178
Due after five through 10 years	285
Due after 10 years	544
Total	\$ 1,018

68

---

## PART I

DUKE ENERGY CORPORATION – DUKE ENERGY CAROLINAS, LLC – PROGRESS ENERGY, INC. – DUKE ENERGY PROGRESS, LLC – DUKE ENERGY FLORIDA, LLC – DUKE ENERGY OHIO, INC. – DUKE ENERGY INDIANA, LLC – PIEDMONT NATURAL GAS COMPANY, INC.

Combined Notes to Condensed Consolidated Financial Statements – (Unaudited) – (Continued)

Realized gains and losses, which were determined on a specific identification basis, from sales of FV-NI and AFS securities for the three months ended March 31, 2018 and from sales of AFS securities for the three months ended March 31, 2017 were as follows.

Three Months  
Ended  
March 31, 2018

(in millions)

FV-NI:  
Realized gains \$ 10  
Realized losses 5

AFS:

Realized gains 5  
Realized losses 10

Three  
Months  
Ended  
March 31,  
2017

(in millions)  
Realized gains \$ 66  
Realized losses 40

## PROGRESS ENERGY

The following table presents the estimated fair value of investments in debt and equity securities; equity investments are classified as FV-NI and debt investments are classified as AFS.

(in millions)	March 31, 2018 <sup>(a)</sup>			December 31, 2017		
	Gross Holding Unrealized Gains	Gross Holding Unrealized Losses	Estimated Fair Value	Gross Holding Unrealized Gains	Gross Holding Unrealized Losses	Estimated Fair Value
<b>NDTF</b>						
Cash and cash equivalents	\$—	\$ —	\$ 93	\$—	\$ —	\$ 83
Equity securities	1,249	18	2,188	1,274	15	2,222
Corporate debt securities	4	3	216	8	—	211
Municipal bonds	1	4	264	4	2	284
U.S. government bonds	4	7	520	8	3	524
Other debt securities	—	—	8	—	—	6
Total NDTF Investments	\$1,258	\$ 32	\$ 3,289	\$1,294	\$ 20	\$ 3,330
<b>Other Investments</b>						
Cash and cash equivalents	\$—	\$ —	\$ 10	\$—	\$ —	\$ 12
Municipal bonds	1	—	47	2	—	47
Total Other Investments	\$1	\$ —	\$ 57	\$2	\$ —	\$ 59
Total Investments	\$1,259	\$ 32	\$ 3,346	\$1,296	\$ 20	\$ 3,389



## Edgar Filing: Duke Energy CORP - Form 10-Q

Where regulatory accounting is applied, realized and unrealized gains and losses are deferred as regulatory assets (a) or liabilities, and there is no impact to net income or other comprehensive income until the gain or loss is amortized or collected.

The table below summarizes the maturity date for debt securities.

(in millions)	March 31, 2018
Due in one year or less	\$ 75
Due after one through five years	300
Due after five through 10 years	198
Due after 10 years	482
Total	\$ 1,055

## PART I

DUKE ENERGY CORPORATION – DUKE ENERGY CAROLINAS, LLC – PROGRESS ENERGY, INC. – DUKE ENERGY PROGRESS, LLC – DUKE ENERGY FLORIDA, LLC – DUKE ENERGY OHIO, INC. – DUKE ENERGY INDIANA, LLC – PIEDMONT NATURAL GAS COMPANY, INC.

Combined Notes to Condensed Consolidated Financial Statements – (Unaudited) – (Continued)

Realized gains and losses, which were determined on a specific identification basis, from sales of FV-NI and AFS securities for the three months ended March 31, 2018 and from sales of AFS securities for the three months ended March 31, 2017 were as follows.

Three Months  
Ended  
March 31, 2018

(in millions)

FV-NI:  
Realized gains \$ 9  
Realized losses 8

AFS:

Realized losses 3

Three  
Months  
Ended  
March 31,  
2017

(in millions) Realized gains \$ 27

Realized losses 21

## DUKE ENERGY PROGRESS

The following table presents the estimated fair value of investments in debt and equity securities; equity investments are classified as FV-NI and debt investments are classified as AFS.

(in millions)	March 31, 2018 <sup>(a)</sup>			December 31, 2017		
	Gross		Estimated	Gross		Estimated
	Unrealized	Realized		Unrealized	Realized	
	Holdings	Holdings	Fair	Holdings	Holdings	Fair
	Gains	Losses	Value	Gains	Losses	Value
<b>NDTF</b>						
Cash and cash equivalents	\$—	\$ —	\$ 59	\$—	\$ —	\$ 50
Equity securities	959	14	1,765	980	12	1,795
Corporate debt securities	3	2	153	6	—	149
Municipal bonds	1	4	263	4	2	283
U.S. government bonds	3	5	326	5	2	310
Other debt securities	—	—	5	—	—	4
Total NDTF Investments	\$966	\$ 25	\$ 2,571	\$995	\$ 16	\$ 2,591
<b>Other Investments</b>						
Cash and cash equivalents	\$—	\$ —	\$ 1	\$—	\$ —	\$ 1
Total Other Investments	\$—	\$ —	\$ 1	\$—	\$ —	\$ 1
Total Investments	\$966	\$ 25	\$ 2,572	\$995	\$ 16	\$ 2,592

(a) Where regulatory accounting is applied, realized and unrealized gains and losses are deferred as regulatory assets or liabilities, and there is no impact to net income or other comprehensive income until the gain or loss is amortized

or collected.

The table below summarizes the maturity date for debt securities.

(in millions)	March 31, 2018
Due in one year or less	\$ 19
Due after one through five years	216
Due after five through 10 years	144
Due after 10 years	368
Total	\$ 747

70

---

## PART I

DUKE ENERGY CORPORATION – DUKE ENERGY CAROLINAS, LLC – PROGRESS ENERGY, INC. – DUKE ENERGY PROGRESS, LLC – DUKE ENERGY FLORIDA, LLC – DUKE ENERGY OHIO, INC. – DUKE ENERGY INDIANA, LLC – PIEDMONT NATURAL GAS COMPANY, INC.

Combined Notes to Condensed Consolidated Financial Statements – (Unaudited) – (Continued)

Realized gains and losses, which were determined on a specific identification basis, from sales of FV-NI and AFS securities for the three months ended March 31, 2018 and from sales of AFS securities for the three months ended March 31, 2017 were as follows.

Three Months  
Ended  
March 31, 2018

(in millions)

FV-NI:  
Realized gains \$ 8  
Realized losses 8

AFS:

Realized losses 2

Three  
Months  
Ended  
March 31,  
2017

(in millions)

Realized gains \$ 24

Realized losses 19

## DUKE ENERGY FLORIDA

The following table presents the estimated fair value of investments in debt and equity securities; equity investments are classified as FV-NI and debt investments are classified as AFS.

(in millions)	March 31, 2018 <sup>(a)</sup>			December 31, 2017		
	Unrealized Holding Gains	Gross Realized Losses	Estimated Fair Value	Unrealized Holding Gains	Gross Realized Losses	Estimated Fair Value
<b>NDTF</b>						
Cash and cash equivalents	\$ —	\$ —	\$ 34	\$ —	\$ —	\$ 33
Equity securities	290	4	423	294	3	427
Corporate debt securities	1	1	63	2	—	62
Municipal bonds	—	—	1	—	—	1
U.S. government bonds	1	2	194	3	1	214
Other debt securities	—	—	3	—	—	2
Total NDTF Investments <sup>(b)</sup>	\$ 292	\$ 7	\$ 718	\$ 299	\$ 4	\$ 739
<b>Other Investments</b>						
Cash and cash equivalents	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 1
Municipal bonds	1	—	47	2	—	47
Total Other Investments	\$ 1	\$ —	\$ 47	\$ 2	\$ —	\$ 48
Total Investments	\$ 293	\$ 7	\$ 765	\$ 301	\$ 4	\$ 787

(a)

Where regulatory accounting is applied, realized and unrealized gains and losses are deferred as regulatory assets or liabilities, and there is no impact to net income or other comprehensive income until the gain or loss is amortized or collected.

(b) During the three months ended March 31, 2018, Duke Energy Florida continued to receive reimbursements from the NDTF for costs related to ongoing decommissioning activity of the Crystal River Unit 3 nuclear plant.

The table below summarizes the maturity date for debt securities.

(in millions)	March 31, 2018
Due in one year or less	\$ 56
Due after one through five years	84
Due after five through 10 years	54
Due after 10 years	114
Total	\$ 308

## PART I

DUKE ENERGY CORPORATION – DUKE ENERGY CAROLINAS, LLC – PROGRESS ENERGY, INC. – DUKE ENERGY PROGRESS, LLC – DUKE ENERGY FLORIDA, LLC – DUKE ENERGY OHIO, INC. – DUKE ENERGY INDIANA, LLC – PIEDMONT NATURAL GAS COMPANY, INC.

Combined Notes to Condensed Consolidated Financial Statements – (Unaudited) – (Continued)

Realized gains and losses, which were determined on a specific identification basis, from sales of FV-NI and AFS securities for the three months ended March 31, 2018 and from sales of AFS securities for the three months ended March 31, 2017 were as follows.

Three Months  
Ended  
March 31, 2018

(in millions)

FV-NI:  
Realized gains \$ 1

AFS:

Realized losses 1

Three  
Months  
Ended  
March 31,  
2017

(in millions) Realized gains \$ 3

Realized losses 2

## DUKE ENERGY INDIANA

The following table presents the estimated fair value of investments in debt and equity securities; equity investments are measured at FV-NI and debt investments are classified as AFS.

(in millions)	March 31, 2018 <sup>(a)</sup>			December 31, 2017		
	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Estimated Fair Value	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Estimated Fair Value
Investments						
Equity securities	\$ 48	\$ —	\$ 96	\$ 49	\$ —	\$ 97
Corporate debt securities	—	—	5	—	—	3
Municipal bonds	—	1	26	—	1	28
Total Investments	\$ 48	\$ 1	\$ 127	\$ 49	\$ 1	\$ 128

Realized and unrealized gains and losses where regulatory accounting is applied are deferred as regulatory assets or (a) liabilities, and there is no impact to net income or other comprehensive income until the gain or loss is amortized or collected.

The table below summarizes the maturity date for debt securities.

(in millions)	March 31, 2018
Due in one year or less	\$ 3
Due after one through five years	15
Due after five through 10 years	6
Due after 10 years	7
Total	\$ 31

Realized gains and losses, which were determined on a specific identification basis, from sales of FV-NI and AFS securities for the three months ended March 31, 2018, and from sales of AFS securities for the three months ended March 31, 2017, were insignificant.

#### 10. FAIR VALUE MEASUREMENTS

Fair value is the exchange price to sell an asset or transfer a liability in an orderly transaction between market participants at the measurement date. The fair value definition focuses on an exit price versus the acquisition cost. Fair value measurements use market data or assumptions market participants would use in pricing the asset or liability, including assumptions about risk and the risks inherent in the inputs to the valuation technique. These inputs may be readily observable, corroborated by market data or generally unobservable. Valuation techniques maximize the use of observable inputs and minimize use of unobservable inputs. A midmarket pricing convention (the midpoint price between bid and ask prices) is permitted for use as a practical expedient.

Fair value measurements are classified in three levels based on the fair value hierarchy:

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity can access at the measurement date. An active market is one in which transactions for an asset or liability occur with sufficient frequency and volume to provide ongoing pricing information.

PART I

DUKE ENERGY CORPORATION – DUKE ENERGY CAROLINAS, LLC – PROGRESS ENERGY, INC. – DUKE ENERGY PROGRESS, LLC – DUKE ENERGY FLORIDA, LLC – DUKE ENERGY OHIO, INC. – DUKE ENERGY INDIANA, LLC – PIEDMONT NATURAL GAS COMPANY, INC.

Combined Notes to Condensed Consolidated Financial Statements – (Unaudited) – (Continued)

Level 2 – A fair value measurement utilizing inputs other than quoted prices included in Level 1 that are observable, either directly or indirectly, for an asset or liability. Inputs include (i) quoted prices for similar assets or liabilities in active markets, (ii) quoted prices for identical or similar assets or liabilities in markets that are not active and (iii) inputs other than quoted market prices that are observable for the asset or liability, such as interest rate curves and yield curves observable at commonly quoted intervals, volatilities and credit spreads. A Level 2 measurement cannot have more than an insignificant portion of its valuation based on unobservable inputs. Instruments in this category include non-exchange-traded derivatives, such as over-the-counter forwards, swaps and options; certain marketable debt securities; and financial instruments traded in less-than-active markets.

Level 3 – Any fair value measurement that includes unobservable inputs for more than an insignificant portion of the valuation. These inputs may be used with internally developed methodologies that result in management's best estimate of fair value. Level 3 measurements may include longer-term instruments that extend into periods in which observable inputs are not available.

Not Categorized – Certain investments are not categorized within the Fair Value hierarchy. These investments are measured at fair value using the net asset value (NAV) per share practical expedient. The NAV is derived based on the investment cost, less any impairment, plus or minus changes resulting from observable price changes for an identical or similar investment of the same issuer.

Fair value accounting guidance permits entities to elect to measure certain financial instruments that are not required to be accounted for at fair value, such as equity method investments or the company's own debt, at fair value. The Duke Energy Registrants have not elected to record any of these items at fair value.

Transfers between levels represent assets or liabilities that were previously (i) categorized at a higher level for which the inputs to the estimate became less observable or (ii) classified at a lower level for which the inputs became more observable during the period. The Duke Energy Registrant's policy is to recognize transfers between levels of the fair value hierarchy at the end of the period. There were no transfers between levels during the three months ended March 31, 2018, and 2017.

Valuation methods of the primary fair value measurements disclosed below are as follows.

Investments in equity securities

The majority of investments in equity securities are valued using Level 1 measurements. Investments in equity securities are typically valued at the closing price in the principal active market as of the last business day of the quarter. Principal active markets for equity prices include published exchanges such as New York Stock Exchange and Nasdaq Stock Market. Foreign equity prices are translated from their trading currency using the currency exchange rate in effect at the close of the principal active market. There was no after-hours market activity that was required to be reflected in the reported fair value measurements.

Investments in debt securities

Most investments in debt securities are valued using Level 2 measurements because the valuations use interest rate curves and credit spreads applied to the terms of the debt instrument (maturity and coupon interest rate) and consider the counterparty credit rating. If the market for a particular fixed-income security is relatively inactive or illiquid, the measurement is Level 3.

Commodity derivatives

Commodity derivatives with clearinghouses are classified as Level 1. Other commodity derivatives, including Piedmont's natural gas supply contracts, are primarily valued using internally developed discounted cash flow models



that incorporate forward price, adjustments for liquidity (bid-ask spread) and credit or non-performance risk (after reflecting credit enhancements such as collateral), and are discounted to present value. Pricing inputs are derived from published exchange transaction prices and other observable data sources. In the absence of an active market, the last available price may be used. If forward price curves are not observable for the full term of the contract and the unobservable period had more than an insignificant impact on the valuation, the commodity derivative is classified as Level 3. In isolation, increases (decreases) in natural gas forward prices result in favorable (unfavorable) fair value adjustments for natural gas purchase contracts; and increases (decreases) in electricity forward prices result in unfavorable (favorable) fair value adjustments for electricity sales contracts. Duke Energy regularly evaluates and validates pricing inputs used to estimate the fair value of natural gas commodity contracts by a market participant price verification procedure. This procedure provides a comparison of internal forward commodity curves to market participant generated curves.

#### Interest rate derivatives

Most over-the-counter interest rate contract derivatives are valued using financial models that utilize observable inputs for similar instruments and are classified as Level 2. Inputs include forward interest rate curves, notional amounts, interest rates and credit quality of the counterparties.

#### Other fair value considerations

See Note 11 in Duke Energy's Annual Report on Form 10-K/A for the year ended December 31, 2017, for a discussion of the valuation of goodwill and intangible assets.

PART I

DUKE ENERGY CORPORATION – DUKE ENERGY CAROLINAS, LLC – PROGRESS ENERGY, INC. – DUKE ENERGY PROGRESS, LLC – DUKE ENERGY FLORIDA, LLC – DUKE ENERGY OHIO, INC. – DUKE ENERGY INDIANA, LLC – PIEDMONT NATURAL GAS COMPANY, INC.

Combined Notes to Condensed Consolidated Financial Statements – (Unaudited) – (Continued)

DUKE ENERGY

The following tables provide recorded balances for assets and liabilities measured at fair value on a recurring basis on the Condensed Consolidated Balance Sheets. Derivative amounts in the tables below for all Duke Energy Registrants exclude cash collateral, which is disclosed in Note 8. See Note 9 for additional information related to investments by major security type for the Duke Energy Registrants.

(in millions)	March 31, 2018				
	Total	Level	Level	Level	Not
	Fair Value	1	2	3	Categorized
NDTF equity securities	\$4,857	\$4,785	\$—	\$—	\$ 72
NDTF debt securities	2,169	633	1,536	—	—
Other equity securities	130	130	—	—	—
Other debt securities	258	66	192	—	—
Derivative assets	37	2	27	8	—
Total assets	7,451	5,616	1,755	8	72
Derivative liabilities	(190)	(1)	(57)	(132)	—
Net assets (liabilities)	\$7,261	\$5,615	\$1,698	\$(124)	\$ 72

(in millions)	December 31, 2017				
	Total	Level	Level	Level	Not
	Fair Value	1	2	3	Categorized
NDTF equity securities	\$4,914	\$4,840	\$—	\$—	\$ 74
NDTF debt securities	2,174	635	1,539	—	—
Other equity securities	123	123	—	—	—
Other debt securities	241	57	184	—	—
Derivative assets	51	3	20	28	—
Total assets	7,503	5,658	1,743	28	74
Derivative liabilities	(230)	(2)	(86)	(142)	—
Net assets (liabilities)	\$7,273	\$5,656	\$1,657	\$(114)	\$ 74

The following table provides reconciliations of beginning and ending balances of assets and liabilities measured at fair value using Level 3 measurements. Amounts included in earnings for derivatives are primarily included in Cost of natural gas on the Duke Energy Registrants' Condensed Consolidated Statements of Operations and Comprehensive Income. Amounts included in changes of net assets on the Duke Energy Registrants' Condensed Consolidated Balance Sheets are included in regulatory assets or liabilities. All derivative assets and liabilities are presented on a net basis.

(in millions)	Three Months Ended March 31, 2018		Three Months Ended March 31, 2017	
	Derivatives Investments (net)	Total	Derivatives Investments (net)	Total
Balance at beginning of period	\$—	\$(114)	\$5	\$(166)
Purchases, sales, issuances and settlements:				

Edgar Filing: Duke Energy CORP - Form 10-Q

Settlements	—	(14	)	(14	)	—	(9	)	(9	)					
Total gains included on the Condensed Consolidated Balance Sheet	—	4		4		—	40		40						
Balance at end of period	\$	—	\$	(124	)	\$	(124	)	\$	5	\$	(135	)	\$	(130)

74

---

## PART I

DUKE ENERGY CORPORATION – DUKE ENERGY CAROLINAS, LLC – PROGRESS ENERGY, INC. – DUKE ENERGY PROGRESS, LLC – DUKE ENERGY FLORIDA, LLC – DUKE ENERGY OHIO, INC. – DUKE ENERGY INDIANA, LLC – PIEDMONT NATURAL GAS COMPANY, INC.

Combined Notes to Condensed Consolidated Financial Statements – (Unaudited) – (Continued)

## DUKE ENERGY CAROLINAS

The following tables provide recorded balances for assets and liabilities measured at fair value on a recurring basis on the Condensed Consolidated Balance Sheets.

March 31, 2018				
(in millions)	Total Fair Value	Level 1	Level 2	Not Categorized
NDTF equity securities	\$2,669	\$2,597	\$—	\$ 72
NDTF debt securities	1,068	209	859	—
Derivative assets	2	—	2	—
Total assets	3,739	2,806	861	72
Derivative liabilities	(11 )	(1 )	(10 )	—
Net assets	\$3,728	\$2,805	\$851	\$ 72

December 31, 2017				
(in millions)	Total Fair Value	Level 1	Level 2	Not Categorized
NDTF equity securities	\$2,692	\$2,618	\$—	\$ 74
NDTF debt securities	1,066	204	862	—
Derivative assets	2	—	2	—
Total assets	3,760	2,822	864	74
Derivative liabilities	(35 )	(1 )	(34 )	—
Net assets	\$3,725	\$2,821	\$830	\$ 74

## PROGRESS ENERGY

The following tables provide recorded balances for assets and liabilities measured at fair value on a recurring basis on the Condensed Consolidated Balance Sheets.

March 31, 2018			
(in millions)	Total Fair Value	Level 1	Level 2
NDTF equity securities	\$2,188	\$2,188	\$—
NDTF debt securities	1,101	424	677
Other debt securities	57	10	47
Derivative assets	3	—	3
Total assets	3,349	2,622	727
Derivative liabilities	(37 )	(1 )	(36 )
Net assets	\$3,312	\$2,621	\$691

December 31, 2017			
(in millions)	Total Fair	Level 1	Level 2

	Value		
NDTF equity securities	\$2,222	\$2,222	\$—
NDTF debt securities	1,108	431	677
Other debt securities	59	12	47
Derivative assets	3	1	2
Total assets	3,392	2,666	726
Derivative liabilities	(36 )	(1 )	(35 )
Net assets	\$3,356	\$2,665	\$691

75

---

## PART I

DUKE ENERGY CORPORATION – DUKE ENERGY CAROLINAS, LLC – PROGRESS ENERGY, INC. – DUKE ENERGY PROGRESS, LLC – DUKE ENERGY FLORIDA, LLC – DUKE ENERGY OHIO, INC. – DUKE ENERGY INDIANA, LLC – PIEDMONT NATURAL GAS COMPANY, INC.

Combined Notes to Condensed Consolidated Financial Statements – (Unaudited) – (Continued)

## DUKE ENERGY PROGRESS

The following tables provide recorded balances for assets and liabilities measured at fair value on a recurring basis on the Condensed Consolidated Balance Sheets.

(in millions)	March 31, 2018		
	Total	Level	Level
	Fair Value	1	2
NDTF equity securities	\$1,765	\$1,765	\$—
NDTF debt securities	806	254	552
Other debt securities	1	1	—
Derivative assets	2	—	2
Total assets	2,574	2,020	554
Derivative liabilities	(21 )	(1 )	(20 )
Net assets	\$2,553	\$2,019	\$534

(in millions)	December 31, 2017		
	Total	Level	Level
	Fair Value	1	2
NDTF equity securities	\$1,795	\$1,795	\$—
NDTF debt securities	796	243	553
Other debt securities	1	1	—
Derivative assets	2	1	1
Total assets	2,594	2,040	554
Derivative liabilities	(18 )	(1 )	(17 )
Net assets	\$2,576	\$2,039	\$537

## DUKE ENERGY FLORIDA

The following tables provide recorded balances for assets and liabilities measured at fair value on a recurring basis on the Condensed Consolidated Balance Sheets.

(in millions)	March 31, 2018		
	Total	Level	Level
	Fair Value	1	2
NDTF equity securities	\$423	\$423	\$—
NDTF debt securities	295	170	125
Other debt securities	47	—	47
Derivative assets	1	—	1
Total assets	766	593	173
Derivative liabilities	(7 )	—	(7 )
Net assets	\$759	\$593	\$166

(in millions)	December 31, 2017		
	Total Fair Value	Level 1	Level 2
NDTF equity securities	\$427	\$427	\$—
NDTF debt securities	312	188	124
Other debt securities	48	1	47
Derivative assets	1	—	1
Total assets	788	616	172
Derivative liabilities	(12 )	—	(12 )
Net assets	\$776	\$616	\$160

76

---

PART I

DUKE ENERGY CORPORATION – DUKE ENERGY CAROLINAS, LLC – PROGRESS ENERGY, INC. – DUKE ENERGY PROGRESS, LLC – DUKE ENERGY FLORIDA, LLC – DUKE ENERGY OHIO, INC. – DUKE ENERGY INDIANA, LLC – PIEDMONT NATURAL GAS COMPANY, INC.

Combined Notes to Condensed Consolidated Financial Statements – (Unaudited) – (Continued)

DUKE ENERGY OHIO

The following table provides recorded balances for assets and liabilities measured at fair value on a recurring basis on the Condensed Consolidated Balance Sheets.

(in millions)	March 31, 2018			December 31, 2017		
	Total	Level	Level	Total	Level	Level
	Fair Value	2	3	Fair Value	2	3
Derivative assets	\$ 1	\$ —	\$ 1	\$ 1	\$ —	\$ 1
Derivative liabilities	(4 )	(4 )	—	(5 )	(5 )	—
Net (liabilities) assets	\$ (3 )	\$ (4 )	\$ 1	\$ (4 )	\$ (5 )	\$ 1

The following table provides a reconciliation of beginning and ending balances of assets and liabilities measured at fair value using Level 3 measurements.

(in millions)	Derivatives (net) Three Months Ended	
	March 31, 2018	2017
Balance at beginning of period	\$ 1	\$ 5
Purchases, sales, issuances and settlements:		
Settlements	—	(1 )
Total losses included on the Condensed Consolidated Balance Sheet	—	(3 )
Balance at end of period	\$ 1	\$ 1

DUKE ENERGY INDIANA

The following tables provide recorded balances for assets and liabilities measured at fair value on a recurring basis on the Condensed Consolidated Balance Sheets.

(in millions)	March 31, 2018			
	Total	Level	Level	Level
	Fair Value	1	2	3
Other equity securities	\$96	\$ 96	\$ —	\$ —
Other debt securities	31	—	31	—
Derivative assets	7	—	—	7
Total assets	134	96	31	7
Derivative liabilities	—	—	—	—
Net assets	\$134	\$ 96	\$ 31	\$ 7

  

(in millions)	December 31, 2017			
	Total	Level	Level	Level
	Fair Value	1	2	3



	Value			
Other equity securities	\$97	\$ 97	\$ —	\$ —
Other debt securities	31	—	31	—
Derivative assets	27	—	—	27
Total assets	155	97	31	27
Derivative liabilities	—	—	—	—
Net assets	\$155	\$ 97	\$ 31	\$ 27

77

---

## PART I

DUKE ENERGY CORPORATION – DUKE ENERGY CAROLINAS, LLC – PROGRESS ENERGY, INC. – DUKE ENERGY PROGRESS, LLC – DUKE ENERGY FLORIDA, LLC – DUKE ENERGY OHIO, INC. – DUKE ENERGY INDIANA, LLC – PIEDMONT NATURAL GAS COMPANY, INC.

Combined Notes to Condensed Consolidated Financial Statements – (Unaudited) – (Continued)

The following table provides a reconciliation of beginning and ending balances of assets and liabilities measured at fair value using Level 3 measurements.

(in millions)	Derivatives (net)	
	Three Months Ended March 31,	
	2018	2017
Balance at beginning of period	\$ 27	\$ 16
Purchases, sales, issuances and settlements:		
Settlements	(14 )	(7 )
Total (losses) gains included on the Condensed Consolidated Balance Sheet	(6 )	—
Balance at end of period	\$ 7	\$ 9

## PIEDMONT

The following tables provide recorded balances for assets and liabilities measured at fair value on a recurring basis on the Condensed Consolidated Balance Sheets.

(in millions)	March 31, 2018		
	Total Fair Value	Level 1	Level 3
Derivative assets	\$ 1	\$ 1	\$—
Derivative liabilities	(132 )	—	(132 )
Net (liabilities) assets	\$(131)	\$ 1	\$(132)

(in millions)	December 31, 2017		
	Total Fair Value	Level 1	Level 3
Other debt securities	\$ 1	\$ 1	\$—
Derivative assets	2	2	—
Total assets	3	3	—
Derivative liabilities	(142 )	—	(142 )
Net (liabilities) assets	\$(139)	\$ 3	\$(142)

The following table provides a reconciliation of beginning and ending balances of assets and liabilities measured at fair value using Level 3 measurements.

(in millions)	Derivatives (net)	
	Three Months Ended March 31,	
	2018	2017
Balance at beginning of period	\$(142 )	\$(187 )
Total gains and settlements	10	42
Balance at end of period	\$(132 )	\$(145 )



PART I

DUKE ENERGY CORPORATION – DUKE ENERGY CAROLINAS, LLC – PROGRESS ENERGY, INC. – DUKE ENERGY PROGRESS, LLC – DUKE ENERGY FLORIDA, LLC – DUKE ENERGY OHIO, INC. – DUKE ENERGY INDIANA, LLC – PIEDMONT NATURAL GAS COMPANY, INC.

Combined Notes to Condensed Consolidated Financial Statements – (Unaudited) – (Continued)

QUANTITATIVE INFORMATION ABOUT UNOBSERVABLE INPUTS

The following tables include quantitative information about the Duke Energy Registrants' derivatives classified as Level 3.

Investment Type	March 31, 2018		Unobservable Input	Range
	Fair Value (in millions)	Valuation Technique		
Duke Energy Ohio Financial Transmission Rights (FTRs)	\$1	RTO auction pricing	FTR price – per megawatt-hour (MWh)	\$—\$2.88
Duke Energy Indiana FTRs	7	RTO auction pricing	FTR price – per MWh	(5)0.58
Piedmont Natural gas contracts	(132)	Discounted cash flow	Forward natural gas curves – price per million British thermal unit (MMBtu)	2.153.65
Duke Energy Total Level 3 derivatives	\$(124)			

Investment Type	December 31, 2017		Unobservable Input	Range
	Fair Value (in millions)	Valuation Technique		
Duke Energy Ohio FTRs	\$1	RTO auction pricing	FTR price – per MWh	\$0.07 - \$1.41
Duke Energy Indiana FTRs	27	RTO auction pricing	FTR price – per MWh	(0.77 )-7.44
Piedmont Natural gas contracts	(142)	Discounted cash flow	Forward natural gas curves – price per MMBtu	2.10 -2.88
Duke Energy Total Level 3 derivatives	\$(114)			

OTHER FAIR VALUE DISCLOSURES

The fair value and book value of long-term debt, including current maturities, is summarized in the following table. Estimates determined are not necessarily indicative of amounts that could have been settled in current markets. Fair value of long-term debt uses Level 2 measurements.

(in millions)	March 31, 2018		December 31, 2017	
	Book Value	Fair Value	Book Value	Fair Value
	Duke Energy	\$52,981	\$54,383	\$52,279

Edgar Filing: Duke Energy CORP - Form 10-Q

Duke Energy Carolinas	10,694	11,556	10,103	11,372
Progress Energy	17,757	19,270	17,837	20,000
Duke Energy Progress	7,357	7,687	7,357	7,992
Duke Energy Florida	7,015	7,632	7,095	7,953
Duke Energy Ohio	2,067	2,217	2,067	2,249
Duke Energy Indiana	3,782	4,322	3,783	4,464
Piedmont	2,037	2,209	2,037	2,209

At both March 31, 2018, and December 31, 2017, fair value of cash and cash equivalents, accounts and notes receivable, accounts payable, notes payable and commercial paper, and nonrecourse notes payable of VIEs are not materially different from their carrying amounts because of the short-term nature of these instruments and/or because the stated rates approximate market rates.

#### 11. VARIABLE INTEREST ENTITIES

A VIE is an entity that is evaluated for consolidation using more than a simple analysis of voting control. The analysis to determine whether an entity is a VIE considers contracts with an entity, credit support for an entity, the adequacy of the equity investment of an entity and the relationship of voting power to the amount of equity invested in an entity. This analysis is performed either upon the creation of a legal entity or upon the occurrence of an event requiring re-evaluation, such as a significant change in an entity's assets or activities. A qualitative analysis of control determines the party that consolidates a VIE. This assessment is based on (i) what party has the power to direct the activities of the VIE that most significantly impact its economic performance and (ii) what party has rights to receive benefits or is obligated to absorb losses that could potentially be significant to the VIE. The analysis of the party that consolidates a VIE is a continual reassessment.

PART I

DUKE ENERGY CORPORATION – DUKE ENERGY CAROLINAS, LLC – PROGRESS ENERGY, INC. – DUKE ENERGY PROGRESS, LLC – DUKE ENERGY FLORIDA, LLC – DUKE ENERGY OHIO, INC. – DUKE ENERGY INDIANA, LLC – PIEDMONT NATURAL GAS COMPANY, INC.

Combined Notes to Condensed Consolidated Financial Statements – (Unaudited) – (Continued)

CONSOLIDATED VIEs

The obligations of the consolidated VIEs discussed in the following paragraphs are nonrecourse to the Duke Energy registrants. The registrants have no requirement to provide liquidity to, purchase assets of or guarantee performance of these VIEs unless noted in the following paragraphs.

No financial support was provided to any of the consolidated VIEs during the three months ended March 31, 2018, and the year ended December 31, 2017, or is expected to be provided in the future, that was not previously contractually required.

Receivables Financing – DERF / DEPR / DEFR

Duke Energy Receivables Finance Company, LLC (DERF), Duke Energy Progress Receivables, LLC (DEPR) and Duke Energy Florida Receivables, LLC (DEFR) are bankruptcy remote, special purpose subsidiaries of Duke Energy Carolinas, Duke Energy Progress and Duke Energy Florida, respectively. DERF, DEPR and DEFR are wholly owned limited liability companies with separate legal existence from their parent companies, and their assets are not generally available to creditors of their parent companies. On a revolving basis, DERF, DEPR and DEFR buy certain accounts receivable arising from the sale of electricity and related services from their parent companies.

DERF, DEPR and DEFR borrow amounts under credit facilities to buy these receivables. Borrowing availability from the credit facilities is limited to the amount of qualified receivables purchased. The sole source of funds to satisfy the related debt obligations is cash collections from the receivables. Amounts borrowed under the credit facilities are reflected on the Condensed Consolidated Balance Sheets as Long-Term Debt.

The most significant activity that impacts the economic performance of DERF, DEPR and DEFR are the decisions made to manage delinquent receivables. Duke Energy Carolinas, Duke Energy Progress and Duke Energy Florida consolidate DERF, DEPR and DEFR, respectively, as they make those decisions.

Receivables Financing – CRC

CRC is a bankruptcy remote, special purpose entity indirectly owned by Duke Energy. On a revolving basis, CRC buys certain accounts receivable arising from the sale of electricity, natural gas and related services from Duke Energy Ohio and Duke Energy Indiana. CRC borrows amounts under a credit facility to buy the receivables from Duke Energy Ohio and Duke Energy Indiana. Borrowing availability from the credit facility is limited to the amount of qualified receivables sold to CRC. The sole source of funds to satisfy the related debt obligation is cash collections from the receivables. Amounts borrowed under the credit facility are reflected on Duke Energy's Condensed Consolidated Balance Sheets as Long-Term Debt.

The proceeds Duke Energy Ohio and Duke Energy Indiana receive from the sale of receivables to CRC are typically 75 percent cash and 25 percent in the form of a subordinated note from CRC. The subordinated note is a retained interest in the receivables sold. Depending on collection experience, additional equity infusions to CRC may be required by Duke Energy to maintain a minimum equity balance of \$3 million.

CRC is considered a VIE because (i) equity capitalization is insufficient to support its operations, (ii) power to direct the activities that most significantly impact the economic performance of the entity are not performed by the equity holder and (iii) deficiencies in net worth of CRC are funded by Duke Energy. The most significant activities that impact the economic performance of CRC are decisions made to manage delinquent receivables. Duke Energy consolidates CRC as it makes these decisions. Neither Duke Energy Ohio nor Duke Energy Indiana consolidate CRC.

Receivables Financing – Credit Facilities

Edgar Filing: Duke Energy CORP - Form 10-Q

The following table summarizes the amounts and expiration dates of the credit facilities and associated restricted receivables described above.

(in millions)	Duke Energy			
	CRC	DERF	DEPR	DEFR
Expiration date	December 2020	December 2020	February 2021	April 2019 <sup>(a)</sup>
Credit facility amount	\$325	\$ 450	\$ 300	\$ 225
Amounts borrowed at March 31, 2018	325	450	300	225
Amounts borrowed at December 31, 2017	325	450	300	225
Restricted Receivables at March 31, 2018	504	634	497	313
Restricted Receivables at December 31, 2017	545	640	459	317

(a) In April 2018, the credit facility was extended through April 2021.

Nuclear Asset-Recovery Bonds – DEFPPF

Duke Energy Florida Project Finance, LLC (DEFPPF) is a bankruptcy remote, wholly owned special purpose subsidiary of Duke Energy Florida. DEFPPF was formed in 2016 for the sole purpose of issuing nuclear asset-recovery bonds to finance Duke Energy Florida's unrecovered regulatory asset related to Crystal River Unit 3.

## PART I

DUKE ENERGY CORPORATION – DUKE ENERGY CAROLINAS, LLC – PROGRESS ENERGY, INC. – DUKE ENERGY PROGRESS, LLC – DUKE ENERGY FLORIDA, LLC – DUKE ENERGY OHIO, INC. – DUKE ENERGY INDIANA, LLC – PIEDMONT NATURAL GAS COMPANY, INC.

Combined Notes to Condensed Consolidated Financial Statements – (Unaudited) – (Continued)

In June 2016, DEFPP issued senior secured bonds and used the proceeds to acquire nuclear asset-recovery property from Duke Energy Florida. The nuclear asset-recovery property acquired includes the right to impose, bill, collect and adjust a non-bypassable nuclear asset-recovery charge from all Duke Energy Florida retail customers until the bonds are paid in full and all financing costs have been recovered. The nuclear asset-recovery bonds are secured by the nuclear asset-recovery property, and cash collections from the nuclear asset-recovery charges are the sole source of funds to satisfy the debt obligation. The bondholders have no recourse to Duke Energy Florida.

DEFPP is considered a VIE primarily because the equity capitalization is insufficient to support its operations. Duke Energy Florida has the power to direct the significant activities of the VIE as described above, and therefore Duke Energy Florida is considered the primary beneficiary and consolidates DEFPP.

The following table summarizes the impact of DEFPP on Duke Energy Florida's Condensed Consolidated Balance Sheets.

(in millions)	March 31, 2018	December 31, 2017
Receivables of VIEs	\$ 4	\$ 4
Regulatory Assets: Current	51	51
Current Assets: Other	13	40
Other Noncurrent Assets: Regulatory assets	1,082	1,091
Current Liabilities: Other	3	10
Current maturities of long-term debt	53	53
Long-Term Debt	1,136	1,164

## Commercial Renewables

Certain of Duke Energy's renewable energy facilities are VIEs due to Duke Energy issuing guarantees for debt service and operations and maintenance reserves in support of debt financings. Assets are restricted and cannot be pledged as collateral or sold to third parties without prior approval of debt holders. The activities that most significantly impact the economic performance of these renewable energy facilities were decisions associated with siting, negotiating PPAs, engineering, procurement and construction and decisions associated with ongoing operations and maintenance-related activities. Duke Energy consolidates the entities as it is responsible for all of these decisions. The table below presents material balances reported on Duke Energy's Condensed Consolidated Balance Sheets related to renewables VIEs.

(in millions)	March 31, 2018	December 31, 2017
Current Assets: Other	\$ 217	\$ 174
Property, plant and equipment, cost	4,017	3,923
Other Noncurrent Assets: Other	227	50
Accumulated depreciation and amortization	(626)	(591)
Current maturities of long-term debt	171	170
Long-Term Debt	1,700	1,700
Other Noncurrent Liabilities: Deferred income taxes	—	(148)
Other Noncurrent Liabilities: Other	236	241

## NON-CONSOLIDATED VIEs

The following tables summarize the impact of non-consolidated VIEs on the Condensed Consolidated Balance Sheets.

March 31, 2018



Edgar Filing: Duke Energy CORP - Form 10-Q

(in millions)	Duke Energy Pipeline Investments	Commercial Renewables	Other VIEs	Total	Duke Energy Ohio	Duke Energy Indiana
Receivables from affiliated companies	\$—	\$ —	\$ —	\$—	\$ 65	\$ 86
Investments in equity method unconsolidated affiliates	723	183	45	951	—	—
Other noncurrent assets	17	—	—	17	—	—
Total assets	\$740	\$ 183	\$ 45	\$968	\$ 65	\$ 86
Taxes accrued	(29 )	—	—	(29 )	—	—
Other current liabilities	—	—	3	3	—	—
Deferred income taxes	32	—	—	32	—	—
Other noncurrent liabilities	8	—	12	20	—	—
Total liabilities	\$11	\$ —	\$ 15	\$26	\$ —	\$ —
Net assets	\$729	\$ 183	\$ 30	\$942	\$ 65	\$ 86

PART I

DUKE ENERGY CORPORATION – DUKE ENERGY CAROLINAS, LLC – PROGRESS ENERGY, INC. – DUKE ENERGY PROGRESS, LLC – DUKE ENERGY FLORIDA, LLC – DUKE ENERGY OHIO, INC. – DUKE ENERGY INDIANA, LLC – PIEDMONT NATURAL GAS COMPANY, INC.

Combined Notes to Condensed Consolidated Financial Statements – (Unaudited) – (Continued)

(in millions)	December 31, 2017				Duke Energy Ohio	Duke Energy Indiana
	Duke Energy Pipeline Investments	Commercial Renewables	Other VIEs	Total		
Receivables from affiliated companies	\$—	\$—	\$—	\$—	\$ 87	\$ 106
Investments in equity method unconsolidated affiliates	697	180	42	919	—	—
Other noncurrent assets	17	—	—	17	—	—
Total assets	\$714	\$ 180	\$ 42	\$936	\$ 87	\$ 106
Taxes accrued	(29 )	—	—	(29 )	—	—
Other current liabilities	—	—	4	4	—	—
Deferred income taxes	42	—	—	42	—	—
Other noncurrent liabilities	—	—	12	12	—	—
Total liabilities	\$13	\$—	\$ 16	\$29	\$—	\$—
Net assets	\$701	\$ 180	\$ 26	\$907	\$ 87	\$ 106

The Duke Energy Registrants are not aware of any situations where the maximum exposure to loss significantly exceeds the carrying values shown above except for the power purchase agreement with OVEC, which is discussed below, and various guarantees, some of which are reflected in the table above as Other noncurrent liabilities. For more information on various guarantees, refer to Note 4.

Pipeline Investments

Duke Energy has investments in various joint ventures with pipeline projects currently under construction. These entities are considered VIEs due to having insufficient equity to finance their own activities without subordinated financial support. Duke Energy does not have the power to direct the activities that most significantly impact the economic performance, the obligation to absorb losses or the right to receive benefits of these VIEs and therefore does not consolidate these entities.

The table below presents Duke Energy's ownership interest and investment balances in these joint ventures.

Entity Name	Ownership Interest	VIE Investment Amount (in millions)	
		March 31, 2018	December 31, 2017
ACP	47 %	\$474	\$ 397
Sabal Trail	7.5 %	223	219
Constitution <sup>(a)</sup>	24 %	26	81
Total		\$723	\$ 697

During the three months ended March 31, 2018, Duke Energy recorded an OTTI of \$55 million related to (a) Constitution within Equity in (losses) earnings of unconsolidated affiliates on Duke Energy's Condensed Consolidated Statements of Income. See Note 3 for additional information.

In 2017, ACP executed a \$3.4 billion revolving credit facility with a stated maturity date of October 2021. Duke Energy entered into a guarantee agreement to support its share of the ACP revolving credit facility. Duke Energy's

maximum exposure to loss under the terms of the guarantee is limited to 47 percent of the outstanding borrowings under the credit facility, which was \$346 million as of March 31, 2018.

On April 30, 2018, Sabal Trail closed on a \$1.5 billion offering of senior notes. The notes were issued in three tranches due in 2028, 2038 and 2048. Duke Energy received \$112 million of net proceeds as a result of the offering. As a result of the financing, Sabal Trail has sufficient equity to finance its own activities without additional subordinated financial support from other parties and will no longer be considered a VIE.

#### Commercial Renewables

Duke Energy has investments in various renewable energy project entities. Some of these entities are VIEs due to Duke Energy issuing guarantees for debt service and operations and maintenance reserves in support of debt financings. Duke Energy does not consolidate these VIEs because power to direct and control key activities is shared jointly by Duke Energy and other owners.

#### Other VIEs

Duke Energy holds a 50 percent equity interest in Pioneer Transmission, LLC (Pioneer). Pioneer is considered a VIE due to having insufficient equity to finance its own activities without subordinated financial support. The activities that most significantly impact Pioneer's economic performance are decisions related to the development of new transmission facilities. The power to direct these activities is jointly and equally shared by Duke Energy and the other joint venture partner, American Electric Power; therefore, Duke Energy does not consolidate Pioneer.

PART I

DUKE ENERGY CORPORATION – DUKE ENERGY CAROLINAS, LLC – PROGRESS ENERGY, INC. – DUKE ENERGY PROGRESS, LLC – DUKE ENERGY FLORIDA, LLC – DUKE ENERGY OHIO, INC. – DUKE ENERGY INDIANA, LLC – PIEDMONT NATURAL GAS COMPANY, INC.

Combined Notes to Condensed Consolidated Financial Statements – (Unaudited) – (Continued)

OVEC

Duke Energy Ohio’s 9 percent ownership interest in OVEC is considered a non-consolidated VIE due to OVEC having insufficient equity to finance its activities without subordinated financial support. As a counterparty to an inter-company power agreement (ICPA), Duke Energy Ohio has a contractual arrangement to receive entitlements to capacity and energy from OVEC’s power plants through June 2040 commensurate with its power participation ratio, which is equivalent to Duke Energy Ohio’s ownership interest. Costs, including fuel, operating expenses, fixed costs, debt amortization and interest expense, are allocated to counterparties to the ICPA based on their power participation ratio. The value of the ICPA is subject to variability due to fluctuation in power prices and changes in OVEC’s cost of business. Deterioration in the credit quality or bankruptcy of one or more parties to the ICPA could increase the costs of OVEC. On March 31, 2018, FirstEnergy Solutions (FES), a subsidiary of FirstEnergy and counterparty to the ICPA, filed for Chapter 11 bankruptcy. FES has a power participation ratio of 4.85 percent. Duke Energy Ohio cannot predict the impact of the bankruptcy on its OVEC interests. In addition, certain proposed environmental rulemaking could result in future increased cost allocations.

CRC

See discussion under Consolidated VIEs for additional information related to CRC.

Amounts included in Receivables from affiliated companies in the above table for Duke Energy Ohio and Duke Energy Indiana reflect their retained interest in receivables sold to CRC. These subordinated notes held by Duke Energy Ohio and Duke Energy Indiana are stated at fair value. Carrying values of retained interests are determined by allocating carrying value of the receivables between assets sold and interests retained based on relative fair value. The allocated bases of the subordinated notes are not materially different than their face value because (i) the receivables generally turn over in less than two months, (ii) credit losses are reasonably predictable due to the broad customer base and lack of significant concentration and (iii) the equity in CRC is subordinate to all retained interests and thus would absorb losses first. The hypothetical effect on fair value of the retained interests assuming both a 10 percent and a 20 percent unfavorable variation in credit losses or discount rates is not material due to the short turnover of receivables and historically low credit loss history. Interest accrues to Duke Energy Ohio and Duke Energy Indiana on the retained interests using the acceptable yield method. This method generally approximates the stated rate on the notes since the allocated basis and the face value are nearly equivalent. An impairment charge is recorded against the carrying value of both retained interests and purchased beneficial interest whenever it is determined that an OTTI has occurred.

Key assumptions used in estimating fair value are detailed in the following table.

	Duke Energy Ohio		Duke Energy Indiana	
	2018	2017	2018	2017
Anticipated credit loss ratio	0.5 %	0.5 %	0.3 %	0.3 %
Discount rate	2.6 %	2.1 %	2.6 %	2.1 %
Receivable turnover rate	13.6 %	13.5 %	10.8 %	10.7 %

The following table shows the gross and net receivables sold.

	Duke Energy Ohio		Duke Energy Indiana	
(in millions)	March 31, 2018	December 31, 2017	March 31, 2018	December 31, 2017
Receivables sold	\$ 249	\$ 273	\$ 297	\$ 312

Edgar Filing: Duke Energy CORP - Form 10-Q

Less: Retained interests	65	87	86	106
Net receivables sold	\$ 184	\$ 186	\$ 211	\$ 206

The following table shows sales and cash flows related to receivables sold.

	Duke Energy Ohio Three Months Ended March 31, 2018		Duke Energy Indiana Three Months Ended March 31, 2017	
(in millions)				
Sales				
Receivables sold	\$567	\$533	\$694	\$664
Loss recognized on sale	3	2	3	3
Cash flows				
Cash proceeds from receivables sold	\$585	\$559	\$711	\$693
Return received on retained interests	2	1	2	2

Cash flows from sales of receivables are reflected within Operating Activities on Duke Energy Ohio's and Duke Energy Indiana's Condensed Consolidated Statements of Cash Flows.

PART I

DUKE ENERGY CORPORATION – DUKE ENERGY CAROLINAS, LLC – PROGRESS ENERGY, INC. – DUKE ENERGY PROGRESS, LLC – DUKE ENERGY FLORIDA, LLC – DUKE ENERGY OHIO, INC. – DUKE ENERGY INDIANA, LLC – PIEDMONT NATURAL GAS COMPANY, INC.

Combined Notes to Condensed Consolidated Financial Statements – (Unaudited) – (Continued)

Collection fees received in connection with servicing transferred accounts receivable are included in Operation, maintenance and other on Duke Energy Ohio's and Duke Energy Indiana's Condensed Consolidated Statements of Operations and Comprehensive Income. The loss recognized on sales of receivables is calculated monthly by multiplying receivables sold during the month by the required discount. The required discount is derived monthly utilizing a three-year weighted average formula that considers charge-off history, late charge history and turnover history on the sold receivables, as well as a component for the time value of money. The discount rate, or component for the time value of money, is the prior month-end LIBOR plus a fixed rate of 1.00 percent.

12. REVENUE

As described in Note 1, Duke Energy adopted Revenue from Contracts with Customers effective January 1, 2018, using the modified retrospective method of adoption which does not require restatement of prior year reported results. No cumulative effect adjustment was recorded as the vast majority of Duke Energy's revenues are at-will and without a defined contractual term. Additionally, comparative disclosures for 2018 operating results with the previous revenue recognition rules are not applicable as Duke Energy's revenue recognition has not materially changed as a result of the new standard.

Duke Energy recognizes revenue consistent with amounts billed under tariff offerings or at contractually agreed upon rates based on actual physical delivery of electric or natural gas service, including estimated volumes delivered when billings have not yet occurred. As such, the majority of Duke Energy's revenues have fixed pricing based on the contractual terms of the published tariffs, with variability in expected cash flows attributable to the customer's volumetric demand and ultimate quantities of energy or natural gas supplied and used during the billing period. The stand-alone selling price of related sales are designed to support recovery of prudently incurred costs and an appropriate return on invested assets and are primarily governed by published tariff rates or contractual agreements approved by relevant regulatory bodies. As described in Note 1, certain excise taxes and franchise fees levied by state or local governments are required to be paid even if not collected from the customer. These taxes are recognized on a gross basis as part of revenues. Duke Energy elects to account for all other taxes net of revenues.

Performance obligations are satisfied over time as energy or natural gas is delivered and consumed with billings generally occurring monthly and related payments due within 30 days, depending on regulatory requirements. In no event does the timing between payment and delivery of the goods and services exceed one year. Using this output method for revenue recognition provides a faithful depiction of the transfer of electric and natural gas service as customers obtain control of the commodity and benefit from its use at delivery. Additionally, Duke Energy has an enforceable right to consideration for energy or natural gas delivered at any discrete point in time, and will recognize revenue at an amount that reflects the consideration to which Duke Energy is entitled for the energy or natural gas delivered.

As described above, the majority of Duke Energy's tariff revenues are at-will and, as such, related contracts with customers have an expected duration of one year or less and will not have future performance obligations for disclosure. Additionally, other long-term revenue streams, including wholesale contracts, generally provide services that are part of a single performance obligation, the delivery of electricity or natural gas. As such, other than material fixed consideration under long-term contract, related disclosures for future performance obligations are also not applicable.

Duke Energy earns substantially all of its revenues through its reportable segments, Electric Utilities and Infrastructure, Gas Utilities and Infrastructure and Commercial Renewables.

#### Electric Utilities and Infrastructure

Electric Utilities and Infrastructure earns the majority of its revenues through retail and wholesale electric service through the generation, transmission, distribution and sale of electricity. Duke Energy generally provides retail and wholesale electric service customers with their full electric load requirements or with supplemental load requirements when the customer has other sources of electricity.

Retail electric service is generally marketed throughout Duke Energy's electric service territory through standard service offers. The standard service offers are through tariffs determined by regulators in Duke Energy's regulated service territory. Each tariff, which is assigned to customers based on customer class, has multiple components such as an energy charge, a demand charge, a basic facilities charge, and applicable riders. Duke Energy considers each of these components to be aggregated into a single performance obligation for providing electric service, or in the case of distribution only customers in Duke Energy Ohio, for delivering electricity. Electricity is considered a single performance obligation satisfied over time consistent with the series guidance and is provided and consumed over the billing period (generally one month). Retail electric service is typically provided to at-will customers that can cancel service at any time, without a substantive penalty. Additionally, Duke Energy adheres to applicable regulatory requirements in each jurisdiction to ensure the collectability of amounts billed and appropriate mitigating procedures are followed when necessary. As such, revenue from contracts with customers for such contracts is equivalent to the electricity supplied and billed in that period (including estimated billings).

Wholesale electric service is generally provided under long-term contracts using cost-based pricing. FERC regulates costs that may be recovered from customers and the amount of return companies are permitted to earn. Wholesale contracts include both energy and demand charges. For full requirements contracts, Duke Energy considers both charges as a single performance obligation for providing integrated electric service. For contracts where energy and demand charges are considered separate performance obligations, energy and demand are each a distinct performance obligation under the series guidance and are satisfied as energy is delivered and stand-ready service is provided on a monthly basis. This service represents consumption over the billing period and revenue is recognized consistent with billings and unbilled estimates, which generally occur monthly. Contractual amounts owed are typically trued up annually based upon incurred costs in accordance with FERC published filings and the specific customer's actual peak demand. Estimates of variable consideration related to potential additional billings or refunds owed are updated quarterly.

## PART I

DUKE ENERGY CORPORATION – DUKE ENERGY CAROLINAS, LLC – PROGRESS ENERGY, INC. – DUKE ENERGY PROGRESS, LLC – DUKE ENERGY FLORIDA, LLC – DUKE ENERGY OHIO, INC. – DUKE ENERGY INDIANA, LLC – PIEDMONT NATURAL GAS COMPANY, INC.

Combined Notes to Condensed Consolidated Financial Statements – (Unaudited) – (Continued)

The majority of wholesale revenues are full requirements contracts where the customers purchase the substantial majority of their energy needs and do not have a fixed quantity of contractually required energy or capacity. As such, related forecasted revenues are considered optional purchases. Supplemental requirements contracts that include contracted blocks of energy and capacity at contractually fixed prices have the following estimated remaining performance obligations:

(in millions)	Remaining Performance Obligations						
	2018	2019	2020	2021	2022	Thereafter	Total
Progress Energy	\$69	\$112	\$121	\$80	\$82	\$81	\$545
Duke Energy Progress	7	9	9	9	9	18	61
Duke Energy Florida	62	103	112	71	73	63	484
Duke Energy Indiana	6	9	10	5	—	—	30

Revenues for block sales are recognized monthly as energy is delivered and stand-ready service is provided, consistent with invoiced amounts and unbilled estimates.

#### Gas Utilities and Infrastructure

Gas Utilities and Infrastructure earns its revenue through retail and wholesale natural gas service through the transportation, distribution and sale of natural gas. Duke Energy generally provides retail and wholesale natural gas service customers with all natural gas load requirements. Additionally, while natural gas can be stored, substantially all natural gas provided by Duke Energy is consumed by customers simultaneously with receipt of delivery. Retail natural gas service is marketed throughout Duke Energy's natural gas service territory using published tariff rates. The tariff rates are established by regulators in Duke Energy's service territories. Each tariff, which is assigned to customers based on customer class, have multiple components, such as a commodity charge, demand charge, customer or monthly charge, and transportation costs. Duke Energy considers each of these components to be aggregated into a single performance obligation for providing natural gas service. For contracts where Duke Energy provides all of the customer's natural gas needs, the delivery of natural gas is considered a single performance obligation satisfied over time, and revenue is recognized monthly based on billings and unbilled estimates as service is provided and the commodity is consumed over the billing period. Additionally, natural gas service is typically at-will and customers can cancel service at any time, without a substantive penalty. Duke Energy also adheres to applicable regulatory requirements to ensure the collectability of amounts billed and receivable and appropriate mitigating procedures are followed when necessary.

Certain long-term individually negotiated contracts exist to provide natural gas service. These contracts are regulated and approved by state commissions. The negotiated contracts have multiple components, including a natural gas and a demand charge, similar to retail natural gas contracts. Duke Energy considers each of these components to be a single performance obligation for providing natural gas service. This service represents consumption over the billing period, generally one month.

Fixed capacity payments under long-term contracts for the Gas segment include minimum margin contracts and supply arrangements with municipalities and power generation facilities. Revenues for related sales are recognized monthly as natural gas is delivered and stand-ready service is provided, consistent with invoiced amounts and unbilled estimates. Estimated remaining performance obligations are as follows:

(in millions)	Remaining Performance Obligations						
	2018	2019	2020	2021	2022	Thereafter	Total



Piedmont \$55 \$72 \$70 \$65 \$64 \$482 \$808

#### Commercial Renewables

Commercial Renewables earns the majority of its revenues through long-term PPAs and generally sells all of its wind and solar facility output, electricity and Renewable Energy Credits (RECs) to customers. The majority of these PPAs have historically been accounted for as leases. For PPAs that are not accounted for as leases, the delivery of electricity and the delivery of RECs are considered separate performance obligations.

The delivery of electricity is a performance obligation satisfied over time and represents generation and consumption of the electricity over the billing period, generally one month. The delivery of RECs is a performance obligation satisfied at a point in time and represents delivery of each REC generated by the wind or solar facility. The majority of self-generated RECs are bundled with energy in Duke Energy's contracts and, as such, related revenues are recognized as energy is generated and delivered as that pattern is consistent with Duke Energy's performance. Commercial Renewables recognizes revenue based on the energy generated and billed for the period, generally one month, at contractual rates (including estimated billings) according to the invoice practical expedient. Amounts are typically due within 30 days of invoice.

#### Other

The remainder of Duke Energy's operations is presented as Other, which does not include material revenues from contracts with customers.

## PART I

DUKE ENERGY CORPORATION – DUKE ENERGY CAROLINAS, LLC – PROGRESS ENERGY, INC. – DUKE ENERGY PROGRESS, LLC – DUKE ENERGY FLORIDA, LLC – DUKE ENERGY OHIO, INC. – DUKE ENERGY INDIANA, LLC – PIEDMONT NATURAL GAS COMPANY, INC.

Combined Notes to Condensed Consolidated Financial Statements – (Unaudited) – (Continued)

## Disaggregated Revenues

For the Electric and Gas segments, revenue by customer class is most meaningful to Duke Energy as each respective customer class collectively represents unique customer expectations of service, generally has different energy and demand requirements, and operates under tailored, regulatory approved pricing structures. Additionally, each customer class is impacted differently by weather and a variety of economic factors including the level of population growth, economic investment, employment levels, and regulatory activities in each of Duke Energy's jurisdictions. As such, analyzing revenues disaggregated by customer class allows Duke Energy to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. For the Commercial Renewables segment, the majority of revenues from contracts with customers are from selling all of the unit-contingent output at contractually defined pricing under long-term PPAs with consistent expectations regarding the timing and certainty of cash flows. Disaggregated revenues are presented as follows:

(in millions)	Three Months Ended March 31, 2018							
	Duke Energy	Duke Carolinas	Progress Energy	Duke Energy Progress	Duke Energy Florida	Duke Energy Ohio	Duke Energy Indiana	Piedmont
By market or type of customer								
Electric Utilities and Infrastructure								
Residential	\$2,350	\$ 781	\$ 1,112	\$ 516	\$ 595	\$ 180	\$ 278	\$ —
General	1,375	472	631	299	333	96	178	—
Industrial	664	255	208	145	62	30	173	—
Wholesale	633	119	446	397	50	—	68	—
Other revenues	139	67	129	85	43	14	17	—
Total Electric Utilities and Infrastructure revenue from contracts with customers	\$5,161	\$ 1,694	\$ 2,526	\$ 1,442	\$ 1,083	\$ 320	\$ 714	\$ —
Gas Utilities and Infrastructure								
Residential	\$413	\$ —	\$ —	\$ —	\$ —	\$ 111	\$ —	\$ 302
Commercial	201	—	—	—	—	49	—	152
Industrial	48	—	—	—	—	7	—	41
Power Generation	—	—	—	—	—	—	—	13
Other revenues	55	—	—	—	—	6	—	49
Total Gas Utilities and Infrastructure revenue from contracts with customers	\$717	\$ —	\$ —	\$ —	\$ —	\$ 173	\$ —	\$ 557
Commercial Renewables								
Revenue from contracts with customers	\$33	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Other								
Revenue from contracts with customers	\$17	\$ —	\$ —	\$ —	\$ —	\$ 14	\$ —	\$ —

Edgar Filing: Duke Energy CORP - Form 10-Q

Total revenue from contracts with customers	\$5,928	\$1,694	\$2,526	\$1,442	\$1,083	\$507	\$714	\$557
Other revenue sources <sup>(a)</sup>	\$207	\$69	\$50	\$18	\$32	\$17	\$17	\$(4)
Total revenues	\$6,135	\$1,763	\$2,576	\$1,460	\$1,115	\$524	\$731	\$553

(a) Other revenue sources include revenues from leases, derivatives and alternative revenue programs that are not considered revenues from contracts with customers. Piedmont has regulatory mechanisms that periodically provide rate adjustments to refund any over-collection or to recover any under-collection of margin.

**IMPACT OF WEATHER AND THE TIMING OF BILLING PERIODS**

Revenues and costs are influenced by seasonal weather patterns. Peak sales of electricity occur during the summer and winter months, which results in higher revenue and cash flows during these periods. By contrast, lower sales of electricity occur during the spring and fall, allowing for scheduled plant maintenance. Residential and general service customers are more impacted by weather than industrial customers. Estimated weather impacts are based on actual current period weather compared to normal weather conditions. Normal weather conditions are defined as the long-term average of actual historical weather conditions. Heating-degree days measure the variation in weather based on the extent the average daily temperature falls below a base temperature. Cooling-degree days measure the variation in weather based on the extent the average daily temperature rises above the base temperature. Each degree of temperature below the base temperature counts as one heating-degree day and each degree of temperature above the base temperature counts as one cooling-degree day.

## PART I

DUKE ENERGY CORPORATION – DUKE ENERGY CAROLINAS, LLC – PROGRESS ENERGY, INC. – DUKE ENERGY PROGRESS, LLC – DUKE ENERGY FLORIDA, LLC – DUKE ENERGY OHIO, INC. – DUKE ENERGY INDIANA, LLC – PIEDMONT NATURAL GAS COMPANY, INC.

Combined Notes to Condensed Consolidated Financial Statements – (Unaudited) – (Continued)

The estimated impact of weather on earnings for Electric Utilities and Infrastructure is based on the temperature variances from a normal condition and customers' historic usage patterns. The methodology used to estimate the impact of weather does not consider all variables that may impact customer response to weather conditions, such as humidity in the summer or wind chill in the winter. The precision of this estimate may also be impacted by applying long-term weather trends to shorter-term periods.

Gas Utilities and Infrastructure's costs and revenues are influenced by seasonal patterns due to peak natural gas sales occurring during the winter months as a result of space heating requirements. Residential customers are the most impacted by weather. There are certain regulatory mechanisms for the North Carolina, South Carolina, Tennessee, and Ohio service territories that normalize the margins collected from certain customer classes during the winter. In North Carolina, rate design provides protection from both weather and other usage variations such as conservation, while South Carolina and Tennessee revenues are adjusted solely based on weather. Ohio primarily employs a fixed charge each month regardless of the season and usage.

## UNBILLED REVENUE

Unbilled revenues are recognized by applying customer billing rates to the estimated volumes of energy or natural gas delivered but not yet billed. Unbilled revenues can vary significantly from period to period as a result of seasonality, weather, customer usage patterns, customer mix, average price in effect for customer classes, timing of rendering customer bills and meter reading schedules, and the impact of weather normalization or margin decoupling mechanisms.

Unbilled revenues are included within Receivables and Receivables of variable interest entities (VIEs) on the Condensed Consolidated Balance Sheets as shown in the following table.

(in millions)	March 31, 2018	December 31, 2017
Duke Energy	\$ 823	\$ 944
Duke Energy Carolinas	310	342
Progress Energy	237	228
Duke Energy Progress	167	143
Duke Energy Florida	70	85
Duke Energy Ohio	2	4
Duke Energy Indiana	24	21
Piedmont	45	86

Additionally, Duke Energy Ohio and Duke Energy Indiana sell, on a revolving basis, nearly all of their retail accounts receivable, including receivables for unbilled revenues, to an affiliate, CRC and accounts for the transfers of receivables as sales. Accordingly, the receivables sold are not reflected on the Condensed Consolidated Balance Sheets of Duke Energy Ohio and Duke Energy Indiana. See Note 11 for further information. These receivables for unbilled revenues are shown in the table below.

(in millions)	March 31, 2018	December 31, 2017
Duke Energy Ohio	\$ 67	\$ 104
Duke Energy Indiana	108	132

## 13. COMMON STOCK

Basic Earnings Per Share (EPS) is computed by dividing net income attributable to Duke Energy common stockholders, as adjusted for distributed and undistributed earnings allocated to participating securities, by the weighted average number of common shares outstanding during the period. Diluted EPS is computed by dividing net income attributable to Duke Energy common stockholders, as adjusted for distributed and undistributed earnings allocated to participating securities, by the diluted weighted average number of common shares outstanding during the period. Diluted EPS reflects the potential dilution that could occur if securities or other agreements to issue common stock, such as stock options and equity forward sale agreements, were exercised or settled. Duke Energy's participating securities are restricted stock units that are entitled to dividends declared on Duke Energy common stock during the restricted stock unit's vesting periods.

## PART I

DUKE ENERGY CORPORATION – DUKE ENERGY CAROLINAS, LLC – PROGRESS ENERGY, INC. – DUKE ENERGY PROGRESS, LLC – DUKE ENERGY FLORIDA, LLC – DUKE ENERGY OHIO, INC. – DUKE ENERGY INDIANA, LLC – PIEDMONT NATURAL GAS COMPANY, INC.

Combined Notes to Condensed Consolidated Financial Statements – (Unaudited) – (Continued)

The following table presents Duke Energy's basic and diluted EPS calculations and reconciles the weighted average number of common shares outstanding to the diluted weighted average number of common shares outstanding.

	Three Months Ended	
	March 31, 2018	2017
(in millions, except per-share amounts)		
Income from continuing operations attributable to Duke Energy common stockholders excluding impact of participating securities	\$619	\$715
Weighted average shares outstanding – basic	701	700
Weighted average shares outstanding – diluted	701	700
Earnings per share from continuing operations attributable to Duke Energy common stockholders		
Basic	\$0.88	\$1.02
Diluted	\$0.88	\$1.02
Potentially dilutive items excluded from the calculation <sup>(a)</sup>	2	2
Dividends declared per common share	\$0.89	\$0.855

<sup>(a)</sup> Performance stock awards were not included in the dilutive securities calculation because the performance measures related to the awards had not been met.

## Equity Forwards

On February 20, 2018, Duke Energy filed a prospectus supplement and executed an Equity Distribution Agreement (the EDA) under which it may sell up to \$1 billion of its common stock through an at-the-market offering program, including an equity forward sales component. The EDA was entered into with Wells Fargo Securities, LLC, Citigroup Global Markets Inc., and J.P. Morgan Securities LLC (the Agents). Under the terms of the EDA, Duke Energy may issue and sell, through either of the Agents, shares of common stock through September 23, 2019. There were no transactions under the EDA during the three months ended March 31, 2018.

Separately, in March 2018, Duke Energy marketed an equity offering of 21.3 million shares of common stock through an Underwriting Agreement with Credit Suisse Securities (USA) LLC, J.P. Morgan Securities LLC, Barclays Capital Inc. and Goldman Sachs & Co. LLC, as representatives of several underwriters, Credit Suisse Capital LLC and J.P. Morgan Securities LLC as Forward Sellers, and Credit Suisse Capital LLC and JPMorgan Chase National Bank Associate, acting as forward purchasers. In connection with the offering, Duke Energy entered into equity forward sale agreements with Credit Suisse Securities (USA) LLC as Agent for Credit Suisse Capital LLC and J.P. Morgan Chase Bank, National Association. No amounts have or will be recorded in Duke Energy's Condensed Consolidated Financial Statements with respect to the equity offering until settlements of the Equity Forwards occur, which is expected by December 31, 2018. The Equity Forwards require Duke Energy to either physically settle the transactions by issuing 21.3 million shares in exchange for net proceeds at the then-applicable forward sale price specified by the agreements (initially \$74.07 per share), or net settle in whole or in part through the delivery or receipt of cash or shares. If Duke Energy had elected to net share settle the contract as of March 31, 2018, Duke Energy would have been required to deliver 0.9 million shares. The initial forward sale price will be subject to adjustment on a daily basis based on a floating interest rate factor and will decrease by other fixed amounts specified in the relevant forward sale agreement. Until settlement of the Equity Forwards, earnings per share dilution resulting from the agreements, if any, will be determined under the treasury stock method. Share dilution occurs when the average market price of Duke

Energy's stock is higher than the average forward sales price.

#### 14. STOCK-BASED COMPENSATION

For employee awards, equity classified stock-based compensation cost is measured at the service inception date or the grant date, based on the estimated achievement of certain performance metrics or the fair value of the award, and is recognized as expense or capitalized as a component of property, plant and equipment over the requisite service period.

Pretax stock-based compensation costs, the tax benefit associated with stock-based compensation expense and stock-based compensation costs capitalized are included in the following table.

(in millions)	Three Months Ended March 31, 2018 2017	
Restricted stock unit awards	\$ 10	\$ 8
Performance awards	7	7
Pretax stock-based compensation cost	\$ 17	\$ 15
Tax benefit associated with stock-based compensation expense	\$ 4	\$ 5
Stock-based compensation costs capitalized	1	1

PART I

DUKE ENERGY CORPORATION – DUKE ENERGY CAROLINAS, LLC – PROGRESS ENERGY, INC. – DUKE ENERGY PROGRESS, LLC – DUKE ENERGY FLORIDA, LLC – DUKE ENERGY OHIO, INC. – DUKE ENERGY INDIANA, LLC – PIEDMONT NATURAL GAS COMPANY, INC.

Combined Notes to Condensed Consolidated Financial Statements – (Unaudited) – (Continued)

15. EMPLOYEE BENEFIT PLANS

DEFINED BENEFIT RETIREMENT PLANS

Duke Energy maintains, and the Subsidiary Registrants participate in, qualified and non-qualified, non-contributory defined benefit retirement plans. Duke Energy's policy is to fund amounts on an actuarial basis to provide assets sufficient to meet benefit payments to be paid to plan participants. The following table includes information related to the Duke Energy Registrants' contributions to its qualified defined benefit pension plans.

(in millions)	Duke Energy	Duke Energy Carolinas	Progress Energy	Duke Energy Progress	Duke Energy Florida	Duke Energy Ohio	Duke Energy Indiana	Duke Energy Piedmont
Total anticipated 2018 contributions	\$ 148	\$ 46	\$ 45	\$ 25	\$ 20	\$ —	\$ 8	\$ 7
Contributions made during the three months ended March 31, 2018	141	46	45	25	20	—	8	—
Remaining estimated 2018 contributions	\$ 7	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 7

Duke Energy did not make any contributions to its qualified defined benefit pension plans during the three months ended March 31, 2017.

Duke Energy uses a December 31 measurement date for its defined benefit retirement plan assets and obligations.

Components of Net Periodic Benefit Costs

The tables below present total net periodic benefit costs prior to capitalization of amounts reflected as Net property, plant and equipment on the Condensed Consolidated Balance Sheets. Only the service cost component of net periodic benefit costs is eligible to be capitalized. The remaining non-capitalized portions of net periodic benefit costs are classified as either: (1) service cost, which is recorded in Operations, maintenance and other on the Condensed Consolidated Statements of Operations; or as (2) components of non-service cost, which is recorded in Other income and expenses, net on the Condensed Consolidated Statements of Operations. See Note 1 for further information on impacts of the retirement benefits accounting standard adopted by Duke Energy on January 1, 2018.

Pension and other post-retirement benefit costs presented in the tables below for the Subsidiary Registrants are amounts allocated from Duke Energy for the employees of the respective Subsidiary Registrants. The Condensed Consolidated Statements of Operations of the Subsidiary Registrants also include allocated net periodic benefit costs for their proportionate share of pension and post-retirement benefit costs related to employees of the Duke Energy shared services affiliate. However, in the tables below these amounts are only presented in the Duke Energy column. For additional information on the corporate governance and shared service expenses allocated from the Duke Energy shared service affiliate, see Note 7.

QUALIFIED PENSION PLANS

The following tables include the components of net periodic pension costs for qualified pension plans.

(in millions)	Three Months Ended March 31, 2018							
	Duke Energy	Duke Energy Carolinas	Progress Energy	Duke Energy Progress	Duke Energy Florida	Duke Energy Ohio	Duke Energy Indiana	Duke Energy Piedmont
Service cost	\$45	\$ 15	\$ 13	\$ 7	\$ 5	\$ 1	\$ 2	\$ 2
Interest cost on projected benefit obligation	75	18	24	11	13	5	6	3
Expected return on plan assets	(140)	(37)	(45)	(21)	(23)	(7)	(10)	(6)



Edgar Filing: Duke Energy CORP - Form 10-Q

Amortization of actuarial loss	33	7	11	5	6	1	2	3
Amortization of prior service credit	(8 )	(2 )	(1 )	—	—	—	—	(3 )
Net periodic pension costs	\$5	\$ 1	\$ 2	\$ 2	\$ 1	\$ —	\$ —	\$ (1 )

Three Months Ended March 31, 2017

	Duke Energy Carolinas		Duke Energy Progress		Duke Energy Florida	Duke Energy Ohio	Duke Energy Indiana	Duke Energy Piedmont
(in millions)								
Service cost	\$40	\$ 12	\$ 12	\$ 6	\$ 5	\$ 1	\$ 2	\$ 3
Interest cost on projected benefit obligation	82	20	25	12	13	5	7	3
Expected return on plan assets	(136)	(35 )	(43 )	(21 )	(21 )	(7 )	(11 )	(6 )
Amortization of actuarial loss	36	8	14	6	7	1	3	3
Amortization of prior service credit	(6 )	(2 )	(1 )	—	—	—	—	(1 )
Other	2	—	1	—	—	—	—	—
Net periodic pension costs	\$18	\$ 3	\$ 8	\$ 3	\$ 4	\$ —	\$ 1	\$ 2

PART I

DUKE ENERGY CORPORATION – DUKE ENERGY CAROLINAS, LLC – PROGRESS ENERGY, INC. – DUKE ENERGY PROGRESS, LLC – DUKE ENERGY FLORIDA, LLC – DUKE ENERGY OHIO, INC. – DUKE ENERGY INDIANA, LLC – PIEDMONT NATURAL GAS COMPANY, INC.

Combined Notes to Condensed Consolidated Financial Statements – (Unaudited) – (Continued)

NON-QUALIFIED PENSION PLANS

Net periodic pension costs for non-qualified pension plans were not material for the three months ended March 31, 2018 and 2017.

OTHER POST-RETIREMENT BENEFIT PLANS

Duke Energy provides, and the Subsidiary Registrants participate in, some health care and life insurance benefits for retired employees on a contributory and non-contributory basis.

The following tables include the components of net periodic other post-retirement benefit costs.

(in millions)	Three Months Ended March 31, 2018							
	Duke Energy	Duke Energy Carolinas	Progress Energy	Duke Energy Progress	Duke Energy Florida	Duke Energy Ohio	Duke Energy Indiana	Duke Energy Piedmont
Service cost	\$1	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Interest cost on accumulated post-retirement benefit obligation	7	2	4	1	1	—	1	—
Expected return on plan assets	(2)	(2)	—	—	—	—	—	—
Amortization of actuarial loss	1	—	—	—	—	—	1	—
Amortization of prior service credit	(5)	(1)	(2)	—	(1)	—	—	—
Net periodic other post-retirement benefit costs	\$2	\$ (1)	\$ 2	\$ 1	\$ —	\$ —	\$ 2	\$ —

(in millions)	Three Months Ended March 31, 2017							
	Duke Energy	Duke Energy Carolinas	Progress Energy	Duke Energy Progress	Duke Energy Florida	Duke Energy Ohio	Duke Energy Indiana	Duke Energy Piedmont
Service cost	\$1	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Interest cost on accumulated post-retirement benefit obligation	9	2	4	2	2	—	—	—
Expected return on plan assets	(3)	(2)	—	—	—	—	—	—
Amortization of actuarial loss (gain)	2	(1)	5	3	2	—	—	—
Amortization of prior service credit	(29)	(2)	(21)	(14)	(8)	—	—	—
Net periodic other post-retirement benefit costs	\$(20)	\$ (3)	\$(12)	\$(9)	\$(4)	\$ —	\$ —	\$ —

EMPLOYEE SAVINGS PLAN

Duke Energy sponsors, and the Subsidiary Registrants participate in, an employee savings plan that covers substantially all employees. The following table includes employer contributions made by Duke Energy and expensed by the Subsidiary Registrants.

(in millions)	Duke Energy	Duke Energy Carolinas	Progress Energy	Duke Energy Progress	Duke Energy Florida	Duke Energy Ohio	Duke Energy Indiana	Duke Energy Piedmont
Three Months Ended March 31, 2018	\$ 70	\$ 23	\$ 19	\$ 13	\$ 6	\$ 1	\$ 3	\$ 4
2017	65	22	18	13	5	1	3	2



## PART I

DUKE ENERGY CORPORATION – DUKE ENERGY CAROLINAS, LLC – PROGRESS ENERGY, INC. – DUKE ENERGY PROGRESS, LLC – DUKE ENERGY FLORIDA, LLC – DUKE ENERGY OHIO, INC. – DUKE ENERGY INDIANA, LLC – PIEDMONT NATURAL GAS COMPANY, INC.

Combined Notes to Condensed Consolidated Financial Statements – (Unaudited) – (Continued)

## 16. INCOME TAXES

## Tax Act

On December 22, 2017, President Trump signed the Tax Act into law. Among other provisions, the Tax Act lowered the corporate federal income tax rate from 35 percent to 21 percent, limits interest deductions outside of regulated utility operations, requires the normalization of excess deferred taxes associated with property under the average rate assumption method as a prerequisite to qualifying for accelerated depreciation and repealed the federal manufacturing deduction. The Tax Act also repealed the corporate alternative minimum tax (AMT) and stipulates a refund of 50 percent of remaining AMT credit carryforwards (to the extent the credits exceed regular tax for the year) for tax years 2018, 2019 and 2020 with all remaining AMT credits to be refunded in tax year 2021.

At this time, AMT credits that are treated as refundable under the Tax Act are among the certain refundable tax credits that are subject to sequestration. During the three months ended March 31, 2018, the company has revised the December 31, 2017, estimate of the income tax effects of the Tax Act by recording a \$76 million valuation allowance against these AMT credits based on additional interpretative guidance from the Internal Revenue Service related to the Tax Act. See Note 22 to the Consolidated Financial Statements in the Annual Report on Form 10-K/A for the year ended December 31, 2017, for information on the U.S. Securities and Exchange Commission staff's guidance on accounting for the Tax Act (Staff Accounting Bulletin No. 118, Income Tax Accounting Implications of the Tax Cuts and Jobs Act).

## EFFECTIVE TAX RATES

The effective tax rates from continuing operations for each of the Duke Energy Registrants are included in the following table.

	Three Months Ended March 31, 2018    2017	
Duke Energy	22.5 %	32.4 %
Duke Energy Carolinas	22.0 %	35.4 %
Progress Energy	13.2 %	34.1 %
Duke Energy Progress	14.1 %	34.1 %
Duke Energy Florida	16.3 %	36.6 %
Duke Energy Ohio	32.4 %	35.4 %
Duke Energy Indiana	25.9 %	39.3 %
Piedmont	24.1 %	37.9 %

The decrease in the effective tax rate (ETR) for Duke Energy and the Subsidiary Registrants for the three months ended March 31, 2018, is primarily due to the lower statutory federal corporate tax rate under the Tax Act partially offset by a valuation allowance against AMT credits discussed above.

The decrease in the ETR for Duke Energy Carolinas for the three months ended March 31, 2018, is primarily due to the lower statutory federal corporate tax rate under the Tax Act.

The decrease in the ETR for Progress Energy for the three months ended March 31, 2018, is primarily due to the lower statutory federal corporate tax rate under the Tax Act and the amortization of federal and state excess deferred taxes.

The decrease in the ETR for Duke Energy Progress for the three months ended March 31, 2018, is primarily due to the lower statutory federal corporate tax rate under the Tax Act and the amortization of state excess deferred taxes.

The decrease in the ETR for Duke Energy Florida for the three months ended March 31, 2018, is primarily due to the lower statutory federal corporate tax rate under the Tax Act and the amortization of federal excess deferred taxes.

The decrease in the ETR for Duke Energy Ohio for the three months ended March 31, 2018, is primarily due to the lower statutory federal corporate tax rate under the Tax Act partially offset by tax levelization related to federal excess deferred taxes on a pretax loss for the three months ended March 31, 2018.

The decrease in the ETR for Duke Energy Indiana for the three months ended March 31, 2018, is primarily due to the lower statutory federal corporate tax rate under the Tax Act.

The decrease in the ETR for Piedmont for the three months ended March 31, 2018, is primarily due to the lower statutory federal corporate tax rate under the Tax Act.

#### 17. SUBSEQUENT EVENTS

For information on subsequent events related to regulatory matters, commitments and contingencies, debt and credit facilities and variable interest entities see Notes 3, 4, 5 and 11, respectively.

PART I

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following combined Management's Discussion and Analysis of Financial Condition and Results of Operations is separately filed by Duke Energy Corporation (collectively with its subsidiaries, Duke Energy) and Duke Energy Carolinas, LLC (Duke Energy Carolinas), Progress Energy, Inc. (Progress Energy), Duke Energy Progress, LLC (Duke Energy Progress), Duke Energy Florida, LLC (Duke Energy Florida), Duke Energy Ohio, Inc. (Duke Energy Ohio), Duke Energy Indiana, LLC (Duke Energy Indiana) and Piedmont Natural Gas Company, Inc. (Piedmont) (collectively referred to as the Subsidiary Registrants). However, none of the registrants make any representation as to information related solely to Duke Energy or the Subsidiary Registrants of Duke Energy other than itself.

DUKE ENERGY

Duke Energy is an energy company headquartered in Charlotte, North Carolina. Duke Energy operates in the United States (U.S.) primarily through its wholly owned subsidiaries, Duke Energy Carolinas, Duke Energy Progress, Duke Energy Florida, Duke Energy Ohio, Duke Energy Indiana and Piedmont. When discussing Duke Energy's consolidated financial information, it necessarily includes the results of the Subsidiary Registrants, which, along with Duke Energy, are collectively referred to as the Duke Energy Registrants.

Management's Discussion and Analysis should be read in conjunction with the Condensed Consolidated Financial Statements and Notes for the three months ended March 31, 2018 and 2017 and with Duke Energy's Annual Report on Form 10-K/A for the year ended December 31, 2017.

Executive Overview

Regulatory Activity

In 2018, Duke Energy advanced regulatory activity underway in multiple jurisdictions, achieving several key milestones.

Duke Energy Progress received an order on its rate case from the North Carolina Utilities Commission on February 23, 2018. Some of the major components of the order are: a return on equity of 9.9 percent; recovery of past coal ash remediation costs; recovery of deferred storm costs from 2016; and new rates in effect mid-March 2018.

Duke Energy Kentucky received an order on its rate case from the Kentucky Public Service Commission on April 13, 2018. The order granted an annual revenue increase of \$21 million, incorporating customer benefits from the Tax Cuts and Jobs Act (Tax Act) as well as rider recovery of environmental costs, including coal ash. Duke Energy Kentucky implemented new base rates on May 1, 2018.

Duke Energy Ohio along with the Public Utilities Commission of Ohio (PUCO) Staff and others filed a Stipulation and Recommendation (Stipulation) with PUCO on April 13, 2018. The Stipulation, subject to approval by PUCO, is in connection with Duke Energy Ohio's rate case and other regulatory matters.

Hearings commenced and were concluded in first quarter for Duke Energy Carolinas base rate case with the North Carolina Utilities Commission. The rate request was driven by capital investments in new, highly efficient natural gas combined-cycle plants and other plant upgrades, coal ash basin closure activities, grid improvement projects, and Lee Nuclear Station project costs. An order is expected by mid-year 2018.

See Note 3 to the Condensed Consolidated Financial Statements, "Regulatory Matters" for additional information.

Results of Operations

Non-GAAP Measures

Management's Discussion and Analysis includes financial information prepared in accordance with generally accepted accounting principles (GAAP) in the U.S., as well as certain non-GAAP financial measures. Generally, a non-GAAP financial measure is a numerical measure of financial performance, financial position or cash flows that excludes (or includes) amounts that are included in (or excluded from) the most directly comparable measure calculated and presented in accordance with GAAP. Non-GAAP financial measures should be viewed as a supplement to, and not a substitute for, financial measures presented in accordance with GAAP. Non-GAAP measures presented may not be comparable to similarly titled measures used by other companies because other companies may not calculate the measures in the same manner.

Management evaluates financial performance in part based on non-GAAP financial measures, including adjusted earnings and adjusted diluted earnings per share (EPS). Adjusted earnings and adjusted diluted EPS represent income from continuing operations attributable to Duke Energy, adjusted for the dollar and per-share impact of special items. As discussed below, special items represent certain charges and credits, which management believes are not indicative of Duke Energy's ongoing performance.

Management believes the presentation of adjusted earnings and adjusted diluted EPS provides useful information to investors, as it provides them with an additional relevant comparison of Duke Energy's performance across periods. Management uses these non-GAAP financial measures for planning and forecasting and for reporting financial results to the Duke Energy Board of Directors, employees, stockholders, analysts and investors. Adjusted diluted EPS is also used as a basis for employee incentive bonuses. The most directly comparable GAAP measures for adjusted earnings and adjusted diluted EPS are Net Income Attributable to Duke Energy Corporation (GAAP Reported Earnings) and Diluted EPS Attributable to Duke Energy Corporation common stockholders (GAAP Reported EPS), respectively. Special items included in the periods presented include the following items, which management believes do not reflect ongoing costs:

• Costs to Achieve Piedmont Merger represent charges that result from the Piedmont acquisition.

• Regulatory Settlements represent costs related to rate case orders, settlements or other actions of regulators.

## PART I

• Sale of Retired Plant represents the loss associated with selling Beckjord, a nonregulated generating facility in Ohio.  
 • Impairment of Equity Method Investment represents an other-than-temporary impairment (OTTI) of an investment in Constitution Pipeline Company, LLC.

• Impacts of the Tax Act represents an alternative minimum tax (AMT) valuation allowance recognized related to the Tax Act.

## Reconciliation of GAAP Reported Amounts to Adjusted Amounts

The following table reconciles non-GAAP measures, including adjusted diluted EPS, to their most directly comparable GAAP measures.

(in millions, except per-share amounts)	Three Months Ended			
	March 31, 2018		March 31, 2017	
	Earnings	EPS	Earnings	EPS
GAAP Reported Earnings/GAAP Reported EPS	\$620	\$0.88	\$716	\$1.02
Adjustments:				
Costs to Achieve Piedmont Merger <sup>(a)</sup>	13	0.02	10	0.02
Regulatory Settlements <sup>(b)</sup>	66	0.09	—	—
Sale of Retired Plant <sup>(c)</sup>	82	0.12	—	—
Impairment of Equity Method Investment <sup>(d)</sup>	42	0.06	—	—
Impacts of the Tax Act (AMT valuation allowance)	76	0.11	—	—
Adjusted Earnings/Adjusted Diluted EPS	\$899	\$1.28	\$726	\$1.04

(a) Net of \$4 million tax benefit in 2018 and \$6 million tax benefit in 2017.

(b) Net of \$20 million tax benefit.

(c) Net of \$25 million tax benefit.

(d) Net of \$13 million tax benefit.

Three Months Ended March 31, 2018, as compared to March 31, 2017

GAAP Reported EPS was \$0.88 for the first quarter of 2018 compared to \$1.02 for the first quarter of 2017.

The decrease in GAAP Reported EPS was primarily due to the special items listed above as well as increased depreciation expense due to higher depreciable base, partially offset by the following variances in Electric Utilities and Infrastructure:

• Return to normal weather this year compared to the significantly warmer winter weather in the prior year;

• Higher retail revenues from increased volumes and pricing and riders due to increased investments; and

• Lower operation and maintenance expense driven by a Nuclear Electric Insurance Limited (NEIL) tax reform distribution, lower storm costs, receipt of a U.S. Department of Energy settlement and favorable timing across jurisdictions.

As discussed above, management also evaluates financial performance based on adjusted diluted EPS. Duke Energy's first quarter 2018 adjusted diluted EPS was \$1.28 compared to \$1.04 for the first quarter of 2017.

## SEGMENT RESULTS

The remaining information presented in this discussion of results of operations is on a GAAP basis. Management evaluates segment performance based on segment income. Segment income is defined as income from continuing operations net of income attributable to noncontrolling interests. Segment income includes intercompany revenues and expenses that are eliminated in the Condensed Consolidated Financial Statements.

Duke Energy's segment structure includes the following segments: Electric Utilities and Infrastructure, Gas Utilities and Infrastructure and Commercial Renewables. The remainder of Duke Energy's operations is presented as Other. See Note 2 to the Condensed Consolidated Financial Statements, "Business Segments," for additional information on Duke Energy's segment structure.

## Tax Act

On December 22, 2017, President Trump signed the Tax Act into law. Among other provisions, the Tax Act lowered the corporate federal income tax rate from 35 percent to 21 percent, limits interest deductions outside of regulated



utility operations, requires the normalization of excess deferred taxes associated with property under the average rate assumption method as a prerequisite to qualifying for accelerated depreciation and repealed the federal manufacturing deduction. The Tax Act also repealed the corporate AMT and stipulates a refund of 50 percent of remaining AMT credit carryforwards (to the extent the credits exceed regular tax for the year) for tax years 2018, 2019 and 2020 with all remaining AMT credits to be refunded in tax year 2021. The Tax Act also could be amended or subject to technical correction, which could change the financial impacts that were recorded since December 31, 2017, or are expected to be recorded in future periods. The FERC and state utility commissions will determine the regulatory treatment of the impacts of the Tax Act for the Subsidiary Registrants. Duke Energy's segments' future results of operations, financial condition and cash flows could be adversely impacted by the Tax Act, subsequent amendments or corrections, or the actions of the FERC, state utility commissions or credit rating agencies related to the Tax Act. Duke Energy is addressing the rate treatment of the Tax Act by each state utility commission in which the Subsidiary Registrants operate. In January 2018, the Subsidiary Registrants began deferring the estimated ongoing impacts of the Tax Act that are expected to be returned to customers. See Note 16 to the Condensed Consolidated Financial Statements, "Income Taxes," for additional information on the Tax Act. See the Credit Ratings section below for additional information on the impact of the Tax Act on the Duke Energy Registrants' credit ratings.

## PART I

## Electric Utilities and Infrastructure

(in millions)	Three Months Ended		
	2018	2017	Variance
Operating Revenues	\$5,323	\$4,947	\$ 376
Operating Expenses			
Fuel used in electric generation and purchased power	1,685	1,454	231
Operation, maintenance and other	1,325	1,304	21
Depreciation and amortization	835	737	98
Property and other taxes	274	261	13
Impairment charges	43	—	43
Total operating expenses	4,162	3,756	406
Gains on Sales of Other Assets and Other, net	1	3	(2 )
Operating Income	1,162	1,194	(32 )
Other Income and Expenses	88	112	(24 )
Interest Expense	317	315	2
Income Before Income Taxes	933	991	(58 )
Income Tax Expense	183	356	(173 )
Segment Income	\$750	\$635	\$ 115

Duke Energy Carolinas gigawatt-hours (GWh) sales	22,627	20,781	1,846
Duke Energy Progress GWh sales	17,226	15,637	1,589
Duke Energy Florida GWh sales	9,119	8,305	814
Duke Energy Ohio GWh sales	6,072	6,059	13
Duke Energy Indiana GWh sales	8,485	8,208	277
Total Electric Utilities and Infrastructure GWh sales	63,529	58,990	4,539
Net proportional megawatt (MW) capacity in operation	48,831	48,964	(133 )

Three Months Ended March 31, 2018, as Compared to March 31, 2017

Electric Utilities and Infrastructure's results were impacted by a return to normal weather this year compared to the significantly warmer winter weather in the prior year, higher weather-normal retail sales volumes and retail pricing, partially offset by impacts from the Tax Act. The following is a detailed discussion of the variance drivers by line item.

Operating Revenues. The variance was driven primarily by:

- a \$225 million increase in fuel related revenues due to higher sales volumes and increases in fuel rates billed to customers;
- a \$178 million increase in retail sales, net of fuel revenues, due to normal weather in the current year;
- a \$24 million increase in weather-normal retail sales volumes;
- a \$24 million increase in wholesale power revenues, net of sharing and fuel, primarily due to coal ash recovery at Duke Energy Carolinas and Duke Energy Progress, partially offset by customer refunds in the current year related to a FERC order on a complaint filed by the Piedmont Municipal Power Agency (PMPA) at Duke Energy Carolinas; and
- a \$20 million increase in retail pricing due to the Duke Energy Progress North Carolina and South Carolina rate cases, and Duke Energy Florida base rate adjustments for the Osprey acquisition and the completion of the Hines Energy Complex Chiller Uprate Project.

Partially offset by:

- a \$131 million decrease due to revenues subject to refund to customers associated with the lower statutory corporate tax rate under the Tax Act.

Operating Expenses. The variance was driven primarily by:

-

Edgar Filing: Duke Energy CORP - Form 10-Q

a \$231 million increase in fuel used in electric generation and purchased power due to higher sales and higher deferred fuel expenses;

a \$98 million increase in depreciation and amortization expense primarily due to additional plant in service, higher amortization of deferred coal ash costs and new depreciation rates per the Duke Energy Progress North Carolina rate case;

a \$43 million increase in impairment charges primarily due to the impacts associated with the Duke Energy Progress North Carolina rate case; and

## PART I

a \$21 million increase in operation, maintenance and other expense primarily due to storm cost amortization, partially offset by lower expenses at generating plants.

Other Income and Expenses. The decrease was primarily due to lower allowance for funds used during construction (AFUDC) equity and a decrease in recognition of post in-service equity returns for projects that had been completed prior to being reflected in customer rates at Duke Energy Carolinas and lower income from non-service components of employee benefit costs in the current year at Duke Energy Progress. For additional information on employee benefit costs, see Note 15 to the Condensed Consolidated Financial Statements, "Employee Benefit Plans."

Income Tax Expense. The variance was primarily due to the lower statutory corporate tax rate associated with the Tax Act. The effective tax rates (ETRs) for the three months ended March 31, 2018, and 2017 were 19.6 percent and 35.9 percent, respectively. The decrease in the ETR was primarily due to the lower statutory corporate tax rate associated with the Tax Act and the amortization of excess deferred taxes. For additional information, see Note 16 to the Condensed Consolidated Financial Statements, "Income Taxes."

#### Matters Impacting Future Electric Utilities and Infrastructure Results

On May 18, 2016, the North Carolina Department of Environmental Quality (NCDEQ) issued proposed risk classifications for all coal ash surface impoundments in North Carolina. All ash impoundments not previously designated as high priority by the North Carolina Coal Ash Management Act of 2014 (Coal Ash Act) were designated as intermediate risk. Certain impoundments classified as intermediate risk, however, may be reassessed in the future as low risk pursuant to legislation enacted on July 14, 2016. Electric Utilities and Infrastructure's estimated asset retirement obligations (AROs) related to the closure of North Carolina ash impoundments are based upon the mandated closure method or a probability weighting of potential closure methods for the impoundments that may be reassessed to low risk. As the final risk ranking classifications in North Carolina are delineated, final closure plans and corrective action measures are developed and approved for each site, the closure work progresses and the closure method scope and remedial methods are determined, the complexity of work and the amount of coal combustion material could be different than originally estimated and, therefore, could materially impact Electric Utilities and Infrastructure's financial position.

On March 2, 2017, Duke Energy Ohio filed an electric distribution base rate application with the PUCO to address recovery of electric distribution system capital investments and any increase in expenditures subsequent to previous rate cases. On April 13, 2018, DEO along with the PUCO Staff and others filed a Stipulation with PUCO. The Stipulation is subject to approval by PUCO. Duke Energy Ohio's earnings could be adversely impacted if the Stipulation is denied by the PUCO. See Note 3 to the Condensed Consolidated Financial Statements, "Regulatory Matters," for additional information.

Duke Energy Carolinas filed a general rate case on August 25, 2017, to recover costs of complying with CCR regulations and the Coal Ash Act, as well as costs of capital investments in generation, transmission and distribution systems and any increase in expenditures subsequent to previous rate cases. Duke Energy Carolinas' earnings could be adversely impacted if the rate increase is delayed or denied by the NCUC. Hearings have concluded and a decision from the NCUC is expected by mid-2018. See Note 3 to the Condensed Consolidated Financial Statements, "Regulatory Matters," for additional information.

Duke Energy is a party to multiple lawsuits and could be subject to fines and other penalties related to operations at certain North Carolina facilities with ash basins. The outcome of these lawsuits and potential fines and penalties could have an adverse impact on Electric Utilities and Infrastructure's financial position, results of operations and cash flows. See Note 4 to the Condensed Consolidated Financial Statements, "Commitments and Contingencies," for additional information.

Duke Energy Florida is constructing the 1,640-MW combined-cycle natural gas plant in Citrus County, Florida and expects it to be commercially available in 2018. Failure to complete the construction and achieve commercial operations by the end of 2018 could materially impact Duke Energy Florida's financial position.

On February 6, 2018, the Florida Public Service Commission (FPSC) approved a stipulation that would apply tax savings resulting from the Tax Act toward storm costs effective January 2018 in lieu of implementing a storm

surcharge. Storm costs are currently expected to be fully recovered by approximately mid-2021. The evidentiary hearing in this storm cost matter is scheduled for the week of October 15, 2018. An order disallowing recovery of these costs could have an adverse impact on Electric Utilities and Infrastructure's financial position. See Note 3 to the Condensed Consolidated Financial Statements, "Regulatory Matters," for additional information.

See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations," in the Duke Energy Registrants' Annual Reports on Form 10-K/A for the year ended December 31, 2017, for discussion of risks associated with the Tax Act.

## PART I

## Gas Utilities and Infrastructure

(in millions)	Three Months Ended March 31,		
	2018	2017	Variance
Operating Revenues	\$727	\$ 670	\$ 57
Operating Expenses			
Cost of natural gas	313	258	55
Operation, maintenance and other	108	105	3
Depreciation and amortization	61	57	4
Property and other taxes	31	30	1
Total operating expenses	513	450	63
Operating Income	214	220	(6 )
Other Income and Expenses	(35 )	18	(53 )
Interest Expense	27	26	1
Income Before Income Taxes	152	212	(60 )
Income Tax Expense	36	79	(43 )
Segment Income	\$116	\$ 133	\$ (17 )

Piedmont local distribution company (LDC) throughput (dekatherms) 154,901,332 276,787 21,624,592

Duke Energy Midwest LDC throughput (Mcf) 37,126,063 30,999 6,295,066

Three Months Ended March 31, 2018, as Compared to March 31, 2017

Gas Utilities and Infrastructure's results were primarily impacted by the OTTI recorded on the Constitution investment. The following is a detailed discussion of the variance drivers by line item.

Operating Revenues. The variance was driven by:

- a \$54 million increase due to higher natural gas costs passed through to customers due to higher volumes sold and higher natural gas prices at Piedmont;

- a \$22 million increase primarily due to residential and commercial customer revenue, net of natural gas costs passed through to customers, due to customer growth and Integrity Management Rider (IMR) rate adjustments at Piedmont; and

- a \$10 million increase primarily due to favorable weather and higher volumes in the Midwest.

Partially offset by:

- a \$29 million decrease due to revenues subject to refund to customers associated with the lower statutory corporate tax rates under the Tax Act.

Operating Expenses. The variance was driven by:

- a \$55 million increase in cost of natural gas primarily due to higher volumes sold and higher natural gas prices at Piedmont.

Other Income and Expenses. The variance was driven by the OTTI recorded for the investment in Constitution in the current year.

Income Tax Expense. The variance was primarily due to the lower statutory corporate tax rate associated with the Tax Act. The ETRs for the three months ended March 31, 2018, and 2017 were 23.7 percent and 37.3 percent, respectively. The decrease in the ETR was primarily due to the lower statutory corporate tax rate associated with the Tax Act. For additional information, see Note 16 to the Condensed Consolidated Financial Statements, "Income Taxes."

#### Matters Impacting Future Gas Utilities and Infrastructure Results

Gas Utilities and Infrastructure has a 47 percent ownership interest in ACP, which is building an approximately 600-mile interstate natural gas pipeline intended to transport diverse natural gas supplies into southeastern markets. Affected states (West Virginia, Virginia and North Carolina) have issued certain necessary permits; the project remains subject to other pending federal and state approvals, which will allow full construction activities to begin. In early 2018, the FERC issued series of Partial Notices to Proceed, which authorized the project to begin limited

construction-related activities along the pipeline route. The project has a targeted in-service date of late 2019. Due to delays in obtaining the required permits to commence construction and the conditions imposed upon the project by the permits, ACP's project manager estimates the project pipeline development costs have increased from a range of \$5.0 billion to \$5.5 billion to a range of \$6.0 billion to \$6.5 billion, excluding financing costs. Project construction activities, schedule and final costs are still subject to uncertainty due to potential additional permitting delays, construction productivity and other conditions and risks that could result in potential higher project costs and a potential delay in the targeted in-service date. See Note 3 to the Condensed Consolidated Financial Statements, "Regulatory Matters," for additional information.

Rapidly rising interest rates without timely or adequate updates to the regulated allowed return on equity or failure to achieve the anticipated benefits of the Piedmont merger, including cost savings and growth targets, could significantly impact the estimated fair value of reporting units in Gas Utilities and Infrastructure. In the event of a significant decline in the estimated fair value of the reporting units, goodwill impairment charges could be recorded. The carrying value of goodwill within Gas Utilities and Infrastructure was approximately \$1,924 million at March 31, 2018.

## PART I

See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations," in the Duke Energy Registrants' Annual Reports on Form 10-K/A for the year ended December 31, 2017, for discussion of risks associated with the Tax Act.

## Commercial Renewables

(in millions)	Three Months Ended		
	March 31,		
	2018	2017	Variance
Operating Revenues	\$101	\$128	\$ (27 )
Operating Expenses			
Operation, maintenance and other	55	78	(23 )
Depreciation and amortization	38	39	(1 )
Property and other taxes	7	9	(2 )
Total operating expenses	100	126	(26 )
Gains on Sales of Other Assets and Other, net	—	2	(2 )
Operating Income	1	4	(3 )
Other Income and Expenses	2	—	2
Interest Expense	22	19	3
Loss Before Income Taxes	(19 )	(15 )	(4 )
Income Tax Benefit	(39 )	(39 )	—
Less: Loss Attributable to Noncontrolling Interests	—	(1 )	1
Segment Income	\$20	\$25	\$ (5 )

Renewable plant production, GWh	2,180	2,285	(105 )
---------------------------------	-------	-------	--------

Net proportional MW capacity in operation	2,943	2,943	—
---	-------	-------	---

Three Months Ended March 31, 2018, as Compared to March 31, 2017

Commercial Renewables' results were impacted by lower wind resource in the current year. The following is a detailed discussion of the variance drivers by line item.

**Operating Revenues.** The decrease in revenues was primarily due to a reduction in the number of engineering, procurement and construction contracts at REC Solar, a California-based provider of solar installations owned by Duke Energy, and lower wind resource in the current year.

**Operating Expenses.** The decrease in operation, maintenance and other was primarily due to a reduction in the number of engineering, procurement and construction contracts at REC Solar in the current year.

## Matters Impacting Future Commercial Renewables Results

Changes or variability in assumptions used in calculating the fair value of the Commercial Renewables reporting units for goodwill testing purposes, including but not limited to legislative actions related to tax credit extensions, long-term growth rates and discount rates could significantly impact the estimated fair value of the Commercial Renewables reporting units. In the event of a significant decline in the estimated fair value of the Commercial Renewables reporting units, goodwill or other asset impairment charges could be recorded. The carrying value of goodwill within Commercial Renewables was approximately \$93 million at March 31, 2018.

Persistently low market pricing for wind resources, primarily in the Electric Reliability Council of Texas West market and the future expiration of tax incentives including investment tax credits and production tax credits could result in adverse impacts to the future results of Commercial Renewables.

Deterioration in credit quality resulting in bankruptcy of an offtaker of power from contracted wind or solar assets could result in adverse impacts to the future results of Commercial Renewables. On March 31, 2018, First Energy Solutions (FES), a subsidiary of First Energy and counterparty to two power purchase agreements with North Allegheny Windfarm, filed for Chapter 11 bankruptcy. Commercial Renewables cannot predict the impact of the bankruptcy on its financial results.



See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations," in the Duke Energy Registrants' Annual Reports on Form 10-K/A for the year ended December 31, 2017, for discussion of risks associated with the Tax Act.

## PART I

## Other

(in millions)	Three Months Ended		
	March 31,		
	2018	2017	Variance
Operating Revenues	\$35	\$33	\$ 2
Operating Expenses			
Fuel used in electric generation and purchased power	14	15	(1 )
Operation, maintenance and other	3	8	(5 )
Depreciation and amortization	33	26	7
Property and other taxes	4	3	1
Total operating expenses	54	52	2
(Loss) Gains on Sales of Other Assets and Other, net	(101 )	5	(106 )
Operating Loss	(120 )	(14 )	(106 )
Other Income and Expenses	14	21	(7 )
Interest Expense	157	134	23
Loss Before Income Taxes	(263 )	(127 )	(136 )
Income Tax Expense (Benefit)	1	(52 )	53
Less: Income Attributable to Noncontrolling Interests	2	2	—
Net Loss	\$(266)	\$(77)	\$(189 )

Three Months Ended March 31, 2018, as Compared to March 31, 2017

Other's higher net loss was driven by the loss on sale of the retired Beckjord generating station (Beckjord), higher interest expense and lower income tax benefit. The following is a detailed discussion of the variance drivers by line item.

(Loss) Gains on Sales of Other Assets and Other, net. The variance was driven by the loss on sale of Beckjord, a nonregulated facility retired during 2014, including the transfer of coal ash basins and other real property and indemnification from any and all potential future claims related to the property, whether arising under environmental laws or otherwise.

Interest Expense. The variance was primarily due to an increase in long-term debt as well as higher short-term interest rates.

Income Tax Expense (Benefit). The variance was primarily due to the valuation allowance against AMT credits partially offset by the lower statutory corporate tax rate associated with the Tax Act. For additional information, see Note 16 to the Condensed Consolidated Financial Statements, "Income Taxes."

## PART I

## Matters Impacting Future Other Results

Included in Other is Duke Energy Ohio's 9 percent ownership interest in the Ohio Valley Electric Corporation (OVEC), which owns 2,256 MW of coal-fired generation capacity. As a counterparty to an inter-company power agreement (ICPA), Duke Energy Ohio has a contractual arrangement to receive entitlements to capacity and energy from OVEC's power plants through June 2040 commensurate with its power participation ratio, which is equivalent to Duke Energy Ohio's ownership interest. Costs, including fuel, operating expenses, fixed costs, debt amortization and interest expense, are allocated to counterparties to the ICPA, including Duke Energy Ohio, based on their power participation ratio. The value of the ICPA is subject to variability due to fluctuations in power prices and changes in OVEC's costs of business. Deterioration in the credit quality or bankruptcy of one or more parties to the ICPA could increase the costs of OVEC. On March 31, 2018, FirstEnergy Solutions (FES), a subsidiary of FirstEnergy and counterparty to ICPA, filed for Chapter 11 bankruptcy. FES has a power participation ratio of 4.85 percent. Duke Energy cannot predict the impact of the bankruptcy on its OVEC interests. In addition, certain proposed environmental rulemaking costs could result in future increased cost allocations.

On March 2, 2017, Duke Energy Ohio filed an electric distribution base rate application with the PUCO to address recovery of electric distribution system capital investments and any increase in expenditures subsequent to previous rate cases. On April 13, 2018, Duke Energy Ohio filed a Stipulation with the PUCO to resolve issues in the electric distribution base rate case and other regulatory matters. If approved by PUCO, the Stipulation would allow for Duke Energy Ohio to recover gains and losses incurred on and after January 1, 2018 related to OVEC, through the Price Stabilization Rider and, as a result, Duke Energy Ohio may move its ownership interest to the Electric Utilities and Infrastructure segment. See Note 3 to the Condensed Consolidated Financial Statements, "Regulatory Matters" for additional information.

See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations," in the Duke Energy Registrants' Annual Reports on Form 10-K/A for the year ended December 31, 2017, for discussion of risks associated with the Tax Act.

## DUKE ENERGY CAROLINAS

Management's Discussion and Analysis should be read in conjunction with the accompanying Condensed Consolidated Financial Statements and Notes for the three months ended March 31, 2018, and 2017 and the Annual Report on Form 10-K/A for the year ended December 31, 2017.

## Results of Operations

(in millions)	Three Months Ended		
	2018	2017	Variance
Operating Revenues	\$1,763	\$1,716	\$ 47
Operating Expenses			
Fuel used in electric generation and purchased power	473	428	45
Operation, maintenance and other	451	495	(44 )
Depreciation and amortization	272	254	18
Property and other taxes	72	68	4
Impairment charges	13	—	13
Total operating expenses	1,281	1,245	36
Operating Income	482	471	11
Other Income and Expenses, net	39	50	(11 )
Interest Expense	107	103	4
Income Before Income Taxes	414	418	(4 )
Income Tax Expense	91	148	(57 )
Net Income	\$323	\$270	\$ 53

The following table shows the percent changes in GWh sales and average number of customers. The percentages for retail customer classes represent billed sales only. Total sales includes billed and unbilled retail sales and wholesale

sales to incorporated municipalities, public and private utilities and power marketers. Amounts are not weather-normalized.

Increase (Decrease) over prior year 2018

Residential sales	20.6 %
General service sales	6.4 %
Industrial sales	(1.5 )%
Wholesale power sales	19.7 %
Joint dispatch sales	(3.0 )%
Total sales	8.9 %
Average number of customers	1.5 %

Three Months Ended March 31, 2018, as Compared to March 31, 2017

Operating Revenues. The variance was driven primarily by:

- an \$84 million increase in retail sales, net of fuel revenues, due to a return to normal weather this year compared to the significantly warmer winter weather in the prior year;
- a \$36 million increase in fuel related revenues primarily due to higher sales;
- and

PART I

• \$13 million increase in weather-normal retail sales volumes;

Partially offset by:

• \$61 million decrease in retail sales due to revenues subject to refund to customers associated with the lower statutory corporate tax rate under the Tax Act;

• \$12 million decrease in rider revenues primarily related to energy efficiency programs; and

• an \$11 million decrease in wholesale power revenues, net of sharing and fuel, primarily due to customer refunds in the current year related to a FERC order on a complaint filed by the PMPA, partially offset by coal ash recovery.

Operating Expenses. The variance was driven primarily by:

• \$45 million increase in fuel used in electric generation and purchased power primarily due to higher sales;

• an \$18 million increase in depreciation and amortization primarily due to additional plant in service and higher amortization of deferred coal ash costs; and

• \$13 million increase in impairment charges related to coal ash costs in South Carolina.

Partially offset by:

• a \$44 million decrease in operation, maintenance and other expense primarily due to lower expenses at generating plants and lower storm restoration costs.

Other Income and Expenses. The variance was primarily due to lower AFUDC equity and a decrease in recognition of post in-service equity returns for projects that had been completed prior to being reflected in customer rates.

Income Tax Expense. The variance was primarily due to the lower statutory corporate tax rate associated with the Tax Act. The ETRs for the three months ended March 31, 2018, and 2017 were 22.0 percent and 35.4 percent, respectively. The decrease in the ETR was primarily due to the lower statutory corporate tax rate associated with the Tax Act. For additional information, see Note 16 to the Condensed Consolidated Financial Statements, "Income Taxes."

#### Matters Impacting Future Results

An order from regulatory authorities disallowing recovery of costs related to closure of ash impoundments could have an adverse impact on Duke Energy Carolinas' financial position, results of operations and cash flows. See Note 3 to the Condensed Consolidated Financial Statements, "Regulatory Matters," for additional information.

On May 18, 2016, the NCDEQ issued proposed risk classifications for all coal ash surface impoundments in North Carolina. All ash impoundments not previously designated as high priority by the Coal Ash Act were designated as intermediate risk. Certain impoundments classified as intermediate risk, however, may be reassessed in the future as low risk pursuant to legislation enacted on July 14, 2016. Duke Energy Carolinas' estimated AROs related to the closure of North Carolina ash impoundments are based upon the mandated closure method or a probability weighting of potential closure methods for the impoundments that may be reassessed to low risk. As the final risk ranking classifications in North Carolina are delineated, final closure plans and corrective action measures are developed and approved for each site, the closure work progresses, and the closure method scope and remedial action methods are determined, the complexity of work and the amount of coal combustion material could be different than originally estimated and, therefore, could materially impact Duke Energy Carolinas' financial position.

Duke Energy Carolinas is a party to multiple lawsuits and subject to fines and other penalties related to operations at certain North Carolina facilities with ash basins. The outcome of these lawsuits, fines and penalties could have an adverse impact on Duke Energy Carolinas' financial position, results of operations and cash flows. See Note 4 to the Condensed Consolidated Financial Statements, "Commitments and Contingencies," for additional information.

Duke Energy Carolinas filed a general rate case on August 25, 2017, to recover costs of complying with CCR regulations and the Coal Ash Act, as well as costs of capital investments in generation, transmission and distribution systems and any increase in expenditures subsequent to previous rate cases. Duke Energy Carolinas' earnings could be adversely impacted if the rate increase is delayed or denied by the NCUC. Hearings have concluded and a decision from the NCUC is expected by mid-2018. See Note 3 to the Condensed Consolidated Financial Statements, "Regulatory Matters," for additional information.

See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations," in the Duke Energy Registrants' Annual Reports on Form 10-K/A for the year ended December 31, 2017, for discussion of risks

associated with the Tax Act.

100

---

## PART I

## PROGRESS ENERGY

Management's Discussion and Analysis should be read in conjunction with the accompanying Condensed Consolidated Financial Statements and Notes for the three months ended March 31, 2018, and 2017 and the Annual Report on Form 10-K/A for the year ended December 31, 2017.

## Results of Operations

(in millions)	Three Months Ended		
	March 31,		
	2018	2017	Variance
Operating Revenues	\$2,576	\$2,179	\$ 397
Operating Expenses			
Fuel used in electric generation and purchased power	976	726	250
Operation, maintenance and other	623	560	63
Depreciation and amortization	384	313	71
Property and other taxes	123	117	6
Impairment charges	29	—	29
Total operating expenses	2,135	1,716	419
Gains on Sales of Other Assets and Other, net	6	8	(2 )
Operating Income	447	471	(24 )
Other Income and Expenses, net	35	40	(5 )
Interest Expense	209	206	3
Income Before Income Taxes	273	305	(32 )
Income Tax Expense	36	104	(68 )
Net Income	237	201	36
Less: Net Income Attributable to Noncontrolling Interests	2	2	—
Net Income Attributable to Parent	\$235	\$199	\$ 36

## Three Months Ended March 31, 2018, as Compared to March 31, 2017

Operating Revenues. The variance was driven primarily by:

- a \$254 million increase in fuel related revenues due to higher sales and increases in fuel and capacity rates billed to customers;
- a \$75 million increase in retail sales, net of fuel revenues, due to a return to normal weather this year compared to the significantly warmer winter weather in the prior year;
- a \$47 million increase in wholesale power revenues, net of fuel, primarily due to coal ash recovery and higher peak demand in the current year at Duke Energy Progress;
- a \$20 million increase in retail pricing due to the impacts of the Duke Energy Progress North Carolina and South Carolina rate cases, and Duke Energy Florida base rate adjustments for the Osprey acquisition and the completion of the Hines Energy Complex Chiller Uprate Project; and
- a \$14 million increase in weather-normal retail sales volumes.

Partially offset by:

- a \$33 million decrease due to revenues subject to refund to customers associated with the lower statutory corporate tax rate under the Tax Act at Duke Energy Progress.

Operating Expenses. The variance was driven primarily by:

- a \$250 million increase in fuel used in electric generation and purchased power primarily due to higher sales, higher deferred fuel and capacity expenses, and increased purchased power partially offset by lower generation costs at Duke Energy Florida;
- a \$71 million increase in depreciation and amortization primarily due to higher amortization of deferred coal ash costs and new depreciation rates per the North Carolina rate case at Duke Energy Progress, and accelerated depreciation of Crystal River Units 4 and 5 and additional plant in service at Duke Energy Florida;

a \$63 million increase in operation, maintenance and other primarily due to storm cost amortization at Duke Energy Florida and impacts associated with the North Carolina rate case at Duke Energy Progress; and  
• a \$29 million increase in impairment charges primarily due to the impacts associated with the North Carolina rate case at Duke Energy Progress.



## PART I

Income Tax Expense. The variance was primarily due to the lower statutory corporate tax rate associated with the Tax Act. The ETRs for the three months ended March 31, 2018, and 2017 were 13.2 percent and 34.1 percent, respectively. The decrease in the ETR was primarily due to the lower statutory corporate tax rate associated with the Tax Act and the amortization of federal and state excess deferred taxes. For additional information, see Note 16 to the Condensed Consolidated Financial Statements, "Income Taxes."

## Matters Impacting Future Results

An order from regulatory authorities disallowing recovery of costs related to closure of ash impoundments could have an adverse impact on Progress Energy's financial position, results of operations and cash flows. See Note 3 to the Condensed Consolidated Financial Statements, "Regulatory Matters," for additional information.

On May 18, 2016, the NCDEQ issued proposed risk classifications for all coal ash surface impoundments in North Carolina. All ash impoundments not previously designated as high priority by the Coal Ash Act were designated as intermediate risk. Certain impoundments classified as intermediate risk, however, may be reassessed in the future as low risk pursuant to legislation enacted on July 14, 2016. Progress Energy's estimated AROs related to the closure of North Carolina ash impoundments are based upon the mandated closure method or a probability weighting of potential closure methods for the impoundments that may be reassessed to low risk. As the final risk ranking classifications in North Carolina are delineated, final closure plans and corrective action measures are developed and approved for each site, the closure work progresses, and the closure method scope and remedial action methods are determined, the complexity of work and the amount of coal combustion material could be different than originally estimated and, therefore, could materially impact Progress Energy's financial position.

Duke Energy Progress is a party to multiple lawsuits and subject to fines and other penalties related to operations at certain North Carolina facilities with ash basins. The outcome of these lawsuits, fines and penalties could have an adverse impact on Progress Energy's financial position, results of operations and cash flows. See Note 4 to the Condensed Consolidated Financial Statements, "Commitments and Contingencies," for additional information.

Duke Energy Florida is constructing the 1,640-MW combined-cycle natural gas plant in Citrus County, Florida and expects it to be commercially available in 2018. Failure to complete the construction and achieve commercial operations by the end of 2018 could materially impact Duke Energy Florida's financial position.

On February 6, 2018, the FPSC approved a stipulation that would apply tax savings resulting from the Tax Act toward storm costs effective January 2018 in lieu of implementing a storm surcharge. Storm costs are currently expected to be fully recovered by approximately mid-2021. The evidentiary hearing in this storm cost matter is scheduled for the week of October 15, 2018. An order disallowing recovery of these costs could have an adverse impact on Progress Energy's financial position. See Note 3 to the Condensed Consolidated Financial Statements, "Regulatory Matters," for additional information.

See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations," in the Duke Energy Registrants' Annual Reports on Form 10-K/A for the year ended December 31, 2017, for discussion of risks associated with the Tax Act.

## DUKE ENERGY PROGRESS

Management's Discussion and Analysis should be read in conjunction with the accompanying Condensed Consolidated Financial Statements and Notes for the three months ended March 31, 2018, and 2017 and the Annual Report on Form 10-K/A for the year ended December 31, 2017.

## Results of Operations

(in millions)	Three Months Ended		
	2018	2017	Variance
Operating Revenues	\$1,460	\$1,219	\$ 241
Operating Expenses			
Fuel used in electric generation and purchased power	509	364	145
Operation, maintenance and other	381	362	19
Depreciation and amortization	235	181	54

Edgar Filing: Duke Energy CORP - Form 10-Q

Property and other taxes	35	40	(5 )
Impairment charges	32	—	32
Total operating expenses	1,192	947	245
Gains on Sales of Other Assets and Other, net	1	2	(1 )
Operating Income	269	274	(5 )
Other Income and Expenses, net	18	31	(13 )
Interest Expense	81	82	(1 )
Income Before Income Taxes	206	223	(17 )
Income Tax Expense	29	76	(47 )
Net Income	\$177	\$147	\$ 30

102

---

## PART I

The following table shows the percent changes in GWh sales and average number of customers. The percentages for retail customer classes represent billed sales only. Total sales includes billed and unbilled retail sales, and wholesale sales to incorporated municipalities, public and private utilities and power marketers. Amounts are not weather-normalized.

Increase (Decrease) over prior period	2018
Residential sales	18.7 %
General service sales	5.2 %
Industrial sales	(2.1 )%
Wholesale power sales	15.9 %
Joint dispatch sales	(0.9 )%
Total sales	10.2 %
Average number of customers	1.5 %

Three Months Ended March 31, 2018, as Compared to March 31, 2017

Operating Revenues. The variance was driven primarily by:

- a \$150 million increase in fuel related revenues due to higher sales and increases in fuel rates billed to customers;
- a \$50 million increase in retail sales, net of fuel revenues, due to a return to normal weather this year compared to the significantly warmer winter weather in the prior year;
- a \$47 million increase in wholesale power revenues, net of fuel, primarily due to coal ash recovery and higher peak demand in the current year;
- a \$12 million increase in retail pricing due to the impacts of the North Carolina and South Carolina rate cases; and
- a \$9 million increase in weather-normal retail sales volumes.

Partially offset by:

- a \$33 million decrease due to revenues subject to refund to customers associated with the lower statutory corporate tax rate under the Tax Act.

Operating Expenses. The variance was driven primarily by:

- a \$145 million increase in fuel used in electric generation and purchased power primarily due to higher sales and higher deferred fuel expenses;
- a \$54 million increase in depreciation and amortization primarily due to higher amortization of deferred coal ash costs and new depreciation rates per the North Carolina rate case;
- a \$32 million increase in impairment charges due to the impacts associated with the North Carolina rate case; and
- a \$19 million increase in operation, maintenance and other expense primarily due to impacts associated with the North Carolina rate case.

Other Income and Expenses. The variance was primarily driven by lower income from non-service components of employment benefit costs. For additional information on employee benefit costs, see Note 15 to the Condensed Consolidated Financial Statements, "Employee Benefit Plans."

Income Tax Expense. The variance was primarily due to the lower statutory corporate tax rate associated with the Tax Act. The ETRs for the three months ended March 31, 2018, and 2017 were 14.1 percent and 34.1 percent, respectively. The decrease in the ETR was primarily due to the lower statutory corporate tax rate associated with the Tax Act and the amortization of state excess deferred taxes. For additional information, see Note 16 to the Condensed Consolidated Financial Statements, "Income Taxes."

#### Matters Impacting Future Results

An order from regulatory authorities disallowing recovery of costs related to closure of ash impoundments could have an adverse impact on Duke Energy Progress' financial position, results of operations and cash flows. See Note 3 to the Condensed Consolidated Financial Statements, "Regulatory Matters," for additional information.

On May 18, 2016, the NCDEQ issued proposed risk classifications for all coal ash surface impoundments in North Carolina. All ash impoundments not previously designated as high priority by the Coal Ash Act were designated as intermediate risk. Certain impoundments classified as intermediate risk, however, may be reassessed in the future as low risk pursuant to legislation enacted on July 14, 2016. Duke Energy Progress' estimated AROs related to the

closure of North Carolina ash impoundments are based upon the mandated closure method or a probability weighting of potential closure methods for the impoundments that may be reassessed to low risk. As the final risk ranking classifications in North Carolina are delineated, final closure plans and corrective action measures are developed and approved for each site, the closure work progresses, and the closure method scope and remedial action methods are determined, the complexity of work and the amount of coal combustion material could be different than originally estimated and, therefore, could materially impact Duke Energy Progress' financial position.

## PART I

Duke Energy Progress is a party to multiple lawsuits and subject to fines and other penalties related to operations at certain North Carolina facilities with ash basins. The outcome of these lawsuits, fines and penalties could have an adverse impact on Duke Energy Progress' financial position, results of operations and cash flows. See Note 4 to the Condensed Consolidated Financial Statements, "Commitments and Contingencies," for additional information. See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations," in the Duke Energy Registrants' Annual Reports on Form 10-K/A for the year ended December 31, 2017, for discussion of risks associated with the Tax Act.

## DUKE ENERGY FLORIDA

Management's Discussion and Analysis should be read in conjunction with the accompanying Condensed Consolidated Financial Statements and Notes for the three months ended March 31, 2018, and 2017 and the Annual Report on Form 10-K/A for the year ended December 31, 2017.

## Results of Operations

(in millions)	Three Months Ended		
	2018	2017	Variance
Operating Revenues	\$1,115	\$959	\$ 156
Operating Expenses			
Fuel used in electric generation and purchased power	467	362	105
Operation, maintenance and other	237	195	42
Depreciation and amortization	150	132	18
Property and other taxes	88	77	11
Impairment charges	—	1	(1 )
Total operating expenses	942	767	175
Operating Income	173	192	(19 )
Other Income and Expenses, net	21	20	1
Interest Expense	71	70	1
Income Before Income Taxes	123	142	(19 )
Income Tax Expense	20	52	(32 )
Net Income	\$103	\$90	\$ 13

The following table shows the percent changes in GWh sales and average number of customers. The percentages for retail customer classes represent billed sales only. Wholesale power sales include both billed and unbilled sales. Total sales includes billed and unbilled retail sales, and wholesale sales to incorporated municipalities, public and private utilities and power marketers. Amounts are not weather-normalized.

Increase (Decrease) over prior period	2018
Residential sales	18.4 %
General service sales	5.7 %
Industrial sales	0.4 %
Wholesale and other	84.5 %
Total sales	9.8 %
Average number of customers	1.6 %

## Three Months Ended March 31, 2018, as Compared to March 31, 2017

Operating Revenues. The variance was driven primarily by:

- a \$104 million increase in fuel and capacity revenues primarily due to an increase in fuel and capacity rates billed to retail customers, as well as increased demand;
- a \$25 million increase in retail sales, net of fuel revenues, due to a return to normal weather this year compared to the significantly warmer winter weather in the prior year;
- a \$9 million increase in rider revenues primarily related to energy efficiency programs and franchise tax revenues; and
-

an \$8 million increase in retail pricing primarily due to the base rate adjustments for the Osprey acquisition and the completion of the Hines Energy Complex Chiller Uprate Project.

Operating Expenses. The variance was driven primarily by:

- a \$105 million increase in fuel used in electric generation and purchased power primarily due to higher deferred fuel and capacity expenses, increased purchased power and increased demand partially offset by lower generation costs;
- a \$42 million increase in operation, maintenance and other expense primarily due to storm cost amortization;
- an \$18 million increase in depreciation and amortization primarily due to accelerated depreciation of Crystal River Units 4 and 5 and additional plant in service; and

## PART I

- an \$11 million increase in property and other taxes primarily due to higher revenue related taxes.

Income Tax Expense. The variance was primarily due to the lower statutory corporate tax rate associated with the Tax Act. The ETRs for the three months ended March 31, 2018, and 2017 were 16.3 percent and 36.6 percent, respectively. The decrease in the ETR was primarily due to the lower statutory corporate tax rate associated with the Tax Act and the amortization of federal excess deferred taxes. For additional information, see Note 16 to the Condensed Consolidated Financial Statements, "Income Taxes."

## Matters Impacting Future Results

Duke Energy Florida is constructing the 1,640-MW combined-cycle natural gas plant in Citrus County, Florida and expects it to be commercially available in 2018. Failure to complete the construction and achieve commercial operations by the end of 2018 could materially impact Duke Energy Florida's financial position.

On February 6, 2018, the FPSC approved a stipulation that would apply tax savings resulting from the Tax Act toward storm costs effective January 2018 in lieu of implementing a storm surcharge. Storm costs are currently expected to be fully recovered by approximately mid-2021. The evidentiary hearing in this storm cost matter is scheduled for the week of October 15, 2018. An order disallowing recovery of these costs could have an adverse impact on Duke Florida's financial position. See Note 3 to the Condensed Consolidated Financial Statements, "Regulatory Matters," for additional information.

## DUKE ENERGY OHIO

Management's Discussion and Analysis should be read in conjunction with the accompanying Condensed Consolidated Financial Statements and Notes for the three months ended March 31, 2018, and 2017 and the Annual Report on Form 10-K/A for the year ended December 31, 2017.

## Results of Operations

(in millions)	Three Months Ended		
	2018	2017	Variance
Operating Revenues			
Regulated electric	\$336	\$337	\$ (1 )
Regulated natural gas	174	170	4
Nonregulated electric and other	14	11	3
Total operating revenues	524	518	6
Operating Expenses			
Fuel used in electric generation and purchased power – regulated	92	97	(5 )
Fuel used in electric generation and purchased power – nonregulated	15	15	—
Cost of natural gas	54	54	—
Operation, maintenance and other	131	131	—
Depreciation and amortization	70	67	3
Property and other taxes	77	72	5
Total operating expenses	439	436	3
Loss on Sales of Other Assets and Other, net	(106 )	—	(106 )
Operating (Loss) Income	(21 )	82	(103 )
Other Income and Expenses, net	6	5	1
Interest Expense	22	22	—
(Loss) Income Before Income Taxes	(37 )	65	(102 )
Income Tax (Benefit) Expense	(12 )	23	(35 )
Net (Loss) Income	\$(25 )	\$42	\$(67 )

The following table shows the percent changes in GWh sales and average number of customers. The percentages for retail customer classes represent billed sales only. Total sales includes billed and unbilled retail sales and wholesale sales to incorporated municipalities, public and private utilities and power marketers. Amounts are not

weather-normalized.

	Electric	Natural
	Gas	Gas
Increase (Decrease) over prior year	2018	2018
Residential sales	13.8 %	26.9 %
General service sales	2.7 %	23.5 %
Industrial sales	(3.7 )%	14.0 %
Wholesale electric power sales	(64.4)%	n/a
Other natural gas sales	n/a	2.8 %
Total sales	0.2 %	20.4 %
Average number of customers	0.9 %	0.9 %

105

---



## PART I

Three Months Ended March 31, 2018, as Compared to March 31, 2017

Operating Revenues. The variance was driven primarily by:

- a \$14 million increase in electric and natural gas retail sales, net of fuel revenues, due to a return to normal weather this year compared to the significantly warmer winter weather in the prior year;
- an \$11 million increase in financial transmission rights revenues;
- a \$5 million increase in rider revenues primarily due to increased rates; and
- a \$3 million increase in other revenues related to OVEC.

Partially offset by:

- a \$16 million decrease in regulated revenues due to revenues subject to refund to customers associated with the lower statutory corporate tax rate under the Tax Act; and
- a \$10 million decrease in fuel related revenues primarily due to lower fuel prices.

Operating Expenses. The variance was driven primarily by:

- a \$5 million increase in property and other taxes primarily due to higher property taxes; and
- a \$3 million increase in depreciation and amortization primarily due to additional plant in service.

Partially offset by:

- a \$5 million decrease in fuel used in electric generation and purchased power due to lower fuel costs.

Loss on Sales of Other Assets and Other, net. The decrease was driven by the loss on the sale of Beckjord, a nonregulated facility retired during 2014, including the transfer of coal ash basins and other real property and indemnification from any and all potential future claims related to the property, whether arising under environmental laws or otherwise.

Income Tax (Benefit) Expense. The variance was primarily due to a decrease in pretax income and the lower statutory corporate tax rate associated with the Tax Act. The ETRs for the three months ended March 31, 2018, and 2017 were 32.4 percent and 35.4 percent, respectively. The decrease in the ETR was primarily due to the lower statutory corporate tax rate associated with the Tax Act, partially offset by tax levelization related to federal excess deferred taxes on a pretax loss in the current year. For additional information, see Note 16 to the Condensed Consolidated Financial Statements, "Income Taxes."

### Matters Impacting Future Results

An order from regulatory authorities disallowing recovery of costs related to closure of ash basins could have an adverse impact on Duke Energy Ohio's financial position, results of operations and cash flows. See Note 3 to the Condensed Consolidated Financial Statements, "Regulatory Matters," for additional information.

Duke Energy Ohio has a 9 percent ownership interest in OVEC, which owns 2,256 MW of coal-fired generation capacity. As a counterparty to an ICPA, Duke Energy Ohio has a contractual arrangement to receive entitlements to capacity and energy from OVEC's power plants through June 2040 commensurate with its power participation ratio, which is equivalent to Duke Energy Ohio's ownership interest. Costs, including fuel, operating expenses, fixed costs, debt amortization and interest expense, are allocated to counterparties to the ICPA, including Duke Energy Ohio, based on their power participation ratio. The value of the ICPA is subject to variability due to fluctuations in power prices and changes in OVEC's costs of business. Deterioration in the credit quality or bankruptcy of one or more parties to the ICPA could increase the costs of OVEC. On March 31, 2018, FES, a subsidiary of FirstEnergy and counterparty to ICPA, filed for Chapter 11 bankruptcy. FES has a power participation ratio of 4.85 percent. Duke Energy cannot predict the impact of the bankruptcy on its OVEC interests. In addition, certain proposed environmental rulemaking costs could result in future increased cost allocations.

On March 2, 2017, Duke Energy Ohio filed an electric distribution base rate application with the PUCO to address recovery of electric distribution system capital investments and any increase in expenditures subsequent to previous rate cases. On April 13, 2018, Duke Energy Ohio filed a Stipulation with the PUCO to resolve issues in the electric distribution base rate case and other regulatory matters. If approved by PUCO, the Stipulation would allow for Duke Energy Ohio to recover gains and losses incurred on and after January 1, 2018 related to OVEC, through the Price Stabilization Rider. See Note 3 to the Condensed Consolidated Financial Statements, "Regulatory Matters," for additional information.

See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations," in the Duke Energy Registrants' Annual Reports on Form 10-K/A for the year ended December 31, 2017, for discussion of risks associated with the Tax Act.

**DUKE ENERGY INDIANA**

Management's Discussion and Analysis should be read in conjunction with the accompanying Condensed Consolidated Financial Statements and Notes for the three months ended March 31, 2018, and 2017 and the Annual Report on Form 10-K/A for the year ended December 31, 2017.

## PART I

## Results of Operations

(in millions)	Three Months Ended		
	March 31,		
	2018	2017	Variance
Operating Revenues	\$731	\$758	\$ (27 )
Operating Expenses			
Fuel used in electric generation and purchased power	232	251	(19 )
Operation, maintenance and other	181	176	5
Depreciation and amortization	130	125	5
Property and other taxes	20	22	(2 )
Total operating expenses	563	574	(11 )
Operating Income	168	184	(16 )
Other Income and Expenses, net	7	10	(3 )
Interest Expense	40	44	(4 )
Income Before Income Taxes	135	150	(15 )
Income Tax Expense	35	59	(24 )
Net Income	\$100	\$91	\$ 9

The following table shows the percent changes in GWh sales and average number of customers. The percentages for retail customer classes represent billed sales only. Total sales includes billed and unbilled retail sales and wholesale sales to incorporated municipalities, public and private utilities and power marketers. Amounts are not weather-normalized.

## Increase (Decrease) over prior year 2018

Residential sales	15.4 %
General service sales	2.1 %
Industrial sales	(0.8 )%
Wholesale power sales	(0.6 )%
Total sales	3.4 %
Average number of customers	0.8 %

## Three Months Ended March 31, 2018, as Compared to March 31, 2017

Operating Revenues. The variance was driven primarily by:

- a \$27 million decrease due to revenues subject to refund to customers associated with the lower statutory corporate tax rate under the Tax Act; and

- a \$10 million decrease in fuel related revenues primarily due to lower purchased power costs passed through to customers and lower financial transmission rights revenues.

Partially offset by:

- a \$12 million increase in rate rider revenues primarily related to the Edwardsport IGCC plant and the Transmission, Distribution and Storage System Improvement Charge.

Operating Expenses. The variance was driven primarily by:

- a \$19 million decrease in fuel used in electric generation and purchased power primarily due to the net benefit to expense of reduced purchased power and increased internal generation and lower fuel prices.

Partially offset by:

- a \$5 million increase in operation, maintenance and other expense primarily due to higher transmission costs; and
- a \$5 million increase in depreciation and amortization primarily due to additional plant in service and higher deferred coal ash costs; partially offset by the completion of the amortization of a regulated asset for costs associated with the termination of a gasification services agreement in 2000.

Income Tax Expense. The variance was primarily due to the lower statutory corporate tax rate associated with the Tax Act. The ETRs for the three months ended March 31, 2018, and 2017 were 25.9 percent and 39.3 percent, respectively. The decrease in the ETR was primarily due to the lower statutory corporate tax rate associated with the

Tax Act. For additional information, see Note 16 to the Condensed Consolidated Financial Statements, "Income Taxes."

107

---

## PART I

## Matters Impacting Future Results

On April 17, 2015, the EPA published in the Federal Register a rule to regulate the disposal of CCR from electric utilities as solid waste. Duke Energy Indiana has interpreted the rule to identify the coal ash basin sites impacted and has assessed the amounts of coal ash subject to the rule and a method of compliance. Duke Energy Indiana's interpretation of the requirements of the CCR rule is subject to potential legal challenges and further regulatory approvals, which could result in additional ash basin closure requirements, higher costs of compliance and greater AROs. Additionally, Duke Energy Indiana has retired facilities that are not subject to the CCR rule. Duke Energy Indiana may incur costs at these facilities to comply with environmental regulations or to mitigate risks associated with on-site storage of coal ash. An order from regulatory authorities disallowing recovery of costs related to closure of ash basins could have an adverse impact on Duke Energy Indiana's financial position, results of operations and cash flows. See Note 3 to the Condensed Consolidated Financial Statements, "Regulatory Matters," for additional information.

See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations," in the Duke Energy Registrants' Annual Reports on Form 10-K/A for the year ended December 31, 2017, for discussion of risks associated with the Tax Act.

## PIEDMONT

Management's Discussion and Analysis should be read in conjunction with the Condensed Consolidated Financial Statements and Notes for the three months ended March 31, 2018 and 2017 and the Annual Report on Form 10-K/A for the year ended December 31, 2017.

## Results of Operations

(in millions)	Three Months Ended		
	March 31,		
	2018	2017	Variance
Operating Revenues	\$553	\$500	\$ 53
Operating Expenses			
Cost of natural gas	259	205	54
Operation, maintenance and other	82	77	5
Depreciation and amortization	39	35	4
Property and other taxes	12	13	(1 )
Total operating expenses	392	330	62
Operating Income	161	170	(9 )
Other Income and Expenses			
Equity in earnings of unconsolidated affiliates	2	3	(1 )
Other income and expenses, net	3	—	3
Total other income and expenses	5	3	2
Interest Expense	21	20	1
Income Before Income Taxes	145	153	(8 )
Income Tax Expense	35	58	(23 )
Net Income	\$110	\$95	\$ 15

The following table shows the percent changes in dekatherms delivered and average number of customers. The percentages for all throughput deliveries represent billed and unbilled sales. Amounts are not weather-normalized. Increase (Decrease) over prior year 2018

Residential deliveries	39.4 %
Commercial deliveries	33.9 %
Industrial deliveries	4.5 %
Power generation deliveries	8.9 %
For resale	28.0 %
Total throughput deliveries	16.2 %

Secondary market volumes (13.7)%

Average number of customers 1.8 %

Due to the margin decoupling mechanism in North Carolina and weather normalization adjustment (WNA) mechanisms in South Carolina and Tennessee, changes in throughput deliveries do not have a material impact on Piedmont's revenues or earnings. The margin decoupling mechanism adjusts for variations in residential and commercial use per customer, including those due to weather and conservation. The WNA mechanisms mostly offset the impact of weather on bills rendered, but do not ensure full recovery of approved margin during periods when winter weather is significantly warmer or colder than normal.

Three Months Ended March 31, 2018, as Compared to March 31, 2017

Operating Revenues. The variance was driven primarily by:

a \$54 million increase due to higher natural gas costs passed through to customers due to higher volumes sold and higher natural gas prices; and

## PART I

a \$22 million increase primarily due to residential and commercial customer revenue, net of natural gas costs passed through to customers, due to customer growth and IMR rate adjustments.

Partially offset by:

a \$23 million decrease due to revenues subject to refund to customers associated with the lower statutory corporate tax rate under the Tax Act.

Operating Expenses. The variance was driven by:

a \$54 million increase in cost of natural gas due to higher volumes sold and higher natural gas prices;

a \$5 million increase in operation, maintenance and other primarily due to increased corporate, customer operations and costs to achieve merger expenses; and

a \$4 million increase in depreciation and amortization due to additional plant in service.

Income Tax Expense. The variance was primarily due to the lower statutory corporate tax rate associated with the Tax Act. The ETRs for the three months ended March 31, 2018, and 2017 were 24.1 percent and 37.9 percent, respectively. The decrease in the ETR was primarily due to the lower statutory corporate tax rate associated with the Tax Act. For additional information, see Note 16 to the Condensed Consolidated Financial Statements, "Income Taxes."

### Matters Impacting Future Results

See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations," in the Duke Energy Registrants' Annual Reports on Form 10-K/A for the year ended December 31, 2017, for discussion of risks associated with the Tax Act.

## LIQUIDITY AND CAPITAL RESOURCES

### Sources and Uses of Cash

Duke Energy relies primarily upon cash flows from operations, debt issuances and its existing cash and cash equivalents to fund its liquidity and capital requirements. Duke Energy's capital requirements arise primarily from capital and investment expenditures, repaying long-term debt and paying dividends to shareholders. See Duke Energy's Annual Report on Form 10-K/A for the year ended December 31, 2017, for a summary and detailed discussion of projected primary sources and uses of cash for 2018 to 2020.

The Subsidiary Registrants generally maintain minimal cash balances and use short-term borrowings to meet their working capital needs and other cash requirements. The Subsidiary Registrants, excluding Progress Energy (Parent), support their short-term borrowing needs through participation with Duke Energy and certain of its other subsidiaries in a money pool arrangement. The companies with short-term funds may provide short-term loans to affiliates participating under this arrangement.

Duke Energy and the Subsidiary Registrants, excluding Progress Energy (Parent), may also use short-term debt, including commercial paper and the money pool, as a bridge to long-term debt financings. The levels of borrowing may vary significantly over the course of the year due to the timing of long-term debt financings and the impact of fluctuations in cash flows from operations. From time to time, Duke Energy's current liabilities may exceed current assets resulting from the use of short-term debt as a funding source to meet scheduled maturities of long-term debt, as well as cash needs, which can fluctuate due to the seasonality of its business.

### CREDIT FACILITIES AND REGISTRATION STATEMENTS

Refer to Note 5 to the Condensed Consolidated Financial Statements, "Debt and Credit Facilities," for further information regarding Duke Energy's available credit facilities, including the Master Credit Facility.

### Shelf Registration

In September 2016, Duke Energy filed a registration statement (Form S-3) with the U.S. Securities and Exchange Commission. Under this Form S-3, which is uncapped, the Duke Energy Registrants, excluding Progress Energy (Parent), may issue debt and other securities in the future at amounts, prices and with terms to be determined at the time of future offerings. The registration statement also allows for the issuance of common stock by Duke Energy.

In January 2017, Duke Energy amended its Form S-3 to add Piedmont as a registrant and included in the amendment a prospectus for Piedmont under which it may issue debt securities in the same manner as other Duke Energy Registrants.

**DEBT MATURITIES**

Refer to Note 5 to the Condensed Consolidated Financial Statements, "Debt and Credit Facilities," for further information regarding significant components of Current Maturities of Long-Term Debt on the Condensed Consolidated Balance Sheets.

**CASH FLOWS FROM OPERATING ACTIVITIES**

Cash flows from operations of Electric Utilities and Infrastructure and Gas Utilities and Infrastructure are primarily driven by sales of electricity and natural gas, respectively, and costs of operations. These cash flows from operations are relatively stable and comprise a substantial portion of Duke Energy's operating cash flows. Weather conditions, working capital and commodity price fluctuations, and unanticipated expenses including unplanned plant outages, storms, legal costs and related settlements, and regulatory orders can affect the timing and level of cash flows from operations.



## PART I

Duke Energy believes it has sufficient liquidity resources through the commercial paper markets, and ultimately the Master Credit and Revolving Facilities, to support these operations. Cash flows from operations are subject to a number of other factors, including but not limited to regulatory constraints, economic trends and market volatility (see “Item 1A. Risk Factors,” in the Duke Energy Registrants’ Annual Reports on Form 10-K/A for additional information).

## Restrictive Debt Covenants

The Duke Energy Registrants’ debt and credit agreements contain various financial and other covenants. The Master Credit Facility contains a covenant requiring the debt-to-total capitalization ratio not to exceed 65 percent for all borrowers except Piedmont, and 70 percent for Piedmont. Failure to meet those covenants beyond applicable grace periods could result in accelerated due dates and/or termination of the agreements or sublimits thereto. As of March 31, 2018, each of the Duke Energy Registrants was in compliance with all covenants related to their debt agreements. In addition, some credit agreements may allow for acceleration of payments or termination of the agreements due to nonpayment or acceleration of other significant indebtedness of the borrower or some of its subsidiaries. None of the debt or credit agreements contain material adverse change clauses.

## Credit Ratings

Credit ratings are intended to provide credit lenders a framework for comparing the credit quality of securities and are not a recommendation to buy, sell or hold. The Duke Energy Registrants’ credit ratings are dependent on the rating agencies’ assessments of their ability to meet their debt principal and interest obligations when they come due. If, as a result of market conditions or other factors, the Duke Energy Registrants are unable to maintain current balance sheet strength or if earnings and cash flow outlook materially deteriorate, credit ratings could be negatively impacted. Moody’s Investors Service, Inc. (Moody’s), Standard & Poor’s Rating Services and Fitch Ratings, Inc. provide credit ratings for various Duke Energy Registrants.

In January 2018, Moody’s revised the ratings outlook for Duke Energy Corporation and Piedmont from stable to negative, principally due to risk of deterioration in credit metrics resulting from the Tax Act.

## Cash Flow Information

The following table summarizes Duke Energy’s cash flows.

(in millions)	Three Months Ended	
	March 31, 2018	2017
Cash flows provided by (used in):		
Operating activities	\$1,391	\$1,246
Investing activities	(2,264 )	(2,361 )
Financing activities	947	1,596
Net increase in cash, cash equivalents and restricted cash	74	481
Cash, cash equivalents and restricted cash at beginning of period	505	541
Cash, cash equivalents and restricted cash at end of period	\$579	\$1,022

## OPERATING CASH FLOWS

The following table summarizes key components of Duke Energy’s operating cash flows.

(in millions)	Three Months Ended	
	March 31, 2018	2017
Net income	\$622	\$717
Non-cash adjustments to net income	1,610	1,237
Contributions to qualified pension plans	(141 )	—
Payments for asset retirement obligations	(122 )	(134 )
Payment for disposal of other assets	(105 )	—
Working capital	(473 )	(574 )

Net cash provided by operating activities \$1,391 \$1,246

The variance was primarily due to:

a \$278 million increase in net income after adjustment for non-cash items primarily due to a return to normal weather this year compared to the significantly warmer winter weather in the prior year, increased pricing and increased rider revenue; and

a \$101 million decrease in cash outflows from working capital due primarily to timing of payment of accruals;

110

---

## PART I

Partially offset by:

- a \$141 million increase in contributions to qualified pension plans; and
- a \$105 million payment for disposal of Beckjord.

## INVESTING CASH FLOWS

The following table summarizes key components of Duke Energy's investing cash flows.

(in millions)	Three Months Ended March 31,	
	2018	2017
Capital, investment and acquisition expenditures	\$(2,161)	\$(2,335)
Other investing items	(103 )	(26 )
Net cash used in investing activities	\$(2,264)	\$(2,361)

The variance was primarily due to:

- a \$101 million decrease in contributions to equity investments due to projects self funding as they near completion and projects placed in service in 2017; and
- a \$73 million decrease due to lower overall investments in regulated generation and natural gas, partially offset by increased investments in commercial renewables;

Partially offset by:

- a \$47 million increase in cash used for other investing items related to debt and equity securities; and
- a \$42 million increase in cash used for cost of removal, net of salvage value primarily due to increased spending for replacement projects in the Electric Utilities and Infrastructure segment.

## FINANCING CASH FLOWS

The following table summarizes key components of Duke Energy's financing cash flows.

(in millions)	Three Months Ended March 31,	
	2018	2017
Issuances of long-term debt, net	\$753	\$1,155
Issuances of common stock	21	—
Notes payable and commercial paper	791	1,063
Dividends paid	(599 )	(600 )
Other financing items	(19 )	(22 )
Net cash provided by financing activities	\$947	\$1,596

The variance was primarily due to:

- a \$402 million decrease in proceeds from net issuances of long-term debt mainly due to the timing of issuances and redemptions of long-term debt; and
- a \$272 million decrease in net proceeds from issuances of notes payable and commercial paper primarily due to lower capital spending in the current period and an increase in commercial paper in prior year to fund repayment of debt.

## Summary of Significant Debt Issuances

Refer to Note 5 to the Condensed Consolidated Financial Statements, "Debt and Credit Facilities," for further information regarding significant debt issuances.

## OTHER MATTERS

## Environmental Regulations

The Duke Energy Registrants are subject to federal, state and local regulations regarding air and water quality, hazardous and solid waste disposal and other environmental matters. These regulations can be changed from time to time and result in new obligations of the Duke Energy Registrants.

The following sections outline various proposed and recently enacted regulations that may impact the Duke Energy Registrants. Refer to Note 3 to the Condensed Consolidated Financial Statements, "Regulatory Matters," for further

information regarding potential plant retirements and regulatory filings related to the Duke Energy Registrants.

111

---

## PART I

## Coal Combustion Residuals

In April 2015, the EPA published a rule to regulate the disposal of CCR from electric utilities as solid waste. The federal regulation classifies CCR as nonhazardous waste and allows for beneficial use of CCR with some restrictions. The regulation applies to all new and existing landfills, new and existing surface impoundments receiving CCR and existing surface impoundments that are no longer receiving CCR but contain liquid located at stations currently generating electricity (regardless of fuel source). The rule establishes requirements regarding landfill design, structural integrity design and assessment criteria for surface impoundments, groundwater monitoring, protection and remedial procedures and other operational and reporting procedures to ensure the safe disposal and management of CCR. Various industry and environmental parties have appealed the EPA's CCR rule in the U.S. Court of Appeals for the District of Columbia (D.C. Circuit Court). On April 18, 2016, the EPA filed a motion with the federal court to settle five issues raised in litigation. On June 14, 2016, the court approved the motion with respect to all of those issues. Duke Energy does not expect a material impact from the settlement or that it will result in additional ARO adjustments. On September 13, 2017, EPA responded to a petition by the Utility Solid Waste Activities Group that the agency would reconsider certain provisions of the final rule, and asked the D.C. Circuit Court to suspend the litigation. The D.C. Circuit Court denied EPA's petition to suspend the litigation and oral argument was held on November 20, 2017. The court has not issued an order in the matter. Duke Energy cannot predict the outcome of the litigation.

On March 15, 2018, EPA published proposed amendments to the federal CCR rule, including revisions that were required as part of a CCR litigation settlement, as well as changes that the agency considers warranted due to the passage of the Water Infrastructure Improvements for the Nation Act, which provides statutory authority for state and federal permit programs. The proposed amendments do not repeal the CCR rule, and the rule's major requirements for groundwater monitoring, location restrictions, operating criteria, and design standards remain in place. Duke Energy does not expect any significant changes to our coal ash basin closure plans or compliance requirements under the CCR rule.

In addition to the requirements of the federal CCR regulation, CCR landfills and surface impoundments will continue to be independently regulated by most states. Cost recovery for future expenditures will be pursued through the normal ratemaking process with federal and state utility commissions and via wholesale contracts, which permit recovery of necessary and prudently incurred costs associated with Duke Energy's regulated operations. For more information, see Note 9, "Asset Retirement Obligations," in Duke Energy's Annual Report on Form 10-K/A for the year ended December 31, 2017.

## Coal Ash Management Act of 2014

Asset retirement obligations recorded on the Duke Energy Carolinas and Duke Energy Progress Condensed Consolidated Balance Sheets at March 31, 2018, and December 31, 2017, include the legal obligation for closure of coal ash basins and the disposal of related ash as a result of the Coal Ash Act, the EPA CCR rule and other agreements. The Coal Ash Act requires Duke Energy to undertake dam improvement projects and to provide access to a permanent alternative drinking water source to certain residents within a half-mile of coal ash basin compliance boundaries and to certain other potentially impacted residents. The legislation requires excavation of the Sutton, Riverbend and Dan River basins by August 1, 2019, and Asheville basins by August 1, 2022. Excavation at these sites may include a combination of transfer of coal ash to an engineered landfill or conversion for beneficial use. Basins at the H.F. Lee, Cape Fear and Weatherspoon sites are required to be closed through excavation no later than August 1, 2028. Excavation at these sites can include conversion of the basin to a lined industrial landfill, transfer of ash to an engineered landfill or conversion for beneficial use. The remaining basins are required to be closed no later than December 31, 2024, through conversion to a lined industrial landfill, transfer to an engineered landfill or conversion for beneficial use, unless certain dam improvement projects and alternative drinking water source projects are completed by October 15, 2018. Upon satisfactory completion of these projects, the closure deadline would be extended to December 31, 2029, and could include closure through the combination of a cap system and a groundwater monitoring system.

Additionally, the Coal Ash Act requires the installation and operation of three large-scale coal ash beneficiation projects to produce reprocessed ash for use in the concrete industry. Duke Energy selected the Buck, H.F. Lee and Cape Fear plants for these projects. Closure at these sites is required to be completed no later than December 31, 2029. The Coal Ash Act includes a variance procedure for compliance deadlines and other issues surrounding the management of CCR and CCR surface impoundments and prohibits cost recovery in customer rates for unlawful discharge of ash impoundment waters occurring after January 1, 2014. The Coal Ash Act leaves the decision on cost recovery determinations related to closure of ash impoundments to the normal ratemaking processes before utility regulatory commissions. Consistent with the requirements of the Coal Ash Act, Duke Energy has submitted comprehensive site assessments and groundwater corrective plans to NCDEQ and will submit to NCDEQ site-specific coal ash impoundment closure plans in advance of closure. These plans and all associated permits must be approved by NCDEQ before closure work can begin.

For more information, see Note 9, "Asset Retirement Obligations," in Duke Energy's Annual Report on Form 10-K/A for the year ended December 31, 2017.

#### Clean Water Act 316(b)

The EPA published the final 316(b) cooling water intake structure rule on August 15, 2014, with an effective date of October 14, 2014. The rule applies to 26 of the electric generating facilities the Duke Energy Registrants own and operate. The rule allows for several options to demonstrate compliance and provides flexibility to the state environmental permitting agencies to make determinations on controls, if any, that will be required for cooling water intake structures. Any required intake structure modifications and/or retrofits are expected to be installed in the 2019 to 2023 time frame. Petitions challenging the rule have been filed by several groups. Oral argument was held on September 14, 2017. It is unknown when the courts will rule on the petitions. The Duke Energy Registrants cannot predict the outcome of these matters.

## PART I

## Steam Electric Effluent Limitations Guidelines

On January 4, 2016, the final Steam Electric Effluent Limitations Guidelines (ELG) rule became effective. The rule establishes new requirements for wastewater streams associated with steam electric power generation and includes more stringent controls for any new coal plants that may be built in the future. As originally written, affected facilities were required to comply between 2018 and 2023, depending on the timing of Clean Water Act (CWA) discharge permits. Most of the steam electric generating facilities the Duke Energy Registrants own are affected sources. The Duke Energy Registrants are well-positioned to meet the majority of the requirements of the rule due to current efforts to convert to dry ash handling. Petitions challenging the rule have been filed by several groups. On March 16, 2015, Duke Energy Indiana filed its own legal challenge to the rule with the Seventh Circuit Court of Appeals specific to the ELG rule focused on the limits imposed on IGCC facilities (gasification wastewater). All challenges to the rule were consolidated in the Fifth Circuit Court of Appeals. On August 22, 2017, the Fifth Circuit Court of Appeals granted EPA's Motion to Govern Further Proceedings, thereby severing and suspending the claims related to flue gas desulfurization wastewater, bottom ash transport water and gasification wastewater. Claims regarding gasification wastewater were stayed, pending the issuance of the variance to Duke Energy Indiana. Duke Energy Indiana's federal court challenge to EPA's Effluent Limitations Guidelines and Standards for the Steam Electric Power Generating Point Source Category remains in abeyance. After a long delay, EPA issued a variance for discharges at Edwardsport of wastewater associated with the gasification process. The variance will be incorporated by the state agency into a new wastewater discharge permit. Once the permit has issued and the time limit for a third-party challenge expires, Duke Energy Indiana will voluntarily dismiss the federal court challenge. The litigation will continue as to claims related to other waste streams.

Separate from the litigation, EPA finalized a rule on September 18, 2017, postponing the earliest applicability date for bottom ash transport water and flue gas desulfurization wastewater from 2018 to 2020 and retaining the end applicability date of 2023. Also, as part of the rule, EPA reiterated its intent to conduct a new rulemaking to review the effluent limitation guidelines for bottom ash transport water and flue gas desulfurization wastewater. EPA projects that a new rule on these two issues will be finalized by late 2020.

The Duke Energy Registrants cannot predict the outcome of these matters.

## Estimated Cost and Impacts of Rulemakings

Duke Energy will incur capital expenditures to comply with the environmental regulations and rules discussed above. The following table provides five-year estimated costs, excluding AFUDC, of new control equipment that may need to be installed on existing power plants primarily to comply with the Coal Ash Act requirements for conversion to dry disposal of bottom ash and fly ash, CWA 316(b) and ELGs through December 31, 2022. The table excludes ash basin closure costs recorded in Asset retirement obligations on the Condensed Consolidated Balance Sheets. For more information related to AROs, see Note 9, "Asset Retirement Obligations" in Duke Energy's Annual Report on Form 10 K/A for the year ended December 31, 2017.

(in millions)	Estimated Cost
Duke Energy	\$ 850
Duke Energy Carolinas	370
Progress Energy	360
Duke Energy Progress	230
Duke Energy Florida	130
Duke Energy Ohio	70
Duke Energy Indiana	50

The Duke Energy Registrants also expect to incur increased fuel, purchased power, operation and maintenance and other expenses, in addition to costs for replacement generation for potential coal-fired power plant retirements, as a result of these regulations. Actual compliance costs incurred may be materially different from these estimates due to reasons such as the timing and requirements of EPA regulations and the resolution of legal challenges to the rules. The Duke Energy Registrants intend to seek rate recovery of necessary and prudently incurred costs associated with

regulated operations to comply with these regulations.

#### Cross-State Air Pollution Rule

On September 7, 2016, EPA finalized a revision to the Cross-State Air Pollution Rule (CSAPR); the revised rule is known as the CSAPR Update Rule. The CSAPR Update Rule reduces the CSAPR Phase 2 state ozone season NO<sub>x</sub> emission budgets for 22 eastern states, including Ohio, Kentucky and Indiana. In the final CSAPR Update Rule, the EPA removed Florida, South Carolina and North Carolina from the ozone season NO<sub>x</sub> program. Beginning in 2017, Duke Energy Registrants in these states will not be subject to any CSAPR ozone season NO<sub>x</sub> emission limitations. For the states that remain in the program, the reduced state ozone season NO<sub>x</sub> emission budgets took effect on May 1, 2017. In Kentucky and Indiana, where Duke Energy Registrants own and operate coal-fired electric generating units (EGUs) subject to the final rule requirements, near-term responses include changing unit dispatch to run certain generating units less frequently and/or purchasing NO<sub>x</sub> allowances from the trading market. Longer term, upgrading the performance of existing NO<sub>x</sub> controls is an option. The Indiana Utility Group and the Indiana Energy Association jointly filed a petition for reconsideration asking that the EPA correct errors it made in calculating the Indiana budget and increase the budget accordingly. EPA has yet to act on the petition. Numerous parties have filed petitions with the D.C. Circuit Court challenging various aspects of the CSAPR Update Rule. Final briefs in the case were due April 9, 2018. The date for oral argument has not been established. The Duke Energy Registrants cannot predict the outcome of these matters.



## PART I

## Carbon Pollution Standards for New, Modified and Reconstructed Power Plants

On October 23, 2015, the EPA published a final rule in the Federal Register establishing carbon dioxide (CO<sub>2</sub>) emissions limits for new, modified and reconstructed power plants. The requirements for new plants apply to plants that commenced construction after January 8, 2014. The EPA set an emissions standard for coal units of 1,400 pounds of CO<sub>2</sub> per gross MWh, which would require the application of partial carbon capture and storage (CCS) technology for a coal unit to be able to meet the limit. Utility-scale CCS is not currently a demonstrated and commercially available technology for coal-fired EGUs, and therefore the final standard effectively prevents the development of new coal-fired generation. The EPA set a final standard of 1,000 pounds of CO<sub>2</sub> per gross MWh for new natural gas combined-cycle units.

On March 28, 2017, President Trump signed an executive order directing EPA to review the rule and determine whether to suspend, revise or rescind it. On the same day, the Department of Justice (DOJ) filed a motion with the D.C. Circuit Court requesting that the court stay the litigation of the rule while it is reviewed by EPA. Subsequent to the DOJ motion, the D.C. Circuit Court canceled oral argument in the case. On August 10, 2017, the court ordered that the litigation be suspended indefinitely. The rule remains in effect pending the outcome of litigation and EPA's review. EPA has not announced a schedule for completing its review. The Duke Energy Registrants cannot predict the outcome of these matters but do not expect the impacts of the current final standards will be material to Duke Energy's financial position, results of operations or cash flows.

## Clean Power Plan

On October 23, 2015, the EPA published in the Federal Register the final Clean Power Plan (CPP) rule to regulate CO<sub>2</sub> emissions from existing fossil fuel-fired EGUs. The CPP established CO<sub>2</sub> emission rates and mass cap goals that apply to existing fossil fuel-fired EGUs. Petitions challenging the rule have been filed by numerous groups and on February 9, 2016, the Supreme Court issued a stay of the final CPP rule, halting implementation of the CPP until legal challenges are resolved. States in which the Duke Energy Registrants operate have suspended work on the CPP in response to the stay. Oral arguments before 10 of the 11 judges on D.C. Circuit Court were heard on September 27, 2016. The court has not issued its opinion in the case.

On March 28, 2017, President Trump signed an executive order directing EPA to review the CPP and determine whether to suspend, revise or rescind the rule. On the same day, the DOJ filed a motion with the D.C. Circuit Court requesting that the court stay the litigation of the rule while it is reviewed by EPA. On April 28, 2017, the court issued an order to suspend the litigation for 60 days. On August 8, 2017, the court, on its own motion, extended the suspension of the litigation for an additional 60 days. On October 16, 2017, EPA issued a Notice of Proposed Rulemaking (NPR) to repeal the CPP based on a change to EPA's legal interpretation of the section of the Clean Air Act on which the CPP was based. In the proposal, EPA indicates that it has not determined whether it will issue a rule to replace the CPP, and if it will do so, when and what form that rule will take. The comment period on EPA's NPR ended April 26, 2018. On December 28, 2017, EPA issued an Advance Notice of Proposed Rulemaking (ANPRM) in which it seeks public comment on various aspects of a potential CPP replacement rule. The comment period on the ANPRM ended February 26, 2018. If EPA decides to move forward with a CPP replacement rule, it will need to issue a formal proposal for public comment. Litigation of the CPP remains on hold in the D.C. Circuit Court and the February 2016 U.S. Supreme Court stay of the CPP remains in effect. The Duke Energy Registrants cannot predict the outcome of these matters.

## Section 126 Petitions

On November 16, 2016, the State of Maryland filed a petition with EPA under Section 126 of the Clean Air Act alleging that 19 power plants, including two that Duke Energy Registrants own and operate, contribute to violations of EPA's National Ambient Air Quality Standards (NAAQS) for ozone in the State of Maryland. On March 12, 2018, the State of New York filed a petition with EPA, also under Section 126 of the Clean Air Act alleging that over 60 power plants, including four that Duke Energy Registrants own and operate, contribute to violations of EPA's ozone NAAQS in the State of New York. Both Maryland and New York seek EPA orders requiring the states in which the named power plants operate impose more stringent nitrogen oxide (NO<sub>x</sub>) emission limitations on the plants. EPA has yet to act on these petitions; litigation has been filed by the State of Maryland in federal district court to compel EPA action.

EPA has proposed to the court that it will act on the Maryland petition by the end of 2018. The impact of these petitions could be more stringent requirements for the operation of NO<sub>x</sub> emission controls at these plants. The Duke Energy Registrants cannot predict the outcome of these matters.

Global Climate Change

For other information on global climate change and the potential impacts on Duke Energy, see “Other Matters” in “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in Duke Energy’s Annual Report on Form 10-K/A for the year ended December 31, 2017.

North Carolina Legislation

For other information on North Carolina legislation and the potential impacts on Duke Energy, see “Other Matters” in “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in Duke Energy’s Annual Report on Form 10-K/A for the year ended December 31, 2017.

Nuclear Matters

For other information on nuclear matters and the potential impacts on Duke Energy, see “Other Matters” in “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in Duke Energy’s Annual Report on Form 10-K/A for the year ended December 31, 2017.

New Accounting Standards

See Note 1 to the Condensed Consolidated Financial Statements, “Organization and Basis of Presentation,” for a discussion of the impact of new accounting standards.

## PART I

### Off-Balance Sheet Arrangements

During the three months ended March 31, 2018, there were no material changes to Duke Energy's off-balance sheet arrangements. See Note 11 to the Condensed Consolidated Financial Statements, "Variable Interest Entities," for a discussion of off-balance sheet arrangements regarding Atlantic Coast Pipeline. For additional information on Duke Energy's off-balance sheet arrangements, see "Off-Balance Sheet Arrangements" in "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Duke Energy's Annual Report on Form 10-K/A for the year ended December 31, 2017.

### Contractual Obligations

Duke Energy enters into contracts that require payment of cash at certain specified periods, based on certain specified minimum quantities and prices. During the three months ended March 31, 2018, there were no material changes in Duke Energy's contractual obligations. For an in-depth discussion of Duke Energy's contractual obligations, see "Contractual Obligations" and "Quantitative and Qualitative Disclosures about Market Risk" in "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Duke Energy's Annual Report on Form 10-K/A for the year ended December 31, 2017.

### Subsequent Events

See Note 17 to the Condensed Consolidated Financial Statements, "Subsequent Events," for a discussion of subsequent events.

## ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

During the three months ended March 31, 2018, there were no material changes to the Duke Energy Registrants' disclosures about market risk. For an in-depth discussion of the Duke Energy Registrants' market risks, see "Quantitative and Qualitative Disclosures about Market Risk" in Item 7 of the Annual Report on Form 10-K/A for the Duke Energy Registrants.

## ITEM 4. CONTROLS AND PROCEDURES

### Disclosure Controls and Procedures

Disclosure controls and procedures are controls and other procedures that are designed to ensure that information required to be disclosed by the Duke Energy Registrants in the reports they file or submit under the Securities Exchange Act of 1934 (Exchange Act) are recorded, processed, summarized and reported within the time periods specified by the U.S. Securities and Exchange Commission rules and forms.

Disclosure controls and procedures include, without limitation, controls and procedures designed to provide reasonable assurance that information required to be disclosed by the Duke Energy Registrants in the reports they file or submit under the Exchange Act are accumulated and communicated to management, including the Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

Under the supervision and with the participation of management, including the Chief Executive Officer and Chief Financial Officer, the Duke Energy Registrants have evaluated the effectiveness of their disclosure controls and procedures (as such term is defined in Rule 13a-15(e) and 15d-15(e) under the Exchange Act) as of March 31, 2018, and, based upon this evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that these controls and procedures are effective in providing reasonable assurance of compliance.

### Changes in Internal Control over Financial Reporting

Under the supervision and with the participation of management, including the Chief Executive Officer and Chief Financial Officer, the Duke Energy Registrants have evaluated changes in internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during the fiscal quarter ended March 31, 2018, and have concluded no change has materially affected, or is reasonably likely to materially affect, internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

For information regarding material legal proceedings, including regulatory and environmental matters, see Note 3, "Regulatory Matters," and Note 4, "Commitments and Contingencies," to the Condensed Consolidated Financial Statements.

Methyl tertiary butyl ether (MTBE) Litigation

On June 19, 2014, the Commonwealth of Pennsylvania filed suit against, among others, Duke Energy Merchants, alleging contamination of waters of the state by MTBE from leaking gasoline storage tanks. MTBE is a gasoline additive intended to increase the oxygen level in gasoline and make it burn cleaner. The lawsuit was moved to federal court and consolidated into an existing multidistrict litigation docket of pending MTBE cases. This suit was settled for an immaterial amount in December 2017 and dismissed in January 2018.

In December 2017, the state of Maryland filed a lawsuit in Baltimore City Circuit Court against Duke Energy Merchants and other defendants alleging contamination of its water supplies from MTBE. Duke Energy cannot predict the outcome of this matter.

ITEM 1A. RISK FACTORS

In addition to the other information set forth in this report, careful consideration should be given to the factors discussed in Part I, "Item 1A. Risk Factors" in the Duke Energy Registrants' Annual Report on Form 10-K/A, which could materially affect the Duke Energy Registrants' financial condition or future results.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None.

PART II

ITEM 6. EXHIBITS

Exhibits filed herein are designated by an asterisk (\*). All exhibits not so designated are incorporated by reference to a prior filing, as indicated. Items constituting management contracts or compensatory plans or arrangements are designated by a double asterisk (\*\*). The Company agrees to furnish upon request to the Commission a copy of any omitted schedules or exhibits upon request on all items designated by a triple asterisk (\*\*\*)

Exhibit Number	Duke Energy	Duke Energy Carolinas	Duke Energy Progress	Duke Energy Florida	Duke Energy Ohio	Duke Energy Indiana	Duke Energy Piedmont
<p><u>One Hundredth Supplemental Indenture, dated as of March 1, 2018 (incorporated by reference to Exhibit 4.1 to Registrant's Current Report on Form 8-K filed on March 1, 2018, File No. 1-04928).</u></p>	X						
<p>*<u>Eighteenth Supplemental Indenture, dated as of March 29, 2018.</u></p>	X						
<p><u>Confirmation of Forward Sale Transaction, dated March 6, 2018, between the Company and Credit Suisse Securities (USA) LLC, acting as agent for Credit Suisse Capital LLC (incorporated by reference to Exhibit 10.1 to Registrant's Current Report on Form 8-K filed on March 9, 2018, File No. 1-32853).</u></p>	X						
<p><u>Confirmation of Forward Sale Transaction, dated March 6, 2018, between the Company and JPMorgan Chase Bank, National Association, London Branch (incorporated by reference to Exhibit 10.2 to Registrant's Current Report on Form 8-K filed on March 9, 2018, File No. 1-32853).</u></p>	X						
<p><u>Additional Confirmation of Forward Sale Transaction, dated March 7, 2018, between the Company and Credit Suisse Securities (USA) LLC, acting as agent for Credit Suisse Capital LLC (incorporated by reference to Exhibit 10.3 to Registrant's Current Report on Form 8-K filed on March 9, 2018, File No. 1-32853).</u></p>	X						
<p><u>Additional Confirmation of Forward Sale Transaction, dated March 7, 2018, between the Company and JPMorgan Chase Bank, National Association, London Branch (incorporated by reference to Exhibit 10.4 to Registrant's Current Report on Form 8-K filed on March 9, 2018, File No. 1-32853).</u></p>	X						
<p>*<u>Computation of Ratio of Earnings to Fixed Charges – DUKE ENERGY</u></p>	X						

CORPORATION.

Certification of the Chief Executive Officer

\* Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. X

Certification of the Chief Executive Officer

\* Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. X

Certification of the Chief Executive Officer

\* Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. X

Certification of the Chief Executive Officer

\* Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. X

Certification of the Chief Executive Officer

\* Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. X



PART II

<u>*32.2.3</u> Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.	X
<u>*32.2.4</u> Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.	X
<u>*32.2.5</u> Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.	X
<u>*32.2.6</u> Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.	X
<u>*32.2.7</u> Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.	X
<u>*32.2.8</u> Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.	X
<del>XBRIND</del> Instance Document.	X X X X X X X X
<del>XBRISCH</del> Economy Extension Schema Document.	X X X X X X X X
<del>XBRICAL</del> Economy Calculation Linkbase Document.	X X X X X X X X
<del>XBRILAB</del> Economy Label Linkbase Document.	X X X X X X X X
<del>XBRIPRE</del> Economy Presentation Linkbase Document.	X X X X X X X X
<del>XBRIDEF</del> Economy Definition Linkbase Document.	X X X X X X X X

The total amount of securities of the registrant or its subsidiaries authorized under any instrument with respect to long-term debt not filed as an exhibit does not exceed 10 percent of the total assets of the registrant and its subsidiaries on a consolidated basis. The registrant agrees, upon request of the SEC, to furnish copies of any or all of such instruments to it.



PART II

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrants have duly caused this report to be signed on their behalf by the undersigned thereunto duly authorized.

DUKE ENERGY CORPORATION  
DUKE ENERGY CAROLINAS, LLC  
PROGRESS ENERGY, INC.  
DUKE ENERGY PROGRESS, LLC  
DUKE ENERGY FLORIDA, LLC  
DUKE ENERGY OHIO, INC.  
DUKE ENERGY INDIANA, LLC  
PIEDMONT NATURAL GAS COMPANY, INC.

Date: May 10, 2018 /s/ STEVEN K. YOUNG

Steven K. Young

Executive Vice President and Chief Financial Officer (Principal Financial Officer)

Date: May 10, 2018 /s/ WILLIAM E. CURRENS JR.

William E. Currens Jr.

Senior Vice President, Chief Accounting Officer  
and Controller

(Principal Accounting Officer)