

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

DOCKET NO. E-7, SUB 1243

DOCKET NO. E-2, SUB 1262

In the Matter of:)	
)	
Petition of Duke Energy Carolinas, LLC	)	DIRECT TESTIMONY OF
And Duke Energy Progress, LLC for	)	THOMAS J. HEATH, JR.
Issuance of Storm Cost Recovery Financing)	FOR DUKE ENERGY
Orders)	CAROLINAS, LLC AND DUKE
)	ENERGY PROGRESS, LLC

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I. INTRODUCTION

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Thomas J. Heath Jr. My current business address is 550 South Tryon Street, Charlotte, North Carolina 28202.

Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?

A. I am employed by Duke Energy Business Services, LLC, a service company affiliate of Duke Energy Carolinas, LLC (“DEC”) and Duke Energy Progress, LLC. (“DEP,” collectively the “Petitioners,” or the “Companies”) and a subsidiary of Duke Energy Corporation (“Duke Energy”), as Structured Finance Director.

Q. PLEASE BRIEFLY SUMMARIZE YOUR EDUCATIONAL BACKGROUND AND PROFESSIONAL EXPERIENCE.

A. I have a Bachelor of Science degree with a major in Accounting from Southeastern Louisiana University and I am a Certified Public Accountant in the Commonwealth of Kentucky. My professional work experience began in 1995 with the public accounting firm of Price Waterhouse (now PricewaterhouseCoopers), where my work focused on audits of GAAP and SEC-compliant financial statements, including those in the electric utility industry, and the performance of due diligence procedures over mergers and acquisitions. In April 2004, I joined Cinergy Corp. (a predecessor company to today’s Duke Energy) as a Lead Analyst in the Accounting Research Group where I was responsible for assessing the appropriate accounting and disclosure treatment for significant non-routine matters as well as certain regulatory

1 accounting interpretations. Over the next 10 years, I held various finance-
2 related positions of increasing responsibility. In August 2014, I accepted a
3 position as Corporate Finance Director in Duke Energy's Treasury Department,
4 where I was responsible for executing public debt offerings for Duke Energy
5 and its utility subsidiaries with primary focus on DEC and DEP. While in this
6 position, I led the approximately \$1.3 billion Nuclear Asset-Recovery
7 Securitization for Duke Energy Florida, LLC. Following the completion of that
8 financing, I assumed my current position as Structure Finance Director.

9 **Q. WHAT ARE YOUR RESPONSIBILITIES IN YOUR CURRENT**
10 **POSITION?**

11 A. I am responsible for the execution of project and structured financings of Duke
12 Energy, its subsidiary utilities, and its nonregulated renewable operations. This
13 includes the issuance, renewal, and refinancing of project and structured debt
14 obligations.

15 **Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE NORTH**
16 **CAROLINA UTILITIES COMMISSION ("COMMISSION")?**

17 A. No.

18 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS**
19 **PROCEEDING?**

20 A. The purpose of my testimony is to: (i) present and evaluate DEC and DEP's
21 proposal to use storm recovery bonds to finance storm recovery costs as
22 permitted by N.C. Gen. Stat. § 62-172 (the "Securitization Statute"); (ii) support
23 the Joint Petition for Financing Orders (the "Joint Petition") requesting

1 approval of the proposed issuance of storm recovery bonds, which is DEC and
2 DEP's recommendation requested in this proceeding; (iii) provide an overview
3 of DEC and DEP's proposed securitization transaction based on utility
4 securitization bond transaction norms; and (iv) provide an estimate of financing
5 costs, both up-front and on-going.

6 **Q. ARE YOU SPONSORING ANY EXHIBITS TO YOUR DIRECT**
7 **TESTIMONY?**

8 A. Yes. I am sponsoring:

- 9 ● Heath Exhibit 1 – estimated up-front financing and on-going financing costs
10 for storm recovery bonds; and
- 11 ● Heath Exhibit 2a – Form of Storm Recovery Property Purchase and Sale
12 Agreement;
- 13 ● Heath Exhibit 2b – Form of Storm Recovery Property Servicing Agreement;
- 14 ● Heath Exhibit 2c – Form of Indenture;
- 15 ● Heath Exhibit 2d – Form of Administration Agreement;
- 16 ● Heath Exhibit 2e – Form of Amended and Restated LLC Agreement; and
- 17 ● Heath Exhibit 2f – Form of the Declaration of Trust for the Finance Entity.

18 Each of these exhibits were prepared under my direction and control,
19 and to the best of my knowledge all factual matters contained therein are true
20 and accurate.

1 **Q. PLEASE IDENTIFY THE COMPANIES' OTHER WITNESSES AND**
2 **SUMMARIZE THE PURPOSE OF THEIR TESTIMONIES IN THIS**
3 **PROCEEDING.**

4 A. The following is a list of the other witnesses who have submitted testimony on
5 behalf of DEC and DEP and a brief description of the general subject matter
6 addressed by each witness:

- 7 ● Charles N. Atkins II, Chief Executive Officer, Atkins Capital Strategies
8 LLC ("Atkins Capital" or "Co-Advisor") – Overview of the utility
9 securitization market; describes DEC and DEP's proposed transactions;
10 explains the collection and remittance process; discussion of key elements
11 of the Financing Orders; describes the rating agency process; describes the
12 marketing process; and explains the issuance advice letter process;
- 13 ● Melissa Abernathy, Director of Rates and Regulatory Planning for North
14 Carolina and South Carolina – Updates the storm recovery costs; identifies
15 and estimates the revenue requirements necessary to recover the storm
16 recovery costs through the proposed storm recovery charges; describes the
17 allocation methodology for the storm recovery charges; and demonstrates
18 how the storm recovery charge mitigates rate impacts as compared to the
19 traditional method of recovery;
- 20 ● Jonathan Byrd, Director, Southeast Pricing & Regulatory Solutions –
21 Describes the changes to each Company's retail electric rate schedules;
22 quantifies the effect of these proposed changes on each Company's North
23 Carolina retail electric customers; discusses how each Company proposes

1 to implement the storm recovery charges, as quantified in witness
2 Abernathy's testimony; and presents the proposed tariff sheets; and
3 • Shana W. Angers, Accounting Manager for DEP – Proposes a detailed
4 framework for the true-up mechanism and the accounting entries for storm
5 recovery financing.

6 **II. SECURITIZATION RECOMMENDATION**

7 **Q. PLEASE DESCRIBE THE COMPANIES' REQUEST TO FINANCE** 8 **STORM RECOVERY COSTS WITH STORM RECOVERY BONDS.**

9 A. DEC and DEP propose that the Commission approve the issuance of storm
10 recovery bonds to finance storm recovery costs. The proceeds from the storm
11 recovery bond issuances will be used to relieve DEC and DEP's storm recovery
12 costs and pay up-front financing costs. The amortization of the bonds will be
13 structured to provide an annual revenue requirement (including recovery of on-
14 going financing costs) of approximately \$18.1 million for DEC and
15 approximately \$58.1 million for DEP over the scheduled final term of
16 approximately 15 years based on market conditions as of October 6, 2020. This
17 annual revenue requirement estimate excludes any accrued carrying charges on
18 the storm recovery costs subsequent to May 31, 2021 and excludes incremental
19 up-front financing costs and on-going financing costs that may be incurred
20 above DEC and DEP's current estimate of up-front financing costs and on-
21 going financing costs, if applicable. Customers will be billed on a kWh basis
22 beginning with the first billing cycle of the month following the issuance of the
23 storm recovery bonds.

1 **Q. IS THE PROPOSED RECOVERY PERIOD FOR THE STORM**
2 **RECOVERY BONDS CONSISTENT WITH THE REQUIREMENTS OF**
3 **THE SECURITIZATION STATUTE?**

4 A. Yes. The Securitization Statute requires that the Commission specify the period
5 over which the storm recovery costs may be recovered. DEC and DEP propose
6 that storm recovery bonds will be issued with a scheduled final payment date
7 of approximately 15 years. The legal maturity date for each tranche may be
8 longer than the scheduled final payment date for that tranche.

9 As discussed in witness Atkins' testimony, the scheduled final payment
10 date of the storm recovery bonds represents the date at which the final payment
11 is expected to be made, but no legal obligation exists to retire the class in full
12 by that date. The legal maturity date is the date by which the bond principal
13 must be paid, or a default will be declared. The proposed preliminary structure
14 for this transaction utilizes a legal maturity that is approximately 24 months
15 longer than the scheduled final payment date for each bond, but this will
16 ultimately be determined in consultation with the rating agencies. The
17 difference between the scheduled final payment date and legal maturity
18 provides additional credit protection by allowing shortfalls in principal
19 payments to be recovered over this additional time period due to any unforeseen
20 circumstance. As such, this gap between the two dates, or "cushion," is a
21 benefit to the structure and is a contributing factor to achieving a "AAA" rating,
22 helping to lower the cost of funds on the bonds and therefore benefitting
23 customers. Thus, the proposed scheduled final payment date of approximately

1 15 years is also consistent with the statutorily required Commission
2 determinations that (i) the proposed issuance of the storm recovery bonds and
3 the imposition and collection of storm recovery charges are expected to provide
4 quantifiable benefits to customers as compared to the costs that would have
5 been incurred absent the issuance of storm recovery bonds and (ii) structuring
6 and pricing of the storm recovery bonds are reasonably expected to result in the
7 lowest storm recovery charges consistent with market conditions at the time the
8 storm recovery bonds are priced and the terms set forth in the Financing Orders
9 (the “Statutory Cost Objectives”).

10 This gap between the two dates will be driven by rating agency
11 concerns. To that effect, the period of time between the two dates could
12 potentially be shortened to one year, but that will not be known until the ratings
13 process is complete and will depend on a number of factors, including but not
14 limited to the size of the service territory and the length of the latest scheduled
15 final payment date.

16 DEC and DEP also considered a structure of storm recovery bonds with
17 a scheduled final payment date of approximately 20 years. However, the
18 Companies believe that the 15-year proposal strikes the right balance between
19 the length of the recovery period and the length and level of the recovery
20 charges. Additionally, the proposed 15-year structure is consistent with the
21 longest recovery period proposed by the North Carolina Utilities
22 Commission—Public Staff (“Public Staff”) in DEP’s storm deferral docket,
23 which was 15 years.

1 **Q. PLEASE DETAIL THE AMOUNTS DEC AND DEP ARE SEEKING**
2 **APPROVAL TO FINANCE THROUGH THE ISSUANCE OF STORM**
3 **RECOVERY BONDS.**

4 A. DEC and DEP propose to finance, with the issuance of storm recovery bonds,
5 the full amount of DEC and DEP's storm recovery costs, which were outlined
6 in (i) DEC's petition and testimonies in Docket Nos. E-7, Sub 1187 ("DEC
7 Storm Deferral Docket") and E-7, Sub 1214 ("DEC Rate Case"); and (ii) DEP's
8 petition and testimonies in Docket Nos. E-2, Sub 1193 ("DEP Storm Deferral
9 Docket") and E-2, Sub 1219 ("DEP Rate Case"), accrued carrying charges
10 through the date of the bond issuance, and up-front financing costs. Witness
11 Abernathy's testimony provides further details on the calculation of the storm
12 recovery costs and the accrued carrying charges. My testimony will address the
13 estimated up-front financing costs and on-going financing costs.

14 **Q. WHAT AMOUNT OF STORM RECOVERY BONDS WOULD BE**
15 **REQUIRED TO FINANCE THE AMOUNTS DESCRIBED ABOVE?**

16 A. DEC anticipates the issuance of approximately \$230.8 million in storm
17 recovery bonds, which is comprised of DEC's storm recovery costs, which
18 includes \$18.6 million in capital investment, \$169.8 million in operation and
19 maintenance ("O&M") expense, plus \$37.2 million in carrying costs assuming
20 a June 1, 2021 issuance date,¹ and approximately \$5.2 million of up-front
21 financing costs.

¹ N.C. Gen. Stat. § 62-172(b)(1)b. requires that a public utility petitioning the Commission for a financing order shall describe the storm recovery costs and estimates of the costs of any storm related activities that are being undertaken to be financed by issuing storm recovery bonds.

1 DEP anticipates the issuance of approximately \$748.0 million in storm
2 recovery bonds which is comprised of DEP's storm recovery costs, which
3 includes \$68.6 million in capital investment, \$556.6 million in O&M, plus
4 \$113.8 million in carrying costs assuming a June 1, 2021 issuance date,² and
5 approximately \$9.0 million of up-front financing costs.

6 Up-front financing costs are described in more detail later in my
7 testimony. The amounts above do not include estimated carrying charges on
8 the storm recovery costs after May 31, 2021 or any up-front financing costs that
9 may be incurred above DEC or DEP's current estimate of up-front financing
10 costs; however, these amounts, if applicable, will be added to and included in
11 the storm recovery costs to be financed through the sale of the storm recovery
12 bonds.

13 **Q. WHAT WOULD BE THE IMPACT TO CUSTOMERS IF THE**
14 **COMMISSION APPROVES DEC AND DEP'S SECURITIZATION**
15 **PROPOSAL?**

16 A. For DEC, the estimated storm recovery charge as further explained in witness
17 Byrd's testimony and exhibits, under market conditions as of October 9, 2020,
18 would be approximately \$0.57 per month for a typical 1,000 kWh residential
19 bill for approximately 15 years.

20 For DEP, the estimated storm recovery charge as further explained in
21 witness Byrd's testimony and exhibits, under market conditions as of October

² See N.C. Gen. Stat. § 62-172(b)(1)b.

1 9, 2020, would be approximately \$2.81 per month for a typical 1,000 kWh
2 residential bill for approximately 15 years.

3 The actual average retail charge per kWh will vary based on changes in
4 customer growth and usage projections as well as changes in market interest
5 rates and the proposed bond structure, as well as for changes in the storm
6 recovery costs that could occur for items such as accrued carrying charges after
7 May 31, 2021 that may occur between now and the issuance date of the bonds.

8 **Q. PLEASE DETAIL HOW BOND PROCEEDS WILL BE USED.**

9 A. Bond proceeds must first be used to pay up-front financing costs associated with
10 the bond financing. Proceeds would next be used to reimburse DEC and DEP
11 for their relevant storm recovery costs plus the accrued carrying charges.

12 **Q. WHAT IF THE COMMISSION ISSUES A FINANCING ORDER BUT**
13 **THERE IS A DELAY IN ACTUALLY IMPLEMENTING THE**
14 **FINANCING OR THE FINANCING DOES NOT OCCUR?**

15 A. Subsequent to May 31, 2021, DEC and DEP will each continue to accrue the
16 carrying charges until the bonds are issued. Any delays will result in higher
17 accrued carrying charges and an ultimately higher bond issuance amount.

1 **Q. SINCE DEC AND DEP ARE EACH REQUESTING PERMISSION TO**
2 **FINANCE STORM RECOVERY BONDS, DO THE STORM**
3 **RECOVERY BONDS HAVE TO BE SOLD TO INVESTORS IN**
4 **SEPARATE TRANSACTIONS, OR MAY THEY BE CONSOLIDATED**
5 **INTO ONE TRANSACTION?**

6 A. As discussed further in witness Atkins' testimony, the preliminary structure
7 reflected in DEC and DEP's Joint Petition does assume a consolidated or
8 combined transaction. The DEC and DEP transactions involve the creation of
9 bankruptcy-remote special purpose entities ("SPEs") wholly owned by their
10 respective utility, which each issue storm recovery bonds. Under the
11 anticipated structure, DEC and DEP bonds will be issued to a third SPE, a
12 grantor trust that is wholly owned by Duke Energy Corporation ("SRB Issuer").
13 SRB Issuer will issue to the market secured pass-through notes (the "SRB
14 Securities") that are backed by the separate storm recovery bonds issued by
15 DEC and DEP. The structure of the DEC and DEP storm recovery bonds and
16 the SRB Securities are to be designed to be identical, with respect to tranching,
17 payment dates, scheduled and legal maturities. The true-up adjustment
18 effective dates for the DEC and DEP bonds are also to be the same dates. The
19 debt service payments from the DEC and DEP bonds are to be passed through
20 to service the debt service on the SRB Securities.

1 **Q. WHY DO YOU ANTICIPATE USING THIS STRUCTURE?**

2 A. As discussed further in witness Atkins' testimony, this structure is expected to
3 assist in achieving the Statutory Cost Objectives under the Securitization
4 Statute.

5 **III. TRADITIONAL METHOD OF RECOVERY**

6 **Q. DID THE PASSAGE OF THE SECURITIZATION STATUTE, WHICH**
7 **PROVIDES FOR THE ISSUANCE OF STORM RECOVERY BONDS,**
8 **ALTER THE CURRENT FRAMEWORK FOR STORM COST**
9 **RECOVERY?**

10 A. No. The Securitization Statute simply provides the Commission with an
11 additional option for recovery of storm recovery costs. Under the Securitization
12 Statute, recovery of storm recovery costs would be achieved through the
13 issuance of storm recovery bonds, which are repaid by customers through a
14 nonbypassable charge.

15 **Q. PLEASE EXPLAIN THE USE OF THE TRADITIONAL METHOD OF**
16 **RECOVERING THE STORM RECOVERY COSTS IF DEC AND DEP**
17 **DECIDE NOT TO ISSUE THE STORM RECOVERY BONDS OR IF**
18 **THE COMMISSION DOES NOT APPROVE FINANCING ORDERS**
19 **FOR THE ISSUANCE OF STORM RECOVERY BONDS.**

20 A. The traditional method of recovery for the storm recovery costs is addressed in
21 witness Abernathy's testimony. If DEC and DEP do not issue the storm
22 recovery bonds or if the Commission determines that the storm recovery costs
23 should not be securitized and instead should be recovered through the

1 traditional means, DEC and DEP will request recovery of the storm recovery
2 costs, plus accrued carrying costs, related to storms by filing petitions
3 requesting an adjustment to the storm cost recovery rider proposed in the
4 Companies' respective rate cases, Docket Nos. E-7, Sub 1214 and E-2, Sub
5 1219, in accordance with the Companies' Agreements and Stipulations of
6 Partial Settlement with the Public Staff.

7 N.C. Gen. Stat § 62-172(c)(2) provides that, after receipt of a financing
8 order, the public utility retains sole discretion regarding whether to cause the
9 bonds to be issued, including the right to defer or postpone such sale,
10 assignment, transfer, or issuance.

11 **IV. COMPARISON OF SECURITIZATION TO THE TRADITIONAL**

12 **METHOD**

13 **Q. WHAT ARE THE COMPARATIVE BENEFITS OF SECURITIZATION**
14 **RELATIVE TO THE TRADITIONAL METHOD OF RECOVERY?**

15 A. As provided in witness Abernathy's testimony and exhibits, the estimated
16 cumulative revenue requirement calculated in accordance with the Partial
17 Settlement and Stipulation between DEC and the Public Staff in Docket No. E-
18 7, Sub 1214 is \$180.1 million on a present value basis (\$285.6 million on a
19 nominal basis). Also, as provided in witness Abernathy's testimony and
20 exhibits, the estimated cumulative revenue requirement amount over the total
21 period of outstanding bonds is \$122.1 million on a present value basis (\$209.5
22 million on a nominal basis). These amounts are based on a bond structure with
23 a scheduled final term of approximately 15 years) and based on market

1 conditions that existed as of October 9, 2020. The resulting net benefits to
2 DEC's customers is \$58.1 million or 32.2 percent on a present value basis
3 (\$76.1 million on a nominal basis).

4 As provided in witness Abernathy's testimony and exhibits, the
5 estimated cumulative revenue requirement calculated in accordance with the
6 Partial Settlement and Stipulation between DEP and the Public Staff in Docket
7 No. E-2, Sub 1219 is \$599.3 million on a present value basis (\$951.9 million
8 on a nominal basis). Also, as provided in witness Abernathy's testimony and
9 exhibits, the estimated cumulative revenue requirement amount over the total
10 period of outstanding bonds is \$400.3 million on a present value basis (\$682.4
11 million on a nominal basis). These amounts are based on a bond structure with
12 a scheduled final term of approximately 15 years) and based on market
13 conditions that existed as of October 9, 2020. The resulting net benefits to
14 DEP's customers is \$199.0 million or 33.2 percent on a present value basis
15 (\$269.6 million on a nominal basis).

16 Thus, based on current market conditions, the issuance of storm
17 recovery bonds, and the imposition of storm recovery charges, is expected to
18 provide quantifiable benefits to DEC and DEP customers. The amount of
19 quantifiable benefits to DEC and DEP may change based on changes in market
20 conditions between October 9, 2020 and the date the storm recovery bonds are
21 issued. As a result, actual quantifiable benefits to DEC and DEP customers
22 could be more or less than the amounts stated above.

1 **V. DEC AND DEP's PROPOSED STORM RECOVERY BOND**
2 **TRANSACTION**

3 **Q. PLEASE PROVIDE AN OVERVIEW OF DEC AND DEP'S PROPOSED**
4 **STORM RECOVERY BOND ISSUANCE.**

5 A. As noted above, DEC and DEP will each form a bankruptcy-remote SPE to
6 acquire storm recovery property and issue and sell the storm recovery bonds.
7 These SPEs will be capitalized by DEC and DEP in an amount equal to at least
8 0.50 percent of the storm recovery bond issuance amount. DEC and DEP's
9 capital contributions will be deposited into a Capital Subaccount, which allows
10 the utility to treat the bond issuance as a financing for tax purposes and also acts
11 as a credit enhancement mechanism. As described in greater detail below,
12 under an Internal Revenue Service revenue procedure (2005-62) (provided as
13 Atkins Exhibit 2), a 0.50 percent equity contribution will be sufficient to assure
14 this desired tax treatment. This capital contribution will be made available to
15 cover any shortfalls in storm recovery charges and to make payments on the
16 storm recovery bonds, if necessary. These equity contributions will be returned
17 to DEC and DEP at the time all storm recovery bonds, and related financing
18 costs, are paid in full.

19 In addition, DEC and DEP will be permitted to earn a return on their
20 capital contribution equal to the rate of interest payable on the longest maturing
21 tranche of the storm recovery bonds. This return on invested capital will be
22 paid to DEC and DEP in accordance with a priority of payments. This payment

1 to DEC and DEP will be an on-going financing cost to be recovered through
2 the storm recovery charges.

3 DEC and DEP will receive the net proceeds after the payment of up-
4 front financing costs. The net proceeds will be used to relieve DEC and DEP's
5 storm recovery costs. DEC and DEP will each act as a servicer and will collect
6 an irrevocable, nonbypassable storm recovery charge to recover from its
7 respective customers the amounts necessary to pay principal and interest on the
8 storm recovery bonds as well as on-going financing costs associated with the
9 transaction. DEC and DEP, as servicer, will transfer the storm recovery charges
10 deemed collected to a collection account with the Indenture Trustee on a
11 periodic basis, such basis to be determined after consultation with the rating
12 agencies. The Indenture Trustee will then distribute such amounts to
13 bondholders and other parties in accordance with the payment waterfall for the
14 payment of principal and interest on the bonds and on-going financing costs
15 (described below), such as servicing fees, legal and accounting costs, trustee
16 fees, rating agency fees, assessments (i.e. regulatory assessment fees) and
17 administrative costs. The transaction documents provide more detail on the
18 payment waterfall.

19 **Q. PLEASE DESCRIBE THE TERMS OF THE STORM RECOVERY**
20 **BONDS.**

21 A. The storm recovery bonds will likely be issued in multiple tranches with
22 varying maturities to attract a greater number of investors. The targeted ratings
23 on the storm recovery bonds are expected to be AAA from at least two rating

1 agencies. Exact pricing, interest rates, terms, tranches and other characteristics
2 will be determined at the time of issuance and will depend on prevailing market
3 conditions.

4 **Q. WHEN ARE THE STORM RECOVERY BONDS EXPECTED TO BE**
5 **ISSUED?**

6 A. DEC and DEP expect to start marketing the storm recovery bonds as promptly
7 as possible after the last of the following events have occurred: 1) issuance of a
8 final, non-appealable financing order acceptable to DEC and DEP; 2) delivery
9 of any necessary SEC approvals under the Securities Act of 1933; and 3)
10 completion of the rating agency process. Upon completion of these events,
11 DEC and DEP expect to pursue an appropriately aggressive schedule to market,
12 price, and issue the bonds, subject to market conditions. DEC and DEP
13 recommend the storm recovery bonds be issued as soon as practicable and will
14 work to do so prior to May 31, 2021; however, the exact issuance date cannot
15 be determined at this time and depends on many factors, including those
16 mentioned above.

17 **Q. HOW WILL THE STORM RECOVERY BONDS BE SOLD?**

18 A. As shown in witness Atkins' testimony, since 2010, all utility asset
19 securitization transactions of a similar nature have been offered for sale to
20 investors through a group of underwriters, and of the transactions since 1997,
21 all but one of the utility securitizations have been offered to sale to investors
22 through a negotiated sales process. Therefore, based on this history of utility
23 securitization transactions, DEC and DEP's primary plan is to pursue a

1 negotiated sales process for issuance of the bonds, but other avenues may be
2 considered. DEC and DEP will select underwriters with extensive debt capital
3 markets experience and sales distribution workforce, specific experience in the
4 marketing of utility securitization issuances, and broad experience in the
5 marketing of asset-backed securities and corporate bonds. A thorough
6 marketing and price discovery process will be used to determine the most cost-
7 effective structure for issuing the storm recovery bonds. Witness Atkins'
8 testimony provides more detail on the standard process for marketing and sale
9 of the storm recovery bonds.

10 **VI. UP-FRONT FINANCING COSTS AND ON-GOING FINANCING COSTS**

11 **Q. PLEASE PROVIDE A DESCRIPTION OF THE UP-FRONT**
12 **FINANCING COSTS THAT WILL BE FINANCED WITH THE**
13 **PROCEEDS OF THE STORM RECOVERY BONDS.**

14 A. Up-front financing costs, which will be financed from the proceeds of the storm
15 recovery bonds, include the fees and expenses to obtain the Financing Orders,
16 as well as the fees and expenses associated with the structuring, marketing and
17 issuance of each series of storm recovery bonds, including: external and
18 incremental internal legal fees, structuring advisory fees and expenses, any
19 interest rate lock or swap fees and costs (including the cost, if any, associated
20 with interest rate hedges), underwriting fees and original issue discount, rating
21 agency and trustee fees (including trustee's counsel), accounting fees,
22 information technology programing costs, servicer's set-up costs, printing and
23 marketing expenses, stock exchange listing fees and compliance fees, filing and

1 registration fees, and the costs of the outside consultant and counsel, if any,
2 retained by the Commission or the Public Staff. Up-front financing costs
3 include reimbursement to DEC and DEP for amounts advanced for payment of
4 such costs.

5 **Q. PLEASE PROVIDE AN ESTIMATE AND DISCUSSION OF THESE UP-**
6 **FRONT FINANCING COSTS FOR EACH INDIVIDUAL ITEM**
7 **EXPECTED TO BE IN EXCESS OF \$50,000.**

8 A. DEC and DEP estimate the up-front financing costs associated with their
9 recommended issuance of storm recovery bonds to be approximately \$5.2
10 million and \$8.9 million, respectively, based on the approximate mid-point of
11 the range included in my Heath Exhibit 1. DEC and DEP reviewed several
12 asset recovery securitization filings made by other utilities and developed an
13 estimate of up-front financing costs with the assistance of its co-advisors. These
14 numbers are subject to change, as the costs are dependent on the timing of
15 issuance, market conditions at the time of issuance, the outcome of requests for
16 proposals for certain fees and other events outside the control of DEC and DEP,
17 such as possible litigation, incremental legal fees resulting from protracted
18 resolution of issues, possible review by the SEC and rating agency fee changes
19 and requirements.

20 **Q. PLEASE DESCRIBE THE ESTIMATED UNDERWRITING FEES AND**
21 **EXPENSES.**

22 A. Underwriting fees and expenses are shown in line 1 of Heath Exhibit 1 and
23 represent the amount that the underwriters will receive for underwriting and

1 selling the storm recovery bonds, assuming DEC and DEP issue the bonds in
2 the manner previously discussed. This estimated range of fees and expenses is
3 consistent with those paid under recent, similar transactions.

4 **Q. HOW WILL UNDERWRITERS' FEES BE DETERMINED?**

5 A. Assuming DEC and DEP issue the bonds in the manner that all other utility
6 securitization transactions have been issued since 2010, underwriting fees will
7 be incurred for the services previously discussed. The underwriters' fees will
8 be updated through the issuance advice letter procedure, as described in witness
9 Atkins' testimony, after the transaction is priced. Underwriters' fees of 40 – 50
10 basis points of the principal amount of the bonds are consistent with individual
11 utility securitization transactions with comparable issuance sizes that have
12 occurred in the market, based on DEC and DEP's review of a list of recent,
13 comparable transactions. Because the level of underwriting fees is uncertain at
14 this time, the actual costs will be updated through the issuance advice letter
15 procedure. As previously discussed, DEC and DEP will select underwriters
16 with specific experience in the marketing of utility securitization issuances.

17 **Q. PLEASE DESCRIBE THE SERVICER SET-UP FEES (INCLUDING**
18 **INFORMATION TECHNOLOGY PROGRAMMING COSTS).**

19 A. Section 62-172(a)(4)c. of the Securitization Statute includes information
20 technology programming costs in the definition of financing costs for a storm
21 recovery bond transaction. DEC and DEP intend this amount to recover the
22 cost of information technology systems modifications to bill, monitor, collect,
23 and remit securitization charges. The amount included in line 2 of Heath

1 Exhibit 1 represents DEC and DEP's current estimate of the costs of these
2 information technology systems modifications. This amount will be updated
3 through the issuance advice letter procedure.

4 **Q. PLEASE DESCRIBE AND EXPLAIN DEC AND DEP'S PROPOSED**
5 **TREATMENT OF LEGAL FEES.**

6 A. Legal fees are a function of the legal work necessary to issue the storm recovery
7 bonds. External and incremental internal legal fees are based upon the expected
8 hours devoted to the financing order procurement and bond issuance processes
9 rather than a fixed dollar amount. This category (line 3 of Heath Exhibit 1)
10 includes the fees and expenses of external and incremental internal counsel for
11 DEC and DEP and the SPE, the underwriters and DEC and DEP's co-advisors.
12 Counsel will advise on the storm recovery bond transaction structure, including
13 bankruptcy, regulatory and tax matters; issue various transaction opinions,
14 including bankruptcy opinions; and draft most other documents related to the
15 financing, including, among other tasks, the SEC registration statement, the
16 storm recovery property purchase and sale agreement, the indenture, the
17 servicing agreement, the administration agreement, the SPE organizational
18 documents, and any other necessary agreements (drafts of the storm recovery
19 property purchase and sale agreement, the indenture, the servicing agreement,
20 the administration agreement, the limited liability company agreement
21 establishing the SPE and the declaration of trust are included as Heath Exhibits
22 2a-2f). These estimated expenses are based on discussion with our internal
23 legal counsel and estimates from external counsel. DEC and DEP's co-advisors

1 and underwriters' counsel also advise on the transaction structure, review all
2 storm recovery bond transaction documents, and perform due diligence reviews
3 of the transaction in connection with the underwriters' initial purchase of the
4 bonds. The legal fees (over and above those incurred to date) will be affected
5 by events between the date of the filing of the Joint Petition and the date of bond
6 issuance, including the extent to which this proceeding is contested by
7 intervenors, the scope of any appeals, the extent of any comments received
8 during the SEC review, the requirements of underwriters, trustees, rating
9 agencies, regulators or the Commission's Designated Member, if applicable,
10 for any requested revisions to documents, the use of additional credit
11 enhancements, and other factors that cannot be foreseen. Thus, aggregate
12 amount of legal fees and expenses to be securitized will not be known until
13 closing. However, these costs will be estimated to the best of DEC and DEP's
14 ability and updated through the issuance advice letter procedure.

15 **Q. PLEASE DESCRIBE RATING AGENCY FEES.**

16 A. In order to sell the storm recovery bonds at the most favorable interest rate
17 reasonably achievable, the bonds should be rated by a minimum of two of the
18 three major rating agencies. Typically, a fee is required by each of the rating
19 agencies to rate the bonds. The fees charged by the rating agencies are subject
20 to change at any time and are typically a function of the size and structure of
21 the offering. The fees are typically calculated by applying a base rate charge to
22 the initial principal balance, subject to a required minimum fee. Neither DEC
23 or DEP nor the Commission has any effective control over the fees charged by

1 the rating agencies, however, DEC and DEP will use commercially reasonable
2 means to negotiate the lowest possible rating agency fees. The amounts shown
3 on line 4 of Heath Exhibit 1 reflect an estimate of the rating agencies fees to be
4 incurred for a transaction of the size contemplated by DEC and DEP. The low
5 end of the range presented is estimated at 7.5 basis points (or 0.075 percent) on
6 the principal amount of bonds issued, which represents Moody's Investor
7 Service's pricing guidance, payable to two rating agencies. This estimate
8 assumes no additional fees charged for the Trust Issuer. The high end of the
9 range includes a full 7.5 basis point fee charged for the Trust Issuer by two
10 rating agencies. Accordingly, the possibility of a change due to either the size
11 of the offering, or modification of the agencies' fee requirements must be taken
12 into account in determining the level of rating agency fees, and any increase in
13 these fees should be recoverable by DEC and DEP, pursuant to the issuance
14 advice letter procedure.

15 **Q. PLEASE DESCRIBE AND EXPLAIN DEC AND DEP'S PROPOSED**
16 **TREATMENT OF THE PUBLIC STAFF'S FINANCIAL ADVISOR**
17 **FEE.**

18 A. The Public Staff has retained a professional advisor and the costs of this advisor
19 and its legal counsel, if any, should qualify as an up-front financing cost in this
20 proceeding. The total cost of the Public Staff's financial advisor and its legal
21 counsel, if any, is not within DEC and DEP's control or influence and may not
22 be known until closing. The estimate on line 5 of Heath Exhibit 1 and the Public

1 Staff's legal counsel fees on line 6 are estimates and will be updated through
2 the issuance advice letter procedure.

3 **Q. PLEASE DESCRIBE THE FEES OF THE CO-ADVISORS TO DEC**
4 **AND DEP.**

5 A. After conducting a request for proposal ("RFP"), DEC and DEP selected
6 Guggenheim Securities, LLC ("Guggenheim") to act as their structuring
7 advisor in connection with structuring the transaction(s) and providing related
8 services in connection with this proceeding. Witness Atkins served as Senior
9 Advisor at Guggenheim at the time of the RFP and was a key factor in DEC
10 and DEP's decision to select Guggenheim as structuring advisor. Subsequent
11 to Guggenheim's engagement, witness Atkins transitioned to his chief
12 executive role at his company, Atkins Capital. DEC and DEP restructured its
13 engagement with Guggenheim and executed a separate engagement with Atkins
14 Capital. As a result of these changes, Guggenheim and Atkins Capital are
15 currently serving as co-advisors to DEC and DEP.

16 We expect Guggenheim to have the opportunity to continue as an
17 underwriter until the bonds are issued, but all structuring fees are expected to
18 be earned upon commencement of the ratings process. The fees and related
19 expenses to be paid to Atkins Capital and Guggenheim have been agreed upon
20 and reflect the required payments to Atkins Capital and Guggenheim under their
21 respective contracts. These fees and related expenses are consistent with the
22 amounts in recent transactions that have taken place in the market. However,
23 it is not known with precision when Atkins Capital and Guggenheim's services

1 as co-advisors will end. Following issuance of the Financing Orders, and
2 assuming DEC and DEP pursue the marketing and sale of the bonds consistent
3 with how all utility securitization transactions of a similar nature have been
4 offered to investors since 2010, DEC and DEP expect to name book-runners
5 who will perform advisory services as part of the services normally performed
6 by a book-running lead underwriter. For these services, it is expected that the
7 book-runner(s) will not seek fees beyond those underwriting fees they would
8 be paid in their capacity as book-runner(s) after they are engaged as book-
9 runner(s). However, as previously stated, the exact timing of that appointment
10 is not known. To the extent DEC and DEP's co-advisor's fees exceed the
11 estimate, DEC and DEP will update this amount through the issuance advice
12 letter procedure.

13 **Q. PLEASE DESCRIBE THE ACCOUNTING FEES.**

14 A. Accounting fees (line 8 of Heath Exhibit 1) relate to DEC and DEP's
15 independent auditor or other recognized accounting or consulting firm and
16 include the costs of agreed-upon procedures related to the storm recovery
17 bonds.

18 **Q. PLEASE DESCRIBE THE SEC REGISTRATION FEE.**

19 A. The SEC has specific formulas for calculating registration fees based upon the
20 initial principal amount. The current fee is \$109.10 per million dollars
21 registered. That fee structure, however, changes from time to time. The fees
22 are mandatory for registered offerings, and DEC and DEP have no control over
23 such changes. The estimated amount on line 9 of Heath Exhibit 1 will either

1 increase or decrease proportionately as a result of any increase or decrease in
2 the size of the storm recovery bond financing, and/or as a result of any change
3 in the SEC registration fee structure.

4 **Q. PLEASE DESCRIBE BOTH UP-FRONT AND ON-GOING FINANCING**
5 **COSTS OF CREDIT ENHANCEMENTS.**

6 A. To ensure the storm recovery bonds are issued under the most advantageous
7 terms, it may be necessary to use various forms of credit enhancement or other
8 mechanisms designed to improve the credit quality and marketability of the
9 bonds, including but not limited to overcollateralization accounts or letters of
10 credit. It cannot be known until the bonds are about to be issued whether the
11 use of credit enhancements will reduce customer costs. Such mechanisms will
12 be used only if they are cost justified (i.e., the savings exceed the costs).
13 Because the need for any such credit enhancements or mechanisms, as well as
14 their costs and benefits, will be determined by rating agency discussions and
15 market conditions at the time the bonds are priced, decisions to use them can
16 only be made at or near the time of pricing. On my Heath Exhibit 1, I have
17 assumed no credit enhancements, other than the true-up mechanism and the
18 Capital Subaccount, will be used, because, as witness Atkins discusses in his
19 testimony, additional credit enhancements are not currently anticipated to be
20 necessary to achieve “AAA” or equivalent credit ratings.

1 **Q. HOW WILL DEC AND DEP RECONCILE ACTUAL UP-FRONT**
2 **FINANCING COSTS WITH THE ESTIMATES PROVIDED BY DEC**
3 **AND DEP THROUGH THE ISSUANCE ADVICE LETTER**
4 **PROCEDURE SINCE THE ACTUAL COSTS WILL NOT BE KNOWN**
5 **UNTIL AFTER THE COMMISSION ISSUES THE FINANCING**
6 **ORDERS AND THE STORM RECOVERY BONDS HAVE BEEN**
7 **ISSUED?**

8 A. The proceeds of the storm recovery bond issuance will be used to pay (or
9 reimburse DEC and DEP for) the actual up-front financing costs incurred. The
10 issuance advice letter process, which will discuss the actual up-front financing
11 costs, are addressed in witness Atkins' testimony. If the actual up-front
12 financing costs are below the amount appearing in the issuance advice letter
13 filed with the Commission not later than one day after pricing the storm
14 recovery bonds, then the difference will be credited back to customers in a
15 manner to be determined in the Financing Orders provided, however, that
16 adjustments are not made to the storm recovery charges for any such excess up-
17 front financing costs as prohibited by the Securitization Statute. If the actual
18 up-front financing costs are in excess of the amount appearing in the issuance
19 advice letter, then DEC and DEP will have the right to collect such prudently
20 incurred excess amounts through the establishment of a regulatory asset.

1 **Q. PLEASE DESCRIBE THE ESTIMATED ON-GOING FINANCING**
2 **COSTS (EXCLUDING DEBT SERVICE) THAT WILL BE**
3 **RECOVERED FROM THE STORM RECOVERY CHARGE.**

4 A. In addition to debt service on the storm recovery bonds (and any swap or other
5 hedging costs), there will be expenses that will be incurred throughout the life
6 of the storm recovery bonds to support the on-going operations of the SPE.
7 These on-going financing costs are estimated at approximately \$0.44 million
8 and \$0.91 million annually for DEC and DEP, respectively, which
9 approximates the lower end of the range set forth in my Heath Exhibit 1, and
10 include servicing fees; return on invested capital; administration fees;
11 accounting and auditing fees; regulatory fees; legal fees; rating agency
12 surveillance fees; trustee fees; independent director or manager fees; and other
13 miscellaneous fees associated with the servicing of the storm recovery bonds.

14 Certain of these on-going financing costs, such as the administration
15 fees and the amount of the servicing fee for DEC and DEP (as the initial
16 servicers) may be determinable, either by reference to an established dollar
17 amount or a percentage, on or before the issuance of any series of storm
18 recovery bonds. Other on-going financing costs will vary over the term of the
19 storm recovery bonds.

20 **Q. WHAT ARE THE ESTIMATED SERVICING FEES AND HOW WILL**
21 **THEY BE CALCULATED?**

22 A. In consideration for its servicing responsibilities, the servicers, initially DEC
23 and DEP, will receive the periodic servicing fee (line 1 of Heath Exhibit 1),

1 which will be recovered through the storm recovery charges. To support the
2 bankruptcy analysis necessary to achieve the highest credit rating, the servicing
3 fees must be on arm's length terms and at market-based rates. Such servicing
4 responsibilities will include, without limitation: (i) billing, monitoring,
5 collecting and remitting securitization charges, (ii) reporting requirements
6 imposed by the servicing agreement, (iii) implementing the true-up mechanism,
7 (iv) procedures required to coordinate required audits related to DEC and DEP's
8 role as servicers, (v) legal and accounting functions related to the servicing
9 obligation, and (vi) communication with rating agencies.

10 The annual servicing fee to be paid to DEC and DEP is currently
11 estimated to be 0.05 percent of the original principal balance of the
12 securitization bonds, payable on each securitization bond payment date.
13 Alternatively, if DEC and DEP cease to service the storm recovery bonds and
14 a successor servicer is appointed, its servicer fee should be set at a level not to
15 exceed 0.60 percent of such original balance unless a higher rate is approved by
16 the Commission. To date, we are not aware of any utility securitization
17 transactions where a successor servicer has had to be appointed. The servicing
18 fees reflected appear to DEC and DEP to be consistent with the rates in other
19 recent securitizations. Since the servicing fee is based on the estimated original
20 principal balance, the final amount will be known only when the transaction is
21 priced and will be updated through the issuance advice letter process.

1 **Q. PLEASE DESCRIBE RETURN ON INVESTED CAPITAL.**

2 A. When the storm recovery bonds are issued, DEC and DEP propose that they
3 will each make a capital contribution to their respective SPE, which the SPE
4 will deposit into the Capital Subaccount. The storm recovery bond proceeds
5 will not be used to fund this capital contribution. As previously discussed, the
6 amount of the capital contribution will be at least 0.50 percent of the original
7 principal amount of the storm recovery bonds. The Capital Subaccount will
8 serve as collateral to facilitate timely payment of principal of and interest on the
9 storm recovery bonds. To the extent that the Capital Subaccount must be drawn
10 upon to pay these amounts due to a shortfall in the storm recovery charge
11 collections, it will be replenished to its original level through the true-up
12 process. The funds in the Capital Subaccount will be invested in short-term
13 high-quality investments and, if necessary, such funds (including investment
14 earnings) will be used by the Indenture Trustee to pay the principal of and
15 interest on the storm recovery bonds and the on-going financing costs payable
16 by the SPE. Consistent with prior utility securitizations, including their
17 affiliate's transaction in Florida, DEC and DEP request to earn a rate of return
18 on their invested capital equal to the rate of interest payable on the longest
19 maturing tranche of storm recovery bonds. DEC and DEP request that this
20 return on invested capital be a component of on-going financing costs, and
21 accordingly, recovered through the storm recovery charges.

1 **Q. PLEASE DESCRIBE THE PURPOSE OF THE ADMINISTRATION**
2 **FEES THAT YOU IDENTIFIED AND EXPLAIN HOW THEY WILL BE**
3 **CALCULATED.**

4 A. The annual administration fees are set forth on line 3 of Heath Exhibit 1 and are
5 meant to cover expenses associated with administrative functions DEC and
6 DEP will be providing to the relevant SPE. These functions will include, among
7 others, maintaining the general accounting records, preparation of quarterly and
8 annual financial statements, arranging for annual audits of each SPE's financial
9 statements, preparing all required external financial filings, preparing any
10 required income or other tax returns, and related support. None of the SPEs
11 will have any employees, so the administrator will perform these functions for
12 each SPE. These functions are separate from those of the servicer.

13 **Q. PLEASE DESCRIBE THE PURPOSE OF THE OTHER ON-GOING**
14 **FINANCING COSTS THAT YOU IDENTIFIED IN MORE DETAIL.**

15 A. The accounting and auditing fees (line 4 of Heath Exhibit 1) are meant to
16 represent costs for activities such as providing periodic reports to the trustee
17 and reviewing/certifying SEC filings. These fees will be paid to DEC and
18 DEP's independent auditor or other recognized accounting firm.

19 The regulatory fees are presented on line 5 of Heath Exhibit 1 and cover
20 the amount required to be submitted to the North Carolina Utilities Commission
21 under N.C. Gen. Stat. §62-302. This fee is calculated as 0.13 percent of the
22 storm recovery charge revenues and is required to be paid on a quarterly basis
23 on the 15th day of February, May, August, and November.

1 Each SPE will incur periodic legal fees. The annual estimate for these
2 expenses is shown on line 6 of Heath Exhibit 1.

3 The rating agencies will assess on-going fees associated with
4 monitoring the credit rating of each securitization bond series (line 7 of Heath
5 Exhibit 1).

6 The Indenture Trustee will be responsible for and earn a fee (line 8 of
7 Heath Exhibit1) for, among other things: (i) maintaining a record of investors;
8 (ii) calculating and remitting interest and principal payments to investors; (iii)
9 otherwise fulfilling its obligations under the indenture and other documents;
10 and (iv) reporting as required by the Commission or any other regulatory body.

11 Each SPE will also have an independent director or manager to oversee
12 its operation, and he or she will receive a fee for their services and will be
13 entitled to indemnification. Estimated fees are set forth on line 9 of Heath
14 Exhibit 1.

15 Other miscellaneous costs (line 10 of Heath Exhibit 1) are any costs that
16 may be incurred but that have not been specifically identified at this time. Such
17 types of costs have been identified by other utility companies for similar
18 transactions.

19 Other than the servicing fee and the administrative fee, it is difficult to
20 predict the level of such costs to be incurred by the SPE over the term of the
21 storm recovery bonds. It is virtually certain these fees will increase over the
22 term, not only because service providers periodically increase their fees, but
23 also because of inflation. Therefore, DEC and DEP believe there should be no

1 cap on the on-going financing costs. Moreover, each SPE must recover all of
2 its on-going financing costs in order to preserve bankruptcy remoteness of the
3 SPE and to secure AAA or equivalent credit ratings on the storm recovery
4 bonds.

5 **Q. HOW WILL THE COMPANY RECONCILE ITS ACTUAL ON-GOING**
6 **FINANCING COSTS OF THE TRANSACTION WITH ITS**
7 **ESTIMATED COSTS?**

8 A. Because on-going financing costs are recovered through the storm recovery
9 charge, disparities will be resolved periodically through the true-up mechanism.
10 The true-up mechanism is described in more detail in witness Anger's
11 testimony.

12 **Q. HAS THE U.S. TREASURY DEPARTMENT ISSUED ANY GUIDANCE**
13 **ON ACCOUNTING FOR STORM RECOVERY FINANCING AND**
14 **RELATED INCOME TAXES?**

15 A. Yes. Revenue Procedure 2005-62 provides a safe harbor for public utility
16 companies that, pursuant to specified cost recovery legislation, receive an
17 irrevocable financing order permitting the utility to recover certain specified
18 costs through a qualifying securitization. Under the revenue procedure, DEC
19 and DEP will not recognize taxable income upon: 1) the receipt of the
20 Financing Orders; 2) the transfer of DEC and DEP's rights under the Financing
21 Orders to the wholly-owned SPE; or 3) the receipt of cash in exchange for the
22 issuance of the storm recovery bonds.

1 **Q. DOES THE STORM RECOVERY FINANCING DEC AND DEP IS**
2 **PROPOSING MEET THE REQUIREMENTS OF THIS REVENUE**
3 **PROCEDURE?**

4 A. Yes.

5 **Q. IN DEC’S AND DEP’S AFFILIATE’S TRANSACTION IN FLORIDA,**
6 **THE FINANCING DOCUMENTS CONTAINED CERTAIN**
7 **PROVISIONS THAT THE FLORIDA COMMISSION VIEWED AS**
8 **“CUSTOMER PROTECTIONS.” DO THE FINANCING DOCUMENTS**
9 **THAT YOU ARE SPONSORING CONTAIN SIMILAR “CUSTOMER**
10 **PROTECTIONS?”**

11 A. Yes, it is my understanding that they do. As noted earlier in my testimony, I
12 am sponsoring proposed forms of the storm recovery property purchase and sale
13 agreement, the indenture, the servicing agreement, the administration
14 agreement, the limited liability company agreement establishing each SPE and
15 the limited liability company agreement/declaration of trust for the Finance
16 Entity. I believe that these documents contain the same substantive “customer
17 protections” which Duke Energy Florida, LLC included in its transaction.

18 **Q. CAN YOU BRIEFLY DESCRIBE WHAT THESE “CUSTOMER**
19 **PROTECTIONS” ARE?**

20 A. Generally, these “customer protections” include, without limitation:
21

- the satisfaction of a “Commission Condition” (being approval or

22 acquiescence constituting approval by the Commission) prior to any
23 amendment or modification to the financing documents;

- 1 • a provision authorizing the Commission to institute a proceeding to
2 require either DEC and DEP to make customers whole for any “Losses”
3 suffered (i) as a result of negligence, recklessness, or willful misconduct
4 by either DEC or DEP under the servicing agreement or the
5 administration agreement, or (ii) for any failure or breach by either DEC
6 or DEP of certain material representations, warranties or covenants in
7 the purchase and sale agreement;
8 • provisions making the Commission, on behalf of itself and customers of
9 DEC and DEP, a third-party beneficiary of the purchase and sale
10 agreement and the servicing agreement; and
11 • a provisions allowing the Commission to enforce the provisions of the
12 servicing agreement and to terminate the agreement in the event of a
13 default by DEC or DEP.

14 These provisions and related protections are more fully set forth in the exhibits.

15 **Q. DO ANY OF THE PROPOSED “CUSTOMER PROTECTIONS”**
16 **OBLIGATE THE COMMISSION BEYOND ITS REQUIREMENTS**
17 **UNDER THE SECURITIZATION STATUTE?**

18 A. While some of the “customer protections” (such as the requirement that DEC
19 or DEP make customers whole for “losses” as a result of certain events as
20 described in the previous question) are obligations solely of DEC and DEP, the
21 other “customer protections” I describe above create additional obligations for
22 the Commission that are not contemplated by the Securitization Statute. DEC
23 and DEP included these in the forms of transaction documents attached to its

1 Joint Petition, but ultimately, it is up to the Commission whether it wishes to
2 adopt those “customer protections” that require further Commission
3 involvement.

4 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

5 A. Yes.

Estimated Up-front Storm Recovery Bond Issuance Costs⁽¹⁾

		DEC		DEP		Total	
Estimated Principal Amount of Storm Recovery Bonds		\$ 230,800,000		\$ 748,000,000		\$ 978,800,000	
Line No.	Description	Lower End of Range	Upper End of Range	Lower End of Range	Upper End of Range	Lower End of Range	Upper End of Range
1	Underwriting Fees and Expenses	\$ 923,200	\$ 1,154,000	\$ 2,992,000	\$ 3,740,000	\$ 3,915,200	\$ 4,894,000
2	Servicer Set-up Fees (including IT Programming Costs)	300,000	400,000	300,000	400,000	600,000	800,000
3	Legal Fees	1,387,500	1,725,000	1,387,500	1,725,000	2,775,000	3,450,000
4	Rating Agency Fees	350,000	710,000	1,150,000	2,290,000	1,500,000	3,000,000
5	Public Staff Financial Advisor Fee	400,000	800,000	400,000	800,000	800,000	1,600,000
6	Public Staff Financial Advisor Counsel Fees	300,000	600,000	300,000	600,000	600,000	1,200,000
7	DEC/DEP Structuring Advisor Fees	350,000	350,000	350,000	350,000	700,000	700,000
8	Accounting Fees	92,685	123,580	132,315	176,420	225,000	300,000
9	SEC Fees	25,180	25,180	81,607	81,607	106,787	106,787
10	SPE Set-up Fee	6,179	30,895	8,821	44,105	15,000	75,000
11	Marketing and Miscellaneous Fees	5,895	11,790	19,105	38,210	25,000	50,000
12	Printing/Edgarizing Fee	17,685	23,580	57,315	76,420	75,000	100,000
13	Trustee/Trustee Counsel Fees	49,432	74,148	70,568	105,852	120,000	180,000
14	Original Issue Discount - TBD	-	-	-	-	-	-
15	Other Ancillary Agreements - TBD	-	-	-	-	-	-
Total		\$ 4,207,756	\$ 6,028,173	\$ 7,249,231	\$ 10,427,614	\$ 11,456,987	\$ 16,455,787
Storm Expenses, including carrying costs through 7/31/2020 for DEC and 8/31/2020 for DEP		\$ 213,094,000		\$ 714,027,000		\$ 927,121,000	
Additional carrying costs and adjustments to above amounts through May 31, 2020		12,476,000		24,981,000		37,457,000	
Estimated Up-front Bond Issuance Costs Included in Proposed Structure (approximates the average of the lower end and higher end range amounts above)		5,230,000		8,992,000		14,222,000	
Estimated Principal Amount of Storm Recovery Bonds		\$ 230,800,000		\$ 748,000,000		\$ 978,800,000	

⁽¹⁾ Includes a range of \$245,000 to \$1,885,000 of expenses related to the SRB Issuer trust that have been allocated to DEC and DEP based on their Storm Recovery Bond issuance amount to the total SRB Issuer issuance amount.

Estimated Annual Ongoing Financing Costs ⁽¹⁾							
Line No.	Description	Lower End of Range	Upper End of Range	Lower End of Range	Upper End of Range	Lower End of Range	Upper End of Range
1	Servicing Fees ⁽²⁾	\$ 115,400	\$ 1,384,800	\$ 374,000	\$ 4,488,000	\$ 489,400	\$ 5,872,800
2	Return on Invested Capital	18,349	18,349	59,466	59,466	77,815	77,815
3	Administration Fees	61,790	92,685	88,210	132,315	150,000	225,000
4	Accounting and Auditing Fees	92,685	123,580	132,315	176,420	225,000	300,000
5	Regulatory Fees	23,530	23,530	74,750	74,750	98,280	98,280
6	Legal Fees	12,358	24,716	17,642	35,284	30,000	60,000
7	Rating Agency Surveillance Fees	42,000	62,000	42,000	106,000	84,000	168,000
8	Trustee Fees	12,358	12,358	17,642	17,642	30,000	30,000
9	Independent Director or Manager Fees	4,325	6,179	6,175	8,821	10,500	15,000
10	Other Miscellaneous Fees	1,854	6,179	2,646	8,821	4,500	15,000
Total		\$ 384,648	\$ 1,754,375	\$ 814,846	\$ 5,107,519	\$ 1,199,495	\$ 6,861,895
Amount used in developing annual revenue requirement estimates ⁽³⁾		\$ 440,000		\$ 910,000		\$ 1,350,000	

⁽¹⁾ Includes a range of \$150,000 to \$299,000 per year of expenses related to the SRB Issuer trust that have been allocated to DEC and DEP based on their Storm Recovery Bond issuance amount to the total SRB Issuer issuance amount.

⁽²⁾ Low end of the range assumes DEC and DEP are the servicers (0.05%). Upper end of range reflects an alternative servicer (0.60%).

⁽³⁾ Average of the low and high end of range for lines 2-10 plus the low end of range for the Servicing Fee.

STORM RECOVERY PROPERTY PURCHASE AND SALE AGREEMENT

by and between

[DUKE ENERGY [CAROLINAS/PROGRESS] STORM RECOVERY FUNDING], LLC,

Issuer

and

DUKE ENERGY [CAROLINAS/PROGRESS], LLC,

Seller

Acknowledged and Accepted by

[], as Indenture Trustee

Dated as of [], 2021

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EXHIBIT

Exhibit A Form of Bill of Sale

APPENDIX

Appendix A Definitions and Rules of Construction

This STORM RECOVERY PROPERTY PURCHASE AND SALE AGREEMENT, dated as of [], 2021, is by and between [DUKE ENERGY [CAROLINAS/PROGRESS] STORM RECOVERY FUNDING], LLC, a Delaware limited liability company, and Duke Energy [Carolinas/Progress], LLC (the “Seller”), a North Carolina limited liability company, and acknowledged and accepted by [], a national banking association, as indenture trustee.

RECITALS

WHEREAS, the Issuer desires to purchase the Series Property created pursuant to the Storm Recovery Law;

WHEREAS, the Seller is willing to sell its rights and interests under the Financing Order to the Issuer, whereupon such rights and interests will become the Series Property;

WHEREAS, the Issuer, in order to finance the purchase of the Series Property, will issue the [Series A] Storm Recovery Bonds under the Indenture;

WHEREAS, the Issuer, to secure its obligations under the [Series A] Storm Recovery Bonds and the Indenture, will pledge, among other things, all right, title and interest of the Issuer in and to the Series Property and this Sale Agreement to the Indenture Trustee for the benefit of the Secured Parties; and

WHEREAS, the Issuer will sell the Storm Recovery Bonds to a special purpose Delaware Trust, which will issue SRB Notes secured by the Storm Recovery Bonds under the Note Indenture.

NOW, THEREFORE, in consideration of the premises and the mutual covenants herein contained, the parties hereto agree as follows:

ARTICLE I DEFINITIONS AND RULES OF CONSTRUCTION

SECTION 1.01. Definitions and Rules of Construction. Capitalized terms used but not otherwise defined in this Sale Agreement shall have the respective meanings given to such terms in Appendix A, which is hereby incorporated by reference into this Sale Agreement as if set forth fully in this Sale Agreement. Not all terms defined in Appendix A are used in this Sale Agreement. The rules of construction set forth in Appendix A shall apply to this Sale Agreement and are hereby incorporated by reference into this Sale Agreement as if set forth fully in this Sale Agreement, however for purposes of this Sale Agreement, unless otherwise indicated herein, the terms Series Charges, Series Closing Date, Series Collateral and Series Property mean the Series Charges, Series Closing Date, Series Collateral and Series Property for the [Series A] Storm Recovery Bonds.

ARTICLE II CONVEYANCE OF STORM RECOVERY PROPERTY

SECTION 2.01. Conveyance of Series Property.

(a) In consideration of the Issuer's delivery to or upon the order of the Seller of \$[], subject to the conditions specified in Section 2.02, the Seller does hereby irrevocably sell, transfer, assign, set over and otherwise convey to the Issuer, without recourse or warranty, except as set forth herein, all right, title and interest of the Seller in, to and under the Series Property (such sale, transfer, assignment, setting over and conveyance of the Series Property includes, to the fullest extent permitted by the Storm Recovery Law and the North Carolina UCC, the assignment of all revenues, collections, claims, rights to payments, payments, money or proceeds arising from the rights and interests specified in the Financing Order, including the right to impose, bill, charge, collect, and receive Series Charges related to the Series Property, as the same may be adjusted from time to time). Such sale, assignment, or other absolute transfer of the Series Property or other absolute transfer is hereby expressly stated to be a sale or other absolute transfer and, pursuant to N.C. Gen. Stat. § 62-172(e)(3), shall be treated as an absolute transfer and true sale and not as a pledge of or secured transaction relating to the Seller's right, title, and interest in, to, and under the Series Property. The Seller and the Issuer agree that after giving effect to the sale, transfer, assignment, setting over and conveyance contemplated hereby the Seller has no right, title or interest in, to or under the Series Property to which a security interest could attach because (i) it has sold, transferred, assigned, set over and conveyed all right, title and interest in and to the Series Property to the Issuer, (ii) as provided in N.C. Gen. Stat. § 62-172(e)(3), all right, title and interest shall have passed to the Issuer and (iii) as provided in N.C. Gen. Stat. § 62-172(e)(3)d., appropriate financing statements shall have been filed and such transfer is perfected against all third parties, including subsequent judicial or other lien creditors. If such sale, transfer, assignment, setting over and conveyance is held by any court of competent jurisdiction not to be a true sale as provided in N.C. Gen. Stat. § 62-172(e)(3), then such sale, transfer, assignment, setting over and conveyance shall be treated as a pledge of the Series Property and as the creation of a security interest (within the meaning of the Storm Recovery Law and the UCC) in the Series Property and, without prejudice to its position that it has absolutely transferred all of its rights in the Series Property to the Issuer, the Seller hereby grants a security interest in the Series Property to the Issuer (and to the Indenture Trustee for the benefit of the Secured Parties) to secure their respective rights under the Basic Documents to receive the Series Charges and all other Series Property.

(b) Subject to Section 2.02, the Issuer does hereby purchase the Series Property from the Seller for the consideration set forth in Section 2.01(a).

SECTION 2.02. Conditions to Conveyance of Series Property. The obligation of the Seller to sell, and the obligation of the Issuer to purchase, Series Property on the Series Closing Date shall be subject to the satisfaction or waiver of each of the following conditions:

(a) on or prior to the Series Closing Date, the Seller shall have delivered to the Issuer a duly executed Bill of Sale identifying and conveying the Series Property on the Series Closing Date;

(b) on or prior to the Series Closing Date, the Seller shall have obtained the Financing Order creating the Series Property;

(c) as of the Series Closing Date, the Seller is not insolvent and will not have been made insolvent by such sale and the Seller is not aware of any pending insolvency with respect to itself;

(d) as of the Series Closing Date, (i) the representations and warranties of the Seller in this Sale Agreement must be true and correct with the same force and effect as if made on that date (except to the extent they relate to an earlier date), (ii) on and as of the Series Closing Date no breach of any covenant or agreement of the Seller contained in this Sale Agreement has occurred and is continuing and (iii) no Servicer Default shall have occurred and be continuing;

(e) as of the Series Closing Date, (i) the Issuer shall have sufficient funds available to pay the purchase price for the Series Property to be conveyed on such date and (ii) all conditions to the issuance of the [Series A] Storm Recovery Bonds intended to provide such funds set forth in the Indenture and the applicable Series Supplement shall have been satisfied or waived;

(f) on or prior to the Series Closing Date, the Seller shall have taken all action required to transfer to the Issuer ownership of the Series Property on such date, free and clear of all Liens other than Liens created by the Issuer pursuant to the Basic Documents and the SRB Documents and to perfect such transfer, including filing any statements or filings under the Storm Recovery Law or the North Carolina UCC; and the Issuer or the Servicer, on behalf of the Issuer, shall have taken any action required for the Issuer to grant the Indenture Trustee a Lien and first priority perfected security interest in the Series Collateral and maintain such security interest as of the Series Closing Date;

(g) the Seller shall have received and delivered to the Rating Agencies and the Issuer any Opinions of Counsel required by the Rating Agencies;

(h) the Seller shall have received and delivered to the Issuer and the Indenture Trustee an opinion or opinions of outside tax counsel (as selected by the Seller, and in form and substance reasonably satisfactory to the Issuer and the Indenture Trustee) to the effect that (i) the Issuer will not be subject to U.S. federal income tax as an entity separate from its sole owner and that the [Series A] Storm Recovery Bonds will be treated as debt of the Issuer's sole owner for U.S. federal income tax purposes and (ii) for U.S. federal income tax purposes, the issuance of the [Series A] Storm Recovery Bonds will not result in gross income to the Seller;

(i) on and as of the Series Closing Date, each of the Certificate of Formation, the LLC Agreement, the Servicing Agreement, this Sale Agreement, the Indenture, the applicable Series Supplement, the Financing Order and the Storm Recovery Law shall be in full force and effect;

(j) the [Series A] Storm Recovery Bonds shall have received the highest credit ratings possible, as evidenced by a certification from the Seller;

(k) the Seller shall have delivered to the Indenture Trustee, the SRB Trustee, the Issuer and the SRB Issuer an Officer's Certificate confirming the satisfaction of each condition precedent specified in this Section 2.02;

(l) the Seller shall have received the purchase price for the Series Property.

ARTICLE III REPRESENTATIONS AND WARRANTIES OF SELLER

Subject to Section 3.09, the Seller makes the following representations and warranties, as of the Series Closing Date, and the Seller acknowledges that the Issuer has relied thereon in acquiring the Series Property. The representations and warranties shall survive the sale and transfer of Series Property to the Issuer and the pledge thereof to the Indenture Trustee pursuant to the Indenture or further pledge thereon to the SRB Trustee pursuant to the SRB Indenture. The Seller agrees that (i) the Issuer may assign the right to enforce the following representations and warranties to the Indenture Trustee, (ii) the Indenture Trustee may assign the right to enforce the following representations and warranties to the SRB Trustee and (iii) the following representations and warranties inure to the benefit of the Issuer, the Indenture Trustee and the SRB Trustee.

SECTION 3.01. Organization and Good Standing. The Seller is a limited liability company duly organized, validly existing and in good standing under the laws of the state of North Carolina, with requisite power and authority to own its properties and conduct its business as of the Series Closing Date.

SECTION 3.02. Due Qualification. The Seller is duly qualified to do business and is in good standing, and has obtained all necessary licenses and approvals, in all jurisdictions in which the ownership or lease of property or the conduct of its business shall require such qualifications, licenses or approvals (except where the failure to so qualify or obtain such licenses and approvals would not be reasonably likely to have a material adverse effect on the Seller's business, operations, assets, revenues or properties, the Series Property, the Issuer or the [Series A] Storm Recovery Bonds).

SECTION 3.03. Power and Authority. The Seller has the requisite power and authority to execute and deliver this Sale Agreement and to carry out its terms. The Seller has full power and authority to own the Series Property and to sell and assign the Series Property to the Issuer and the Seller has duly authorized such sale and assignment to the Issuer by all necessary action. The execution, delivery and performance of obligations under this Sale Agreement have been duly authorized by all necessary action on the part of the Seller under its organizational documents and laws.

SECTION 3.04. Binding Obligation. This Sale Agreement constitutes a legal, valid and binding obligation of the Seller, enforceable against the Seller in accordance with its terms, subject to bankruptcy, receivership, insolvency, reorganization, moratorium or other laws affecting creditors' rights generally from time to time in effect and to general principles of equity, regardless of whether considered in a proceeding in equity or at law.

SECTION 3.05. No Violation. The consummation of the transactions contemplated

by this Sale Agreement and the fulfillment of the terms hereof do not conflict with, result in any breach of any of the terms and provisions of, or constitute (with or without notice or lapse of time) a default under, the Seller's organizational documents or any indenture, or other material agreement or instrument to which the Seller is a party or by which it is bound, result in the creation or imposition of any Lien upon any of the Seller's properties pursuant to the terms of any such indenture, agreement or other instrument (other than any Lien that may be granted in the Issuer's favor or any Lien under the Basic Documents or any Liens created by the Issuer pursuant to the Storm Recovery Law) or violate any existing law or any order, rule or regulation applicable to the Seller issued by any Governmental Authority having jurisdiction over the Seller or its properties. The Series Property is not subject to any Lien thereon, other than the Liens created by the Indenture and the Storm Recovery Law.

SECTION 3.06. No Proceedings. Except as disclosed in Schedule 3.06, there are no proceedings or, to the Seller's knowledge, investigations pending or proceedings threatened, before any Governmental Authority having jurisdiction over the Seller or its properties: (a) asserting the invalidity of the Basic Documents, the [Series A] Storm Recovery Bonds, the Storm Recovery Law or the Financing Order; (b) seeking to prevent the issuance of the [Series A] Storm Recovery Bonds or the consummation of any of the transactions contemplated by the Basic Documents; (c) seeking a determination or ruling that could reasonably be expected to materially and adversely affect the performance by the Seller of its obligations under, or the validity or enforceability of, the Basic Documents, the related series of [Series A] Storm Recovery Bonds or the Financing Order; or (d) challenging the Seller's treatment of the [Series A] Storm Recovery Bonds as debt of the Seller for U.S. federal income tax purposes.

SECTION 3.07. Approvals. No governmental approvals, authorizations, consents, orders or other actions or filings, other than filings under the Storm Recovery Law or with the Secretary of State of the State of North Carolina or the UCC of Delaware, are required for the Seller to execute, deliver and perform its obligations under this Sale Agreement except those which have previously been obtained or made or are required to be made by the Servicer in the future pursuant to the Servicing Agreement.

SECTION 3.08. The Series Property.

(a) Information. Subject to Section 3.08(h), at the Series Closing Date, all written information, as amended or supplemented from time to time, provided by the Seller to the Issuer with respect to the Series Property (including the Expected Sinking Fund Schedule and the Financing Order) is true and correct in all material respects and does not omit any material facts and all historical data for the purpose of calculating the initial storm recovery charges in the issuance advice letter and initial routine true-up adjustment request are true and correct, and the assumptions used for such calculations are reasonable and made in good faith.

(b) True-Sale and Absolute Transfer. The transfer, sale, assignment and conveyance of the Series Property constitutes a sale or other absolute transfer of all of the Seller's right, title and interest in the Series Property to the Issuer; upon the execution and delivery of this Sale Agreement and the Bill of Sale on the Series Closing Date, the Series Property shall be validly transferred and sold to the Issuer and the Seller will have no right, title or interest in the Series Property and the Series Property would not be part of the estate of the Seller as debtor in

the event of a filing of a bankruptcy petition by or against the Seller under any bankruptcy law. The Seller hereby represents that no portion of the Series Property has been sold, transferred, assigned, pledged or otherwise conveyed by the Seller to any person other than the Issuer, and, to the Seller's knowledge (after due inquiry), no security agreement, financing statement or equivalent security or lien instrument listing the Seller as debtor covering all or a portion of the Series Property is on file or of record in any jurisdiction, except such as may have been file or recorded in favor of the Issuer, the Indenture Trustee or the SRB Trustee in connection with the Basic Documents.

(c) Title. The Seller is the sole owner of the Series Property sold to the Issuer on the Series Closing Date and such sale is made free and clear of all Liens other than Liens created by the Issuer pursuant to Indenture. All actions or filings, including filings under the Storm Recovery Law and the UCC, necessary to give the Issuer a valid ownership interest in the Series Property and to grant the Indenture Trustee a first priority perfected security interest in the Series Property, free and clear of all Liens of the Seller or any other Person have been taken or made.

(d) Financing Order; Other Approvals. On the Series Closing Date, under the laws of the State of North Carolina (including the Storm Recovery Law) and the United States in effect on the Series Closing Date: (i) The Financing Order has been issued by the Commission in accordance with the Storm Recovery Law, and such order and the process by which it was issued comply with all applicable laws, rules and regulations. The Financing Order has become effective pursuant to the Storm Recovery Law and is, and as of the date of issuance of the [Series A] Storm Recovery Bonds will be, in full force and effect and final and non-appealable; (ii) the [Series A] Storm Recovery Bonds will be entitled to the protections provided by the Storm Recovery Law and, accordingly, the Financing Order and the Series Charges are irrevocable and not subject to reduction by the Commission, except for the True-Up Adjustments to the Series Charges provided for in the Financing Order; (iii) revisions to Duke Energy [Carolinas/Progress]'s electric tariff to implement the Series Charges have been filed and are in full force and effect, such revisions are consistent with the Financing Order, and any electric tariff implemented consistent with a Financing Order issued by the Commission is not subject to modification by the Commission except for True-Up Adjustments made in accordance with the Storm Recovery Law; (iv) the process by which the Financing Order was adopted and approved complies with all applicable laws, rules and regulations; (v) the Financing Order is not subject to appeal and is legally enforceable, and the process by which it was issued complied with all applicable laws, rules and regulations and (vi) no Governmental Approvals, authorizations, consents, orders or other actions or filings, other than filings under the Storm Recovery Law or the UCC of North Carolina or Delaware, are required for the Seller to executed, deliver and perform its obligations under this Sale Agreement except those which have previously been obtained or made or are required to be made by the Servicer in the future pursuant to the Servicing Agreement.

(e) State Action. Under the Storm Recovery Law, the State of North Carolina may not take or permit any action that would impair the value of the Series Property or the Series Collateral or, except for the True-Up Adjustment, reduce, alter, or impair the Series Charges to be imposed, charged, collected and remitted to the Issuer, for the benefit of the Holders of the [Series A] Storm Recovery Bonds [and Holders of the SRB Notes] until the principal, interest

or other charges incurred or contracts to be performed in connection with the [Series A] Storm Recovery Bonds are paid or performed in full. Furthermore, under the contract clauses of the Constitution of the State of North Carolina and the United States Constitution, any action taken by the State of North Carolina, including the Commission that substantially impairs the rights of the Holders of the [Series A] Storm Recovery Bonds [and Holders of the SRB Notes] are likely to be found by a court of competent jurisdiction to be an impairment of contract with respect to the State Pledge, unless such action is a reasonable exercise of the State of North Carolina's sovereign powers and of a character reasonable and appropriate to further a significant and legitimate public purpose and, under the takings clauses of the constitution of the State of North Carolina and the United States Constitution, any action taken by the State of North Carolina to repeal or amend the Storm Recovery Law or take any other action in contravention of the State Pledge if such action constitutes a permanent appropriation of a substantial property interest of the Holders of the [Series A] Storm Recovery Bonds in the Series Property or substantially impairs the value of the Series Property so as to unduly interfere with the reasonable expectations of the Holders arising from their investments in the [Series A] Storm Recovery Bonds [or the SRB Notes], could be reasonably be concluded by a court of competent jurisdiction to be a compensable taking, unless such court finds that just compensation has been provided to the Holders of the [Series A] Storm Recovery Bonds [and Holders of the SRB Notes]; but nothing in this paragraph precludes any limitation or alteration if full compensation is made by law for the full protection of the Series Charges and of the Holders of the [Series A] Storm Recovery Bonds [and the Holders of SRB Notes] or any assignee or party entering into a contract with the Seller.

(f) No Repeal of the Storm Recovery Law. Apart from amending the Constitution of the State of North Carolina by initiative, the voters of the State of North Carolina do not have initiative powers to amend, repeal or revoke the Storm Recovery Law.

(g) Tax Liens. After due inquiry, the Seller is not aware of any judgment or tax lien filing against the Issuer or the Seller.

(h) Assumptions. On the Series Closing Date, based upon the information available to the Seller on such date, the assumptions used in calculating the Series Charges are reasonable and are made in good faith. Notwithstanding the foregoing, the Seller makes no representation or warranty, express or implied, that amounts actually collected arising from those Series Charges will in fact be sufficient to meet the payment obligations on the related [Series A] Storm Recovery Bonds or that the assumptions used in calculating such Series Charges will in fact be realized.

(i) Creation of Series Property.

(i) For purposes of the Storm Recovery Law, the Series Property constitutes a present property right that will continue to exist until the [Series A] Storm Recovery Bonds issued pursuant to the Financing Order are paid in full and all Financing Costs of the [Series A] Storm Recovery Bonds have been recovered in full; and

(ii) the Series Property consists of (A) all rights and interest of the Seller under the Financing Order, including the right to impose, bill, charge, collect and receive Series Charges; (B) the right under the Financing Order to obtain True-Up

Adjustments of the Series Charges; and (C) all revenues, collections, claims, rights to payments, payments, money and proceeds arising out of the rights and interests described in (A) and (B).

(j) Nature of Representations and Warranties. The representations and warranties set forth in this Section 3.08, insofar as they involve conclusions of law, are made not on the basis that the Seller purports to be a legal expert or to be rendering legal advice, but rather to reflect the parties' good faith understanding of the legal basis on which the parties are entering into this Sale Agreement and the other Basic Documents and the basis on which the Holders are purchasing the [Series A] Storm Recovery Bonds [and the SRB Notes], and to reflect the parties' agreement that, if such understanding turns out to be incorrect or inaccurate, the Seller will be obligated to indemnify the Issuer, the SRB Trust and their permitted assigns (to the extent required by and in accordance with Section 5.01), and that the Issuer, the SRB Trust and their permitted assigns will be entitled to enforce any rights and remedies under the Basic Documents on account of such inaccuracy to the same extent as if the Seller had breached any other representations or warranties hereunder.

(k) Prospectus. As of the date hereof, the information describing the Seller under the caption "[DEC/DEP]'s Review of Storm Recovery Property" and "Duke Energy [Carolinas/Progress], LLC—The Depositor, Sponsor, Seller and Servicer" in the prospectus dated [], 2021 relating to the [Series A] Storm Recovery Bonds is true and correct in all material respects.

(l) Solvency. After giving effect to the sale of the Series Property hereunder, the Seller:

- (i) is solvent and expects to remain solvent;
- (ii) is adequately capitalized to conduct its business and affairs considering its size and the nature of its business and intended purpose;
- (iii) is not engaged in nor does it expect to engage in a business for which its remaining property represents unreasonably small capital;
- (iv) reasonably believes that it will be able to pay its debts as they come due; and
- (v) is able to pay its debts as they mature and does not intend to incur, or believes that it will not incur, indebtedness that it will not be able to repay at its maturity.

(m) No Court Order. There is no order by any court providing for the revocation, alteration, limitation or other impairment of the Storm Recovery Law, the Financing Order, the Series Property or the Series Charges or any rights arising under any of them or that seeks to enjoin the performance of any obligations under the Financing Order.

(n) Survival of Representations and Warranties The representations and warranties set forth in this Section 3.08 shall survive the execution and delivery of this Sale Agreement and may not be waived by any party hereto except pursuant to a written agreement executed in accordance with Article VI and as to which the Rating Agency Condition has been satisfied.

SECTION 3.09. Limitations on Representations and Warranties. Without prejudice to any of the other rights of the parties, the Seller will not be in breach of any representation or warranty as a result of a change in law by means of any legislative enactment, constitutional amendment or voter initiative. **Notwithstanding anything in this Sale Agreement to the contrary, the Seller makes no representation that amounts collected will be sufficient to meet the obligations on the [Series A] Storm Recovery Bonds or the Issuer's allocable portion of the SRB Notes.**

ARTICLE IV COVENANTS OF THE SELLER

SECTION 4.01. Existence. Subject to Section 5.02, so long as any of the [Series A] Storm Recovery Bonds are Outstanding, the Seller (a) will keep in full force and effect its existence and remain in good standing or equivalent status under the laws of the jurisdiction of its organization and (b) will obtain and preserve its qualifications to do business in each jurisdiction in which such qualification is or will be necessary to protect the validity and enforceability of this Sale Agreement and each other instrument or agreement to which the Seller is a party necessary to the proper administration of this Sale Agreement and the transactions contemplated thereby.

SECTION 4.02. No Liens. Except for the conveyances under this Sale Agreement or any Lien for the benefit of the Issuer, the Holders of the [Series A] Storm Recovery Bonds or the Indenture Trustee, [the Holders of the SRB Notes or the SRB Trustee] the Seller will not sell, pledge, assign or transfer to any other person, or grant, create, incur, assume or suffer to exist any Lien on, any of the Series Property, whether existing as of the transfer date or thereafter created, or any interest therein. The Seller will not at any time assert any Lien against or with respect to any Series Property, and will defend the right, title and interest of the Issuer and of the Indenture Trustee [and the SRB Issuer and SRB Trustee], on behalf of the Secured Parties, in, to and under the Series Property against all claims of third parties claiming through or under the Seller.

SECTION 4.03. Use of Proceeds. The Seller will use the proceeds of the sale of the related Series Property in accordance with the Financing Order.

SECTION 4.04. Delivery of Collections. In the event that the Seller receives any Storm Recovery Charge Collections or other payments in respect of the Series Charges or the proceeds thereof, other than in its capacity as the Servicer, the Seller agrees to pay to the Servicer, on behalf of the Issuer, all payments received by it in respect thereof, but in no event later than two Business Days after the Seller becomes aware of such receipt.

SECTION 4.05. Notice of Liens. The Seller shall notify the Issuer and the Indenture Trustee promptly after becoming aware of any Lien on any of the Series Property,

other than the conveyances hereunder and any Lien pursuant to the Basic Documents, including the Lien in favor of the Indenture Trustee for the benefit of the Holders of the [Series A] Storm Recovery Bonds or the SRB Trustee for the benefit of the Holders of the SRB Notes.

SECTION 4.06. Compliance with Law. The Seller will materially comply with its organizational or governing documents and all laws, treaties, rules, regulations and determinations of any Governmental Authority applicable to it, except to the extent that failure to so comply would not materially adversely affect the Issuer's or the Indenture Trustee's [or the SRB Issuer's or the SRB Trustee's] interests in the Series Property under any of the Basic Documents, the timing or amount of Series Charges payable by Customers or of Seller's performance of its material obligations under this Sale Agreement.

SECTION 4.07. Covenants Related to [Series A] Storm Recovery Bonds and Series Property.

(a) So long as any of the [Series A] Storm Recovery Bonds are Outstanding, the Seller shall treat the Series Property as the Issuer's property for all purposes other than financial accounting, U.S. federal income tax purposes and state income and franchise tax purposes.

(b) So long as any of the [Series A] Storm Recovery Bonds are Outstanding, the Seller shall treat such [Series A] Storm Recovery Bonds as debt of the Issuer and not that of the Seller, except for financial accounting and U.S. federal income tax purposes. For U.S. federal income tax purposes, so long as any of the [Series A] Storm Recovery Bonds are Outstanding, the Seller agrees to treat such [Series A] Storm Recovery Bonds as indebtedness of the Seller (as the sole owner of the Issuer) secured by the related Series Collateral unless otherwise required by appropriate taxing authorities.

(c) So long as any of the [Series A] Storm Recovery Bonds are Outstanding, the Seller shall disclose in its financial statements that the Issuer and not the Seller is the owner of the Series Property and that the assets of the Issuer are not available to pay creditors of the Seller or its Affiliates (other than the Issuer).

(d) So long as any of the [Series A] Storm Recovery Bonds are Outstanding, the Seller shall not own or purchase any [Series A] Storm Recovery Bonds.

(e) So long as the [Series A] Storm Recovery Bonds are Outstanding, the Seller shall disclose the effects of all transactions between the Seller and the Issuer in accordance with generally accepted accounting principles.

(f) The Seller agrees that, upon the sale by the Seller of the Series Property to the Issuer pursuant to this Sale Agreement, (i) to the fullest extent permitted by law, including applicable Commission Regulations and the Storm Recovery Law, the Issuer shall have all of the rights originally held by the Seller with respect to the Series Property, including the right (subject to the terms of the Servicing Agreement) to exercise any and all rights and remedies to collect any amounts payable by any Customer in respect of the Series Property, notwithstanding any objection or direction to the contrary by the Seller (and the Seller agrees not to make any such objection or to take any such contrary action) and (ii) any payment by

any Customer directly to the Issuer shall discharge such Customer's obligations, if any, in respect of the Series Property to the extent of such payment, notwithstanding any objection or direction to the contrary by the Seller.

(g) So long as any of the [Series A] Storm Recovery Bonds are Outstanding, (i) in all proceedings relating directly or indirectly to the Series Property, the Seller shall affirmatively certify and confirm that it has sold all of its rights and interests in and to such property (other than for financial accounting or tax purposes), (ii) the Seller shall not make any statement or reference in respect of the Series Property that is inconsistent with the ownership interest of the Issuer (other than for financial accounting or tax purposes), (iii) the Seller shall not take any action in respect of the Series Property except solely in its capacity as the Servicer thereof pursuant to the Servicing Agreement or as otherwise contemplated by the Basic Documents, (iv) neither the Seller nor the Issuer shall take any action, file any tax return or make any election inconsistent with the treatment of the Issuer, for U.S. federal income tax purposes and, to the extent consistent with applicable state tax law, state income and franchise tax purposes, as a disregarded entity that is not separate from the Seller (or, if relevant, from another sole owner of the Issuer) and (v) the Seller shall not sell any additional Property pursuant to the Storm Recovery Law unless the Rating Agency Condition has been satisfied.

SECTION 4.08. Protection of Title. The Seller shall execute and file such filings, including filings with the Secretary of State of the State of North Carolina pursuant to the Storm Recovery Law, and cause to be executed and filed such filings, all in such manner and in such places as may be required by law to fully preserve, maintain, protect and perfect the ownership interest of the Issuer, and the back-up precautionary security interest of the Issuer pursuant to Section 2.01, and the first priority security interest of the Indenture Trustee in the Series Property, including all filings (including but not limited to continuation statements) required under the Storm Recovery Law and the UCC relating to the transfer of the ownership of the rights and interest in the Series Property by the Seller to the Issuer or the pledge of the Issuer's interest in the Series Property to the Indenture Trustee. The Seller shall deliver or cause to be delivered to the Issuer and the Indenture Trustee file-stamped copies of, or filing receipts for, any document filed as provided above, as soon as available following such filing. The Seller shall institute any action or proceeding necessary to compel performance by the Commission, the State of North Carolina or any of their respective agents of any of their obligations or duties under the Storm Recovery Law, the Financing Order, or any issuance advice letter for the [Series A] Storm Recovery Bonds and the Seller agrees to take such legal or administrative actions, including defending against or instituting and pursuing legal actions and appearing or testifying at hearings or similar proceedings, in each case as may be reasonably necessary (a) to seek to protect the Issuer and the Secured Parties from claims, state actions or other actions or proceedings of third parties that, if successfully pursued, would result in a breach of any representation set forth in Article III or any covenant set forth in Article IV and (b) to seek to block or overturn any attempts to cause a repeal of, modification of or supplement to the Storm Recovery Law, the Financing Order or any issuance advice letter for the [Series A] Storm Recovery Bonds, or the rights of Holders of the [Series A] Storm Recovery Bonds by legislative enactment or constitutional amendment that would be materially adverse to the Issuer or the Secured Parties or that would otherwise cause an impairment of the rights of the Issuer or the Secured Parties. The costs of any such actions or proceedings undertaken by the Seller will be reimbursed by the Issuer as an Operating Expense.

SECTION 4.09. Nonpetition Covenants. Notwithstanding any prior termination of this Sale Agreement or the Indenture, the Seller shall not, prior to the date that is one year and one day after the termination of the Indenture and payment in full of the [Series A] Storm Recovery Bonds or any other amounts owed under the Indenture, petition or otherwise invoke or cause the Issuer to invoke the process of any Governmental Authority for the purpose of commencing or sustaining a voluntary case against the Issuer under any U.S. federal or state bankruptcy, insolvency or similar law, appointing a receiver, liquidator, assignee, trustee, custodian, sequestrator or other similar official or any substantial part of the property of the Issuer, or ordering the winding up or liquidation of the affairs of the Issuer.

SECTION 4.10. Taxes. So long as any of the [Series A] Storm Recovery Bonds are outstanding, the Seller shall, and shall cause each of its Affiliates to, pay all material taxes, assessments and governmental charges imposed upon it or any of its properties or assets or with respect to any of its franchises, business, income or property before any penalty accrues thereon if the failure to pay any such taxes, assessments and governmental charges would, after any applicable grace periods, notices or other similar requirements, result in a Lien on the Series Property; provided, that no such tax need be paid if the Seller or one of its Affiliates is contesting the same in good faith by appropriate proceedings promptly instituted and diligently conducted and if the Seller or such Affiliate has established appropriate reserves as shall be required in conformity with generally accepted accounting principles.

SECTION 4.11. Notice of Breach to Rating Agencies, Etc. Promptly after obtaining knowledge thereof, in the event of a breach in any material respect (without regard to any materiality qualifier contained in such representation, warranty or covenant) of any of the Seller's representations, warranties or covenants contained herein, the Seller shall promptly notify the Issuer, the Indenture Trustee, the Commission and the Rating Agencies of such breach. For the avoidance of doubt, any breach that would adversely affect scheduled payments on the [Series A] Storm Recovery Bonds will be deemed to be a material breach for purposes of this Section 4.11.

SECTION 4.12. Filing Requirements. The Seller shall comply with all filing requirements, including any post-closing filings, in accordance with the Financing Order.

SECTION 4.13. Further Assurances. Upon the request of the Issuer, the Seller shall execute and deliver such further instruments and do such further acts as may be reasonably necessary to carry out the provisions and purposes of this Sale Agreement.

SECTION 4.14. Intercreditor Agreement. The Seller shall not continue as or become a party to any (i) trade receivables purchase and sale agreement or similar arrangement under which it sells all or any portion of its accounts receivables owing from North Carolina electric distribution customers unless the Indenture Trustee, the Seller and the other parties to such additional arrangement shall have entered into the Intercreditor Agreement in connection therewith and the terms of the documentation evidencing such trade receivables purchase and sale arrangement or similar arrangement shall expressly exclude Series Property (including Series Charges) from any receivables or other assets pledged or sold under such arrangement or (ii) sale agreement selling to any other Affiliate property consisting of charges similar to the

Charges sold pursuant to this Sale Agreement, payable by Customers pursuant to the Storm Recovery Law or any similar law, unless the Seller and the other parties to such arrangement shall have entered into an Intercreditor Agreement in connection with any agreement or similar arrangement described in this Section 4.14.

SECTION 4.15. Additional Sales of Storm Recovery Property. So long as any of the [Series A] Storm Recovery Bonds [or SRB Notes] are outstanding, the Seller shall not sell any “storm recovery property” (as defined in the Storm Recovery Law) [or similar property] to secure another issuance of Storm Recovery Bonds or similar bond if it would cause the then current ratings or the SRB Notes from the Rating Agencies to be downgraded.

ARTICLE V THE SELLER

SECTION 5.01. Liability of Seller; Indemnities.

(a) The Seller shall be liable in accordance herewith only to the extent of the obligations specifically undertaken by the Seller under this Sale Agreement.

(b) The Seller shall indemnify the Issuer and the Indenture Trustee (for itself and the benefit of the Holders of the [Series A] Storm Recovery Bonds) and the SRB Issuer and SRB Trustee (for itself and the benefit of the Holders of the SRB Notes) and each of their respective officers, directors, employees, trustees, managers and agents for, and defend and hold harmless each such Person from and against, any and all taxes (other than taxes imposed on Holders as a result of their ownership of a SRB Note) that may at any time be imposed on or asserted against any such Person as a result of the sale and assignment of the Series Property to the Issuer, including any franchise, sales, gross receipts, general corporation, tangible personal property, privilege or license taxes, but excluding any taxes imposed as a result of a failure of such Person to withhold or remit taxes with respect to payments on any [Series A] Storm Recovery Bond or SRB Note, it being understood that the Holders of either a [Series A] Storm Recovery Bonds or SRB Note shall be entitled to enforce their rights against the Seller under this Section 5.01(b) solely through a cause of action brought for their benefit by the Indenture Trustee as set forth in the Indenture.

(c) The Seller shall indemnify the Issuer and the Indenture Trustee (for itself and the benefit of the Holders of the [Series A] Storm Recovery Bonds) and the SRB Issuer and SRB Trustee (for itself and the benefit of the Holders of the SRB Notes) and each of their respective officers, directors, employees, trustees, managers and agents for, and defend and hold harmless each such Person from and against, any and all taxes (other than taxes imposed on Holders as a result of their ownership of a SRB Note) that may at any time be imposed on or asserted against any such Person as a result of the Issuer’s ownership and assignment of the Series Property, the issuance and sale by the Issuer of the [Series A] Storm Recovery Bonds or the other transactions contemplated in the Basic Documents, including any franchise, sales, gross receipts, general corporation, tangible personal property, privilege or license taxes, but excluding any taxes imposed as a result of a failure of such Person to withhold or remit taxes with respect to payments on any Series A Bond.

(d) Indemnification under Sections 5.01(b), 5.01(c), 5.01(d) and 5.01(e) shall include reasonable out-of-pocket fees and expenses of investigation and litigation (including reasonable attorneys' fees and expenses), except as otherwise expressly provided in this Sale Agreement.

(e) The Seller shall indemnify the Issuer and the Indenture Trustee (for itself and for the benefit of the Holders of the [Series A] Storm Recovery Bonds) and the SRB Issuer and the SRB Trustee (for itself and for the benefit of the Holders of SRB Notes), and each of their respective officers, directors, managers, employees and agents for, and defend and hold harmless each such Person from and against, (i) any and all amounts of principal of and interest on the [Series A] Storm Recovery Bonds or the Issuer's allocable portion of the SRB Notes not paid when due or when scheduled to be paid in accordance with their terms and the amount of any deposits to the Issuer required to have been made in accordance with the terms of the Basic Documents which are not made when so required, in each case as a result of the Seller's breach of any of its representations, warranties or covenants contained in this Sale Agreement, and (ii) any and all Losses that may be imposed on or asserted against any such Person, other than any liabilities, obligations or claims for or payments of principal of or interest on the [Series A] Storm Recovery Bonds, together with any reasonable costs and expenses actually incurred by such Person, as a result of the Seller's material breach of any of its representations, warranties or covenants contained in this Sale Agreement, except to the extent of Losses either resulting from the willful misconduct, bad faith or gross negligence of such Indemnified Person or resulting from a breach of a representation or warranty made by such Indemnified Person in any of the Basic Documents that gives rise to Seller's breach, and provided that, with respect to a material breach of a representation, warranty or covenant, the Seller has first had a 30-day opportunity to cure such breach beginning with the receipt of a notice of breach from the Issuer, the Indenture Trustee, the SRB Issuer and SRB Trustee and has failed to cure such breach within such period; and provided further that (i) the Holders of the [Series A] Storm Recovery Bonds shall be entitled to enforce their rights against the Seller under this Section 5.01(e) solely through a cause of action brought for their benefit by the Indenture Trustee and (ii) the Holders of the SRB Notes shall be entitled to enforce their rights against the Seller under this Section 5.01(e) solely through a cause of action brought for their benefit by the SRB Trustee.

(f) The Seller shall indemnify the Servicer (if the Servicer is not the Seller) for the costs of any action instituted by the Servicer pursuant to Section 5.02(d) of the Servicing Agreement that are not paid as Operating Expenses in accordance with the priorities set forth in Section 8.02(e) of the Indenture.

(g) The remedies provided in this Sale Agreement are the sole and exclusive remedies against the Seller for breach of its representations and warranties in this Sale Agreement.

(h) If the Seller remains an entity subject to the Commission's regulatory authority as a public utility (or otherwise for ratemaking purposes), the Seller acknowledges and agrees that the Commission may, subject to the outcome of an appropriate Commission proceeding, take such action as it deems necessary or appropriate under its regulatory authority to require the Seller to make Customers whole for any Losses they incur by reason of

(i) any failure of the Seller's material representations or warranties set forth in this Agreement (other than the Seller's representations and warranties set forth in Sections 3.08(d), 3.08(e) and 3.08(i)), or

(ii) any material breach of the Seller's covenants contained in this Agreement (other than the Seller's covenant set forth in the third sentence of Section 4.08),

including in each case (without limitation) Losses attributable to higher Series Charges imposed on Customers. The Seller acknowledges and agrees that such action by the Commission may include, but is not limited to, adjustments to the Seller's other regulated rates and charges or credits to Customers.

(i) If the Seller does not remain an entity subject to the Commission's regulatory authority as a public utility (or otherwise for ratemaking purposes), the Seller shall indemnify the Commission, on behalf of Customers, for any Losses Customers incur by reason of

(i) any failure of the Seller's material representations or warranties set forth in this Agreement (other than the Seller's representations and warranties set forth in Sections 3.08(d), 3.08(e) and 3.08(i)), or

(ii) any material breach of the Seller's covenants contained in this Agreement (other than the Seller's covenant set forth in the third sentence of Section 4.08),

including without limitation Losses attributable to higher Series Charges imposed on Customers.

(j) Indemnification under this Section 5.01 shall survive any repeal of, modification of, or supplement to, or judicial invalidation of, the Storm Recovery Law or the Financing Order and shall survive the resignation or removal of the Indenture Trustee or the termination of this Sale Agreement and will rank pari passu with other general, unsecured obligations of the Seller. The Seller shall not indemnify any party under this Section 5.01 for any changes in law after the Series Closing Date, whether such changes in law are effected by means of any legislative enactment, any constitutional amendment or any final and non-appealable judicial decision.

SECTION 5.02. Merger, Conversion or Consolidation of, or Assumption of the Obligations of, Seller. Any Person (a) into which the Seller may be merged or consolidated and which succeeds to all or substantially all of the electric distribution business of the Seller, (b) which results from the division of the Seller into two or more Persons and which succeeds to all or substantially all of the electric distribution business of the Seller, (c) which may result from any merger or consolidation to which the Seller shall be a party and which succeeds to all or substantially all of the electric distribution business of the Seller, (d) which may succeed to the properties and assets of the Seller substantially as a whole and which succeeds to all or substantially all of the electric distribution business of the Seller, or (e) which may otherwise succeed to all or substantially all of the electric distribution business of the Seller, which Person in any of the foregoing cases executes an agreement of assumption to perform every obligation

of the Seller under this Sale Agreement, shall be the successor to the Seller hereunder without the execution or filing of any document or any further act by any of the parties to this Sale Agreement; provided, however, that: (i) immediately after giving effect to such transaction, no representation or warranty made pursuant to Article III shall have been breached and no Servicer Default, and no event that, after notice or lapse of time, or both, would become a Servicer Default, shall have occurred and be continuing, (ii) the Seller shall have delivered to the Issuer and the Indenture Trustee and the SRB Trustee an Officer's Certificate and an Opinion of Counsel each stating that such consolidation, reorganization, merger or succession and such agreement of assumption comply with this Section 5.02 and that all conditions precedent, if any, provided for in this Sale Agreement relating to such transaction have been complied with, (iii) the Seller shall have delivered to the Issuer, the Indenture Trustee, the SRB Issuer and SRB Trustee an Opinion of Counsel stating that, in the opinion of such counsel, either (A) all filings to be made by the Seller or the Seller, in its capacity as Seller or as Servicer, including filings under the Storm Recovery Law with the Secretary of the State of the State of North Carolina and the UCC, that are necessary or advisable to fully preserve and protect the respective interests of the Issuer and the Indenture Trustee in the Series Property have been executed and filed, and reciting the details of such filings, or (B) no such action is necessary to preserve and protect such interests, (iv) the Seller shall have given the Rating Agencies prior written notice of such transaction and (v) the Seller shall have delivered to the Issuer, the Indenture Trustee, the SRB Issuer, SRB Trustee and the Rating Agencies an Opinion of Counsel from external tax counsel stating that, for U.S. federal income tax purposes, such consolidation, conversion, merger or succession and such agreement of assumption will not result in a material U.S. federal income tax consequence to the Issuer, the Seller, the Indenture Trustee, the Holders of [Series A] Storm Recovery Bonds, the SRB Trustee or the Holders of SRB Notes. When any Person (or more than one Person) acquires the properties and assets of the Seller substantially as a whole or otherwise becomes the successor, whether by merger, conversion, consolidation, sale, transfer, lease, management contract or otherwise, to all or substantially all of the assets of the Seller in accordance with the terms of this Section 5.02, then, upon satisfaction of all of the other conditions of this Section 5.02, the preceding Seller shall automatically and without further notice be released from all of its obligations hereunder.

SECTION 5.03. Limitation on Liability of Seller and Others. The Seller and any director, officer, employee or agent of the Seller may rely in good faith on the advice of counsel or on any document of any kind, prima facie properly executed and submitted by any Person, respecting any matters arising hereunder. Subject to Section 4.08, the Seller shall not be under any obligation to appear in, prosecute or defend any legal action that is not incidental to its obligations under this Sale Agreement and that in its opinion may involve it in any expense or liability.

ARTICLE VI MISCELLANEOUS PROVISIONS

SECTION 6.01. Amendment.

(a) Subject to Section 6.01(b), this Sale Agreement may be amended in writing by the Seller and the Issuer with (a) the prior written consent of the Indenture Trustee (b) the satisfaction of the Rating Agency Condition and (c) if any amendment would adversely affect

in any material respect the interest of any Holder of the [Series A] Storm Recovery Bonds, the consent of a majority of the Holders of each affected tranche of [Series A] Storm Recovery Bonds. Promptly after the execution of any such amendment or consent, the Issuer shall furnish copies of such amendment or consent to each of the Rating Agencies.

Prior to the execution of any amendment to this Sale Agreement, the Issuer and the Indenture Trustee shall be entitled to receive and rely upon (i) an Opinion of Counsel, which counsel may be an employee of or counsel to the Issuer or the Seller and which shall be reasonably satisfactory to the Indenture Trustee, or, in the Indenture Trustee's sole judgment, external counsel of the Seller stating that the execution of such amendment is authorized and permitted by this Sale Agreement and that all conditions precedent provided for in this Sale Agreement relating to such amendment have been complied with and (ii) the Opinion of Counsel referred to in Section 3.01(c)(i) of the Servicing Agreement. The Issuer and the Indenture Trustee may, but shall not be obligated to, enter into any such amendment that affects the Indenture Trustee's own rights, duties or immunities under this Sale Agreement or otherwise.

(b) [Notwithstanding anything to the contrary in this Section 6.01, no amendment or modification of this Agreement shall be effective except upon satisfaction of the conditions precedent in this paragraph (b).

(i) At least 15 days prior to the effectiveness of any such amendment or modification and after obtaining the other necessary approvals set forth in Section 6.01(a) (except that the consent of the Indenture Trustee may be subject to the consent of the Holders of the [Series A] Storm Recovery Bonds if such consent is required or sought by the Indenture Trustee in connection with such amendment or modification) the Seller shall have delivered to the Commission's Staff Director of Accounting & Finance written notification of any proposed amendment, which notification shall contain:

A. a reference to Docket Nos. [];

B. an Officer's Certificate stating that the proposed amendment or modification has been approved by all parties to this Sale Agreement; and

C. a statement identifying the person to whom the Commission is to address any response to the proposed amendment or to request additional time.

(ii) If the Commission or an authorized representative of the Commission, within 15 days (subject to extension as provided in clause (iii)) of receiving a notification complying with subparagraph (i), shall have delivered to the office of the person specified in clause (i)(C) a written statement that the Commission might object to the proposed amendment or modification, then, except as provided in clause (iv) below, such proposed amendment or modification shall not be effective unless and until the Commission subsequently delivers a written statement that it does not object to such proposed amendment or modification; or

(iii) If the Commission or an authorized representative of the Commission, within 15 days of receiving a notification complying with subparagraph (i), shall have delivered to the office of the person specified in clause (i)(C) a written statement requesting an additional amount of time not to exceed thirty days in which to consider such proposed amendment or modification, then such proposed amendment or modification shall not be effective if, within such extended period, the Commission shall have delivered to the office of the person specified in clause (i)(C) a written statement as described in subparagraph (ii), unless and until the Commission subsequently delivers a written statement that it does not object to such proposed amendment or modification.

(iv) If (A) the Commission or an authorized representative of the Commission, shall not have delivered written notice that the Commission might object to such proposed amendment or modification within the time periods described in subparagraphs (ii) or (iii), whichever is applicable, or (B) the Commission or authorized representative of the Commission, has delivered such written notice but does not within 60 days of the delivery of the notification in (a) above, provide subsequent written notice confirming that it does in fact object and the reasons therefore or advise that it has initiated a proceeding to determine what action it might take with respect to the matter, then the Commission shall be conclusively deemed not to have any objection to the proposed amendment or modification and such amendment or modification may subsequently become effective upon satisfaction of the other conditions specified in Section 6.01(a).

(v) Following the delivery of a statement from the Commission or an authorized representative of the Commission to the Seller under subparagraph (ii), the Seller and the Issuer shall have the right at any time to withdraw from the Commission further consideration of any proposed amendment.

(c) For the purpose of this Section 6.01, an “authorized representative of the Commission” means any person authorized to act on behalf of the Commission, as evidenced by an Opinion of Counsel (which may be the general counsel) to the Commission.]

SECTION 6.02. Notices. Any notice, report or other communication given hereunder shall be in writing and shall be effective (i) upon receipt when sent through the mails, registered or certified mail, return receipt requested, postage prepaid, with such receipt to be effective the date of delivery indicated on the return receipt, (ii) upon receipt when sent by an overnight courier, (iii) on the date personally delivered to an authorized officer of the party to which sent or (iv) on the date transmitted by facsimile or other electronic transmission with a confirmation of receipt in all cases, addressed as follows:

(a) in the case of the Seller, to Duke Energy [Carolinas/Progress], LLC at (i) [ADDRESS], Attention: Director, Rates and Regulatory Strategy, Telephone: [727-820-4560] in care of (c/o): Director, Rates and Regulatory Planning and (ii) 550 South Tryon Street, Charlotte, North Carolina 28202, Attention: Treasurer, Telephone: 704-382-3853 c/o Assistant Treasurer;

(b) in the case of the Issuer, to [DUKE ENERGY [CAROLINAS/PROGRESS] STORM RECOVERY FUNDING], LLC, at [ADDRESS], Attention: Managers, Telephone: [];

(c) in the case of the Indenture Trustee, to the Corporate Trust Office;

(d) in the case of the SRB Trustee, to the SRB Trustee Corporate Trust Office;

(e) in the case of Fitch, to Fitch Ratings, 33 Whitehall Street, New York, New York 10004, Attention: ABS Surveillance, Telephone: (212) 908-0500, Facsimile: (212) 908-0355;

(f) in the case of S&P, to Standard & Poor's Ratings Services, a Standard & Poor's Financial Services LLC business, Structured Credit Surveillance, 55 Water Street, New York, New York 10041, Telephone: (212) 438-8991, Email: servicer_reports@standardandpoors.com (all such notices to be delivered to S&P in writing by email);

(g) in the case of Moody's, to Moody's Investors Service, Inc., ABS/RMBS Monitoring Department, 25th Floor, 7 World Trade Center, 250 Greenwich Street, New York, New York 10007, Email: ServicerReports@moodys.com (all such notices to be delivered to Moody's in writing by email), and solely for purposes of Rating Agency Condition communications: abscormonitoring@moodys.com; and

(h) in the case of the Commission, at North Carolina Utilities Commission, [4325 Mail Service Center, Raleigh, NC 27603-5918], Attention: Staff Director of Accounting & Finance.

Each party hereto may, by notice given in accordance herewith to the other party or parties hereto, designate any further or different address to which subsequent notices, reports and other communications shall be sent.

SECTION 6.03. Assignment. Notwithstanding anything to the contrary contained herein, except as provided in Section 5.02, this Sale Agreement may not be assigned by the Seller.

SECTION 6.04. Limitations on Rights of Third Parties. The provisions of this Sale Agreement are solely for the benefit of the Seller, the Issuer, the SRB Issuer, [the Commission (on behalf of itself and Customers),] the Indenture Trustee (for the benefit of the Secured Parties), the SRB Trustee (for the benefit of the Holders of SRB Notes) and the other Persons expressly referred to herein, and such Persons shall have the right to enforce the relevant provisions of this Sale Agreement. Nothing in this Sale Agreement, whether express or implied, shall be construed to give to any other Person any legal or equitable right, remedy or claim in the Series Property or under or in respect of this Sale Agreement or any covenants, conditions or provisions contained herein.

SECTION 6.05. Severability. Any provision of this Sale Agreement that is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remainder of such

provision (if any) or the remaining provisions hereof (unless such construction shall be unreasonable), and any such prohibition or unenforceability in any jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction.

SECTION 6.06. Separate Counterparts. This Sale Agreement may be executed by the parties hereto in separate counterparts, each of which when so executed and delivered shall be an original, but all such counterparts shall together constitute but one and the same instrument.

SECTION 6.07. Governing Law. **This Sale Agreement shall be construed in accordance with the laws of the State of North Carolina, without reference to its conflict of law provisions, and the obligations, rights and remedies of the parties hereunder shall be determined in accordance with such laws.**

SECTION 6.08. Assignment to Indenture Trustee. The Seller hereby acknowledges and consents to any mortgage, pledge, assignment and grant of a security interest by the Issuer to the Indenture Trustee pursuant to the Indenture for the benefit of the Secured Parties of all right, title and interest of the Issuer in, to and under this Sale Agreement, the Series Property and the proceeds thereof and the assignment of any or all of the Issuer's rights hereunder to the Indenture Trustee for the benefit of the Secured Parties and to the subsequent grant of a security interest and collateral assignment by the Holders of [Series A] Storm Recovery Bonds to the SRB Trustee pursuant to the SRB Indenture for the benefit of the Holders of SRB Notes in all of the Holders of [Series A] Storm Recovery Bonds' right, title and interest in the [Series A] Storm Recovery Bonds in and to the Collateral of the Issuer and any proceeds thereof, including without limitation, all of the Issuer's rights hereunder.

SECTION 6.09. Limitation of Liability. It is expressly understood and agreed by the parties hereto that this Sale Agreement is executed and delivered by the Indenture Trustee, not individually or personally but solely as Indenture Trustee on behalf of the Secured Parties, in the exercise of the powers and authority conferred and vested in it. The Indenture Trustee in acting hereunder is entitled to all rights, benefits, protections, immunities and indemnities accorded to it under the Indenture.

SECTION 6.10. Waivers. Any term or provision of this Sale Agreement may be waived, or the time for its performance may be extended, by the party or parties entitled to the benefit thereof; provided, however, that no such waiver delivered by the Issuer shall be effective unless the Indenture Trustee has given its prior written consent thereto. Any such waiver shall be validly and sufficiently authorized for the purposes of this Sale Agreement if, as to any party, it is authorized in writing by an authorized representative of such party, with prompt written notice of any such waiver to be provided to the Rating Agencies. The failure of any party hereto to enforce at any time any provision of this Sale Agreement shall not be construed to be a waiver of such provision, nor in any way to affect the validity of this Sale Agreement or any part hereof or the right of any party thereafter to enforce each and every such provision. No waiver of any breach of this Sale Agreement shall be held to constitute a waiver of any other or subsequent breach.

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IN WITNESS WHEREOF, the parties hereto have caused this Sale Agreement to be duly executed by their respective officers as of the day and year first above written.

[DUKE ENERGY [CAROLINAS/PROGRESS] STORM
RECOVERY FUNDING], LLC
as Issuer

By: _____
Name: []
Title: President, Chief Financial Officer and Treasurer

Duke Energy [Carolinas/Progress], LLC
as Seller

By: _____
Name: []
Title: Senior Vice President, Tax and Treasurer

ACKNOWLEDGED AND ACCEPTED:

[],
as Indenture Trustee

By: _____
Name:
Title:

EXHIBIT A
FORM OF BILL OF SALE

See attached

BILL OF SALE

This Bill of Sale is being delivered pursuant to the Storm Recovery Property Purchase and Sale Agreement, dated as of [], 2021 (the “Sale Agreement”), by and between Duke Energy [Carolinas/Progress], LLC (the “Seller”) and [Duke Energy [Carolinas/Progress] Storm Recovery Funding], LLC (the “Issuer”). All capitalized terms used but not otherwise defined herein shall have the respective meanings ascribed to such terms in the Sale Agreement.

In consideration of the Issuer’s delivery to or upon the order of the Seller of \$[], the Seller does hereby irrevocably sell, transfer, assign, set over and otherwise convey to the Issuer, without recourse or warranty, except as set forth in the Sale Agreement, all right, title and interest of the Seller in and to the Series Property created or arising under the Financing Order dated [], 2021 issued by the North Carolina Utilities Commission under the Storm Recovery Law (such sale, transfer, assignment, setting over and conveyance of the Series Property includes, to the fullest extent permitted by the Storm Recovery Law, the rights and interests of the Seller under the Financing Order, including the right of the Seller and any Successor or assignee of the Seller to impose, bill, charge, collect and receive Series Charges, the right to obtain True-Up Adjustments and all revenue, collections, claims, rights to payments, payments, moneys and proceeds arising from the rights and interests specified in the Financing Order). Such sale, transfer, assignment, setting over and conveyance is hereby expressly stated to be a sale or other absolute transfer and, pursuant to N.C. Gen. Stat. § 62-172(e)(3)a., shall be treated as a true sale and not as a pledge of or secured transaction relating to the Seller’s right, title, and interest in, to, and under the Series Property. The Seller and the Issuer agree that after giving effect to the sale, transfer, assignment, setting over and conveyance contemplated hereby the Seller has no right, title or interest in, to, or under the Series Property to which a security interest could attach because (i) it has sold, transferred, assigned, set over and conveyed all right, title and interest in and to the Series Property to the Issuer, (ii) as provided in N.C. Gen. Stat. § 62-172(e)(3), all right, title and interest shall have passed to the Issuer and (iii) as provided in N.C. Gen. Stat. § 62-172(e)(3)d., appropriate financing statements have been filed and such transfer is perfected against all third parties, including subsequent judicial or other lien creditors. If such sale, transfer, assignment, setting over and conveyance is held by any court of competent jurisdiction not to be a true sale as provided in N.C. Gen. Stat. § 62-172(e)(3), then such sale, transfer, assignment, setting over and conveyance shall be treated as a pledge of the Series Property and as the creation of a security interest (within the meaning of the Storm Recovery Law and the UCC) in the Series Property and, without prejudice to its position that it has absolutely transferred all of its rights in the Series Property to the Issuer, the Seller hereby grants a security interest in the Series Property to the Issuer (and to the Indenture Trustee for the benefit of the Secured Parties) to secure their respective rights under the Basic Documents to receive the Series Charges and all other Series Property.

The Issuer does hereby purchase the Series Property from the Seller for the consideration set forth in the preceding paragraph.

Each of the Seller and the Issuer acknowledges and agrees that the purchase price for the Series Property sold pursuant to this Bill of Sale and the Sale Agreement is equal to its fair market value at the time of sale.

The Seller confirms that (i) each of the representations and warranties on the part of the Seller contained in the Sale Agreement are true and correct in all respects on the date hereof as if made on the date hereof and (ii) each condition precedent that must be satisfied under Section 2.02 of the Sale Agreement has been satisfied upon or prior to the execution and delivery of this Bill of Sale by the Seller.

This Bill of Sale may be executed by the parties hereto in separate counterparts, each of which when so executed and delivered shall be an original, but all such counterparts shall together constitute but one and the same instrument.

This Bill of Sale shall be construed in accordance with the laws of the State of North Carolina, without reference to its conflict of law provisions, and the obligations, rights and remedies of the parties hereunder shall be determined in accordance with such law.

IN WITNESS WHEREOF, the Seller and the Issuer have duly executed this Bill of Sale
as of this [] day of [], 2021.

[DUKE ENERGY [CAROLINAS/PROGRESS] STORM
RECOVERY FUNDING], LLC,
as Issuer

By: _____
Name:
Title:

Duke Energy [Carolinas/Progress], LLC,
as Seller

By: _____
Name:
Title:

APPENDIX A

DEFINITIONS AND RULES OF CONSTRUCTION

A. Defined Terms. The following terms have the following meanings:

“17g-5 Website” is defined in Section 10.18(a) of the Indenture.

“Account Records” is defined in Section 1(a)(i) of the Administration Agreement.

“Act” is defined in Section 10.03(a) of the Indenture.

“Additional Series” means issuance by the Issuer of any series of Storm Recovery Bonds issued after the date hereof, that will be undertaken only if (i) such issuance has been authorized by the Commission, (ii) the Rating Agency Condition has been satisfied and it is a condition of issuance for each Series of Storm Recovery Bonds that the new Series receive a rating or ratings as required by the Financing Order or a Subsequent Financing Order, (iii) the Issuer has delivered to the Indenture Trustee an Opinion of Counsel of a nationally recognized firm experienced in such matters to the effect that after such issuance, in the opinion of such counsel, if either or both of Duke Energy [Carolinas/Progress] or the Seller were to become a debtor in a case under the United States Bankruptcy Code (Title 11, U.S.C.), a federal court exercising bankruptcy jurisdiction and exercising reasonable judgment after full consideration of all relevant factors would not order substantive consolidation of the assets and liabilities of the Issuer with those of the bankruptcy estate of Duke Energy [Carolinas/Progress] or the Seller, subject to the customary exceptions, qualifications and assumptions contained therein.

“Administration Agreement” means the Administration Agreement, dated as of the date hereof, by and between Duke Energy [Carolinas/Progress] and the Issuer.

“Administration Fee” is defined in Section 2 of the Administration Agreement.

“Administrator” means Duke Energy [Carolinas/Progress], as Administrator under the Administration Agreement, or any successor Administrator to the extent permitted under the Administration Agreement.

“Affiliate” means, with respect to any specified Person, any other Person controlling or controlled by or under common control with such specified Person. For the purposes of this definition, “control” when used with respect to any specified Person means the power to direct the management and policies of such specified Person, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise, and the terms “controlling” and “controlled” have meanings correlative to the foregoing.

“Amendatory Schedule” means a revision to service riders or any other notice filing filed with the Commission in respect of the Storm Recovery Rate Schedule pursuant to a True-Up Adjustment.

“Annual Accountant’s Report” is defined in Section 3.04(a) of the Servicing Agreement.

“Authorized Denomination” means, with respect to any Storm Recovery Bond, the authorized denomination therefor specified in the Series Supplement, which shall be at least \$2,000 and, except as otherwise provided in the Series Supplement, integral multiples of \$1,000 in excess thereof, except for one Storm Recovery bond which may be of a smaller denomination.

“Bankruptcy Code” means Title 11 of the United States Code (11 U.S.C. §§ 101 et seq.).

“Basic Documents” means the Indenture, each Series Supplement, the Certificate of Formation, the LLC Agreement, the Declaration of Trust, the SRB Indenture, the Administration Agreement, and, with respect to each Series, the applicable Sale Agreement, Bill of Sale, Servicing Agreement, Intercreditor Agreement, Letter of Representations, Underwriting Agreement and all other documents and certificates delivered in connection therewith.

“Bill of Sale” means a bill of sale substantially in the form of Exhibit A to the Sale Agreement delivered pursuant to Section 2.02(a) of the Sale Agreement.

“Billed Storm Recovery Charges” means the amounts of Storm Recovery Charges billed by the Servicer.

“Billing Period” means the period created by dividing the calendar year into 12 consecutive periods of approximately 21 Servicer Business Days.

“Bills” means each of the regular monthly bills, summary bills, opening bills and closing bills issued to Customers by Duke Energy [Carolinas/Progress] in its capacity as Servicer.

“Bond Interest Rate” means, with respect to any Series or Tranche of Storm Recovery Bonds, the rate at which interest accrues on the Storm Recovery Bonds of such Series or Tranche, as specified in the applicable Series Supplement.

“Book-Entry Form” means, with respect to any Storm Recovery Bond, that such Storm Recovery Bond is not certificated and the ownership and transfers thereof shall be made through book entries by a Clearing Agency as described in Section 2.11 of the Indenture and the Series Supplement pursuant to which such Storm Recovery Bond was issued.

“Book-Entry Storm Recovery Bonds” means any Storm Recovery Bonds issued in Book-Entry Form; provided, however, that, after the occurrence of a condition

whereupon book-entry registration and transfer are no longer permitted and Definitive Storm Recovery Bonds are to be issued to the Holder of such Storm Recovery Bonds, such Storm Recovery Bonds shall no longer be “Book-Entry Storm Recovery Bonds”.

“Business Day” means any day other than a Saturday, a Sunday or a day on which banking institutions in Raleigh, North Carolina, Charlotte, North Carolina or New York, New York are, or DTC or the Corporate Trust Office is, authorized or obligated by law, regulation or executive order to be closed.

“Capital Contribution” means the amount of cash contributed to the Issuer by Duke Energy [Carolinas/Progress] as specified in the LLC Agreement.

“Capital Subaccount” is defined in Section 8.02(a) of the Indenture.

“Certificate of Compliance” means the certificate referred to in Section 3.03 of the Servicing Agreement and substantially in the form of Exhibit E to the Servicing Agreement.

“Certificate of Formation” means the Certificate of Formation filed with the Secretary of State of the State of Delaware on [], 20[21] pursuant to which the Issuer was formed.

“Charge” means any storm-recovery charges as defined in Section 62-172(a)(13) of the Storm Recovery Law that are authorized by the Financing Order or any Subsequent Financing Order.

“Claim” means a “claim” as defined in Section 101(5) of the Bankruptcy Code.

“Clearing Agency” means an organization registered as a “clearing agency” pursuant to Section 17A of the Exchange Act.

“Clearing Agency Participant” means a securities broker, dealer, bank, trust company, clearing corporation or other financial institution or other Person for whom from time to time a Clearing Agency effects book entry transfers and pledges of securities deposited with such Clearing Agency.

“Code” means the Internal Revenue Code of 1986.

“Collateral” is defined in the preamble of the Indenture.

“Collection Account” is defined in Section 8.02(a) of the Indenture for such Series.

“Collection in Full of the Charges” means the day on which the aggregate amounts on deposit in the General Subaccount and the Excess Funds Subaccount are sufficient to pay in full all the Outstanding Storm Recovery Bonds and to replenish any shortfall in the Capital Subaccount.

“Collection Period” means any period commencing on the first Servicer Business Day of any Billing Period and ending on the last Servicer Business Day of such Billing Period.

“Commission” means the North Carolina Utilities Commission.

[“Commission Condition” means the satisfaction of any precondition to any amendment or modification to or action under any Basic Documents through the obtaining of Commission consent or acquiescence, as described in the related Basic Document.]

“Commission Regulations” means any regulations, including temporary regulations, promulgated by the North Carolina Utilities Commission pursuant to North Carolina law.

“Company Minutes” is defined in Section 1(a)(iv) of the Administration Agreement.

“Corporate Trust Office” means the office of the Indenture Trustee at which, at any particular time, its corporate trust business shall be administered, which office as of the date hereof is located at [BNY Mellon Global Corporate Trust, 10161 Centurion Parkway North, Jacksonville, Florida 32256]; Telephone: [904-998-4714]; Facsimile: [904-645-1930], or at such other address as the Indenture Trustee may designate from time to time by notice to the Holders of Storm Recovery Bonds and the Issuer, or the principal corporate trust office of any successor trustee designated by like notice.

“Covenant Defeasance Option” is defined in Section 4.01(b) of the Indenture.

“Customer” means any existing or future customer (including individuals, corporations, other businesses, and federal, state and local governmental entities) receiving transmission or distribution service from Duke Energy [Carolinas/Progress] or its successors or assignees under Commission-approved rate schedules or under special contracts, even if such customer elects to purchase electricity from an AES following a fundamental change in regulation of public utilities in North Carolina.

“Daily Remittance” is defined in Section 6.11(a) of the Servicing Agreement.

“Declaration of Trust” means the Declaration of Trust filed with the Secretary of State of the State of Delaware on []. 20[21] pursuant to which the SRB Trust was formed.

“Default” means any occurrence that is, or with notice or the lapse of time or both would become, an Event of Default.

“Definitive Storm Recovery Bonds” is defined in Section 2.11 of the Indenture.

“Delaware Trustee” means the Person acting as Delaware trustee under the Declaration of Trust.

“Delaware UCC” means the Uniform Commercial Code as in effect on the Series Closing Date in the State of Delaware.

“DTC” means The Depository Trust Company.

[“Duke Energy Carolinas” means Duke Energy Carolinas, LLC, a North Carolina limited liability company.

“Duke Energy Progress” means Duke Energy Progress, LLC, a North Carolina limited liability company.]

“[Duke Energy Carolinas/Progress Storm Recovery Funding], LLC” means the Issuer.

“Eligible Account” means a segregated non-interest-bearing trust account with an Eligible Institution.

“Eligible Institution” means:

(a) the corporate trust department of the Indenture Trustee or a subsidiary thereof, so long as any of the securities of the Indenture Trustee has a credit rating from each Rating Agency in one of its generic rating categories that signifies investment grade; or

(b) a depository institution organized under the laws of the United States of America or any State (or any domestic branch of a foreign bank) (i) that has either (A) a long-term issuer rating of “AA-” or higher by S&P, “A2” or higher by Moody’s and “AA” or higher by Fitch, if rated by Fitch, or (B) a short-term issuer rating of “A-1+” or higher by S&P, “P-1” or higher by Moody’s and “F1” or higher by Fitch, if rated by Fitch, or any other long-term, short-term or certificate of deposit rating acceptable to the Rating Agencies, and (ii) whose deposits are insured by the Federal Deposit Insurance Corporation.

If so qualified under clause (b) of this definition, the Indenture Trustee may be considered an Eligible Institution for the purposes of clause (a) of this definition.

“Eligible Investments” means instruments or investment property that evidence:

(a) direct obligations of, or obligations fully and unconditionally guaranteed as to timely payment by, the United States of America;

(b) demand or time deposits of, unsecured certificates of deposit of, money market deposit accounts of, bank deposit products of or bankers' acceptances issued by, any depository institution (including, but not limited to, bank deposit products of the Indenture Trustee, acting in its commercial capacity) incorporated or organized under the laws of the United States of America or any State thereof and subject to supervision and examination by U.S. federal or state banking authorities, so long as the commercial paper or other short-term debt obligations of such depository institution are, at the time of deposit, rated at least "A-1" and "P-1" or their equivalents by each of S&P and Moody's and, if Fitch provides ratings thereon by Fitch, or such lower rating as will not result in the downgrading or withdrawal of the ratings of the Storm Recovery Bonds;

(c) commercial paper (including commercial paper of the Indenture Trustee, acting in its commercial capacity, and other than commercial paper of Duke Energy [Carolinas/Progress] or any of its Affiliates), which at the time of purchase is rated at least "A-1" and "P-1" or their equivalents by each of S&P and Moody's or such lower rating as will not result in the downgrading or withdrawal of the ratings of the Storm Recovery Bonds;

(d) investments in money market funds having a rating in the highest investment category granted thereby (including funds for which the Indenture Trustee or any of its Affiliates is investment manager or advisor) from Moody's, S&P and Fitch, if rated by Fitch;

(e) repurchase obligations with respect to any security that is a direct obligation of, or fully guaranteed by, the United States of America or its agencies or instrumentalities, entered into with Eligible Institutions;

(f) repurchase obligations with respect to any security or whole loan entered into with an Eligible Institution or with a registered broker/dealer acting as principal and that meets the ratings criteria set forth below:

(i) a broker/dealer (acting as principal) registered as a broker or dealer under Section 15 of the Exchange Act (any such broker/dealer being referred to in this definition as a "broker/dealer"), the unsecured short-term debt obligations of which are rated at least "P-1" by Moody's, "A-1+" by S&P and, if Fitch provides a rating thereon, "F-1+" by Fitch at the time of entering into such repurchase obligation; or

(ii) an unrated broker/dealer, acting as principal, that is a wholly-owned subsidiary of a non-bank or bank holding company the unsecured short-term debt obligations of which are rated at least "P-1" by Moody's, "A-1+" by S&P and, if Fitch provides a rating thereon, "F-1+" by Fitch at the time of purchase so long as the obligations of such unrated broker/dealer are unconditionally guaranteed by such non-bank or bank holding company; and

(g) any other investment permitted by each of the Rating Agencies;

in each case maturing not later than the Business Day preceding the next Payment Date or Special Payment Date, if applicable (for the avoidance of doubt, investments in money market funds or similar instruments that are redeemable on demand shall be deemed to satisfy the foregoing requirement). Notwithstanding the foregoing: (1) no securities or investments that mature in 30 days or more shall be “Eligible Investments” unless the issuer thereof has either a short-term unsecured debt rating of at least “P-1” from Moody’s or a long-term unsecured debt rating of at least “A1” from Moody’s and also has a long-term unsecured debt rating of at least “A” from S&P; (2) no securities or investments described in clauses (b) through (d) above that have maturities of more than 30 days but less than or equal to 3 months shall be “Eligible Investments” unless the issuer thereof has a long-term unsecured debt rating of at least “A1” from Moody’s and a short-term unsecured debt rating of at least “P-1” from Moody’s; and (3) no securities or investments described in clauses (b) through (d) above that have maturities of more than 3 months shall be “Eligible Investments” unless the issuer thereof has a long-term unsecured debt rating of at least “A1” from Moody’s and a short-term unsecured debt rating of at least “P-1” from Moody’s.

“Event of Default” is defined in Section 5.01 of the Indenture.

“Excess Funds Subaccount” is defined in Section 8.02(a) of the Indenture.

“Exchange Act” means the Securities Exchange Act of 1934.

“Expected Sinking Fund Schedule” means, with respect to any Tranche, the expected sinking fund schedule related thereto set forth in the applicable Series Supplement.

“Federal Book-Entry Regulations” means 31 C.F.R. Part 357 et seq. (Department of Treasury).

“Final” means, with respect to the Financing Order or Subsequent Financing Order, that the Financing Order has become final, that the Financing Order is not being appealed and that the time for filing an appeal thereof has expired.

“Final Maturity Date” means, with respect to each Series of Tranche of Storm Recovery Bonds, the final maturity date therefor as specified in the applicable Series Supplement.

“Financing Costs” means all financing costs as defined in Section 62-172(a)(4) of the Storm Recovery Law allowed to be recovered by Duke Energy [Carolinas/Progress] under the Financing Order.

“Financing Order” means the financing order issued by the Commission to Duke Energy [Carolinas/Progress] on [], 20[21], Docket No. [], authorizing the creation of the Storm Recovery Property.

“Financing Party” means any and all of the following: the Holders, the Indenture Trustee, Duke Energy [Carolinas/Progress], collateral agents, any party under the Basic Documents, or any other person acting for the benefit of the Holders.

“Fitch” means Fitch Ratings or any successor thereto. References to Fitch are effective so long as Fitch is a Rating Agency.

“North Carolina Secured Transactions Registry” means the centralized database in which all initial financing statements, amendments, assignments, and other statements of charge authorized to be filed under N.C. Gen. Stat. 25- [].

“North Carolina UCC” means the Uniform Commercial Code as in effect on the Series Closing Date in the State of North Carolina.

“General Subaccount” is defined in Section 8.02(a) of the Indenture for such Series.

“Global Storm Recovery Bond” means a Storm Recovery Bond to be issued to the Holders thereof in Book-Entry Form, which Global Storm Bond shall be issued to the Clearing Agency, or its nominee, in accordance with Section 2.11 of the Indenture and the Series Supplement.

“Governmental Authority” means any nation or government, any U.S. federal, state, local or other political subdivision thereof and any court, administrative agency or other instrumentality or entity exercising executive, legislative, judicial, regulatory or administrative functions of government.

“Grant” means mortgage, pledge, bargain, sell, warrant, alienate, remise, release, convey, grant, transfer, create, grant a lien upon, a security interest in and right of set-off against, deposit, set over and confirm pursuant to the Indenture and the Series Supplement. A Grant of the Collateral shall include all rights, powers and options (but none of the obligations) of the granting party thereunder, including the immediate and continuing right to claim for, collect, receive and give receipt for payments in respect of the Collateral and all other moneys payable thereunder, to give and receive notices and other communications, to make waivers or other agreements, to exercise all rights and options, to bring Proceedings in the name of the granting party or otherwise and generally to do and receive anything that the granting party is or may be entitled to do or receive thereunder or with respect thereto.

“Holder” means the Person in whose name a Storm Recovery Bond is registered on the Storm Recovery Bond Register.

“Indemnified Losses” is defined in Section 5.03 of the Servicing Agreement.

“Indemnified Party” is defined in Section 6.02(a) of the Servicing Agreement.

“Indemnified Person” is defined in Section 5.01(f) of the Sale Agreement.

“Indenture” means the Indenture, dated as [], by and between the Issuer and [], as Indenture Trustee and as Securities Intermediary.

“Indenture Trustee” means [], a national banking association, as indenture trustee for the benefit of the Secured Parties, or any successor indenture trustee for the benefit of the Secured Parties, under the Indenture.

“Independent” means, when used with respect to any specified Person, that such specified Person (a) is in fact independent of the Issuer, any other obligor on the Storm Recovery Bonds, the Seller, the Servicer and any Affiliate of any of the foregoing Persons, (b) does not have any direct financial interest or any material indirect financial interest in the Issuer, any such other obligor, the Seller, the Servicer or any Affiliate of any of the foregoing Persons and (c) is not connected with the Issuer, any such other obligor, the Seller, the Servicer or any Affiliate of any of the foregoing Persons as an officer, employee, promoter, underwriter, trustee, partner, director (other than as an independent director or manager) or person performing similar functions.

“Independent Certificate” means a certificate to be delivered to the Indenture Trustee under the circumstances described in, and otherwise complying with, the applicable requirements of Section 10.01 of the Indenture, made by an Independent appraiser or other expert appointed by an Issuer Order and consented to by the Indenture Trustee, and such certificate shall state that the signer has read the definition of “Independent” in the Indenture and that the signer is Independent within the meaning thereof.

“Independent Manager” is defined in Section 4.01(a) of the LLC Agreement.

“Independent Manager Fee” is defined in Section 4.01(a) of the LLC Agreement.

“Insolvency Event” means, with respect to a specified Person: (a) the filing of a decree or order for relief by a court having jurisdiction in the premises in respect of such specified Person or any substantial part of its property in an involuntary case under any applicable U.S. federal or state bankruptcy, insolvency or other similar law in effect as of the date hereof or thereafter, or appointing a receiver, liquidator, assignee, custodian, trustee, sequestrator or similar official for such specified Person or for any substantial part of its property, or ordering the winding-up or liquidation of such specified Person’s affairs, and such decree or order shall remain unstayed and in effect for a period of 60 consecutive days; or (b) the commencement by such specified Person of a voluntary case under any applicable U.S. federal or state bankruptcy, insolvency or other similar law in effect as of the Series Closing Date or thereafter, or the consent by such specified Person to the entry of an order for relief in an involuntary case under any

such law, or the consent by such specified Person to the appointment of or taking possession by a receiver, liquidator, assignee, custodian, trustee, sequestrator or similar official for such specified Person or for any substantial part of its property, or the making by such specified Person of any general assignment for the benefit of creditors, or the failure by such specified Person generally to pay its debts as such debts become due, or the taking of action by such specified Person in furtherance of any of the foregoing.

“Intercreditor Agreement” means the Intercreditor Agreement, dated as of the date hereof, by and among the Issuer, the Indenture Trustee, Duke Energy [Carolinas/Progress] and the parties to the accounts receivables sale program Duke Energy [Carolinas/Progress] Receivables LLC, and any subsequent such agreement.

“Investment Company Act” means the Investment Company Act of 1940.

“Investment Earnings” means investment earnings on funds deposited in the Collection Account net of losses and investment expenses.

“Issuer” means [Duke Energy [Carolinas/Progress] Storm Recovery Funding], LLC, a Delaware limited liability company, named as such in the Indenture until a successor replaces it and, thereafter, means the successor and, for purposes of any provision contained herein and required by the Trust Indenture Act, each other obligor on the Storm Recovery Bonds.

“Issuer Documents” is defined in Section 1(a)(iv) of the Administration Agreement.

“Issuer Order” means a written order signed in the name of the Issuer by any one of its Responsible Officers and delivered to the Indenture Trustee or Paying Agent, as applicable.

“Issuer Request” means a written request signed in the name of the Issuer by any one of its Responsible Officers and delivered to the Indenture Trustee or Paying Agent, as applicable.

“Legal Defeasance Option” is defined in Section 4.01(b) of the Indenture.

“Letter of Representations” means any applicable agreement between the Issuer and the applicable Clearing Agency, with respect to such Clearing Agency’s rights and obligations (in its capacity as a Clearing Agency) with respect to any Book-Entry Storm Recovery Bonds.

“Lien” means a security interest, lien, mortgage, charge, pledge, claim or encumbrance of any kind.

“LLC Agreement” means the Amended and Restated Limited Liability Company Agreement of [Duke Energy [Carolinas/Progress] Storm Recovery Funding], LLC, dated as of [], 20[21].

“Losses” means (a) any and all amounts of principal of and interest on the Storm Recovery Bonds not paid when due or when scheduled to be paid in accordance with their terms and the amounts of any deposits by or to the Issuer required to have been made in accordance with the terms of the Basic Documents or the Financing Order or Subsequent that are not made when so required and (b) any and all other liabilities, obligations, losses, claims, damages, payments, costs or expenses of any kind whatsoever.

“Manager” means each manager of the Issuer under the LLC Agreement.

“Member” has the meaning specified in the first paragraph of the LLC Agreement.

“Monthly Servicer’s Certificate” is defined in Section 3.01(b)(i) of the Servicing Agreement.

“Moody’s” means Moody’s Investors Service, Inc. References to Moody’s are effective so long as Moody’s is a Rating Agency.

“North Carolina UCC” means the Uniform Commercial Code as in effect on the Series Closing Date in the State of North Carolina.

“NRSRO” is defined in Section 10.19(b) of the Indenture.

“NY UCC” means the Uniform Commercial Code as in effect on the date hereof in the State of New York.

“Officer’s Certificate” means a certificate signed by a Responsible Officer of the Issuer under the circumstances described in, and otherwise complying with, the applicable requirements of Section 10.01 of the Indenture, and delivered to the Indenture Trustee.

“Ongoing Financing Costs” means the Financing Costs described as such in the Financing Order, including Operating Expenses and any other costs identified in the Basic Documents; provided, however, that Ongoing Financing Costs do not include the Issuer’s costs of issuance of the Storm Recovery Bonds.

“Operating Expenses” means all unreimbursed fees, costs and out-of-pocket expenses of the Issuer, including all amounts owed by the Issuer to the Indenture Trustee (including indemnities, legal, audit fees and expenses), the Delaware Trustee, the SRB Trustee or any Manager, the Servicing Fee, the Administration Fee, legal and accounting fees, Rating Agency fees, any Regulatory Assessment Fees and related fees (i.e. website provider fees) and any franchise or other taxes owed by the Issuer, including on investment income in the Collection Account.

“Opinion of Counsel” means one or more written opinions of counsel, who may, except as otherwise expressly provided in the Basic Documents, be employees of or counsel to the party providing such opinion of counsel, which counsel shall be

reasonably acceptable to the party receiving such opinion of counsel, and shall be in form and substance reasonably acceptable to such party.

“Optional Interim True-Up Adjustment” means any Optional Interim True-Up Adjustment made pursuant to Section 4.01(b)(ii) of the Servicing Agreement.

“Outstanding” means, as of the date of determination, all Storm Recovery Bonds theretofore authenticated and delivered under the Indenture, except:

(a) Storm Recovery Bonds theretofore canceled by the Storm Recovery Bond Registrar or delivered to the Storm Recovery Bond Registrar for cancellation;

(b) Storm Recovery Bonds or portions thereof the payment for which money in the necessary amount has been theretofore deposited with the Indenture Trustee or any Paying Agent in trust for the Holders of such Storm Recovery Bonds; and

(c) Storm Recovery Bonds in exchange for or in lieu of other Storm Recovery Bonds that have been issued pursuant to the Indenture unless proof satisfactory to the Indenture Trustee is presented that any such Storm Recovery Bonds are held by a Protected Purchaser; provided, that, in determining whether the Holders of the requisite Outstanding Amount of the Storm Recovery Bonds or any Series or Tranche thereof have given any request, demand, authorization, direction, notice, consent or waiver under any Basic Document, Storm Recovery Bonds owned by the Issuer, any other obligor upon the Storm Recovery Bonds, the Member, the Seller, the Servicer or any Affiliate of any of the foregoing Persons shall be disregarded and deemed not to be Outstanding (unless one or more such Persons owns 100% of such Storm Recovery Bonds), except that, in determining whether the Indenture Trustee shall be protected in relying upon any such request, demand, authorization, direction, notice, consent or waiver, only Storm Recovery Bonds that the Indenture Trustee actually knows to be so owned shall be so disregarded. Storm Recovery Bonds so owned that have been pledged in good faith may be regarded as Outstanding if the pledgee establishes to the satisfaction of the Indenture Trustee the pledgee’s right so to act with respect to such Storm Recovery Bonds and that the pledgee is not the Issuer, any other obligor upon the Storm Recovery Bonds, the Member, the Seller, the Servicer or any Affiliate of any of the foregoing Persons.

“Outstanding Amount” means the aggregate principal amount of all Storm Recovery Bonds, or, if the context requires, all Storm Recovery Bonds of a Series or Tranche, Outstanding at the date of determination.

“Paying Agent” means, with respect to the Indenture, the Indenture Trustee and any other Person appointed as a paying agent for the Storm Recovery Bonds pursuant to the Indenture.

“Payment Date” means, with respect to any Series or Tranche of Storm Recovery Bonds, the dates specified in the applicable Series Supplement; provided, that if any such date is not a Business Day, the Payment Date shall be the Business Day succeeding such date.

“Periodic Billing Requirement” means, for any Remittance Period, the aggregate amount of Charges calculated by the Servicer as necessary to be billed during such period in order to collect the Periodic Payment Requirement on a timely basis.

“Periodic Interest” means, with respect to any Payment Date, the periodic interest for such Payment Date as specified in the Series Supplement.

“Periodic Payment Requirement” for any Remittance Period means the total dollar amount of Storm Recovery Charge Collections reasonably calculated by the Servicer in accordance with Section 4.01 of the Servicing Agreement as necessary to be received during such Remittance Period (after giving effect to the allocation and distribution of amounts on deposit in the Excess Funds Subaccount at the time of calculation and that are projected to be available for payments on the Storm Recovery Bonds at the end of such Remittance Period and including any shortfalls in Periodic Payment Requirements for any prior Remittance Period) in order to ensure that, as of the last Payment Date occurring in such Remittance Period, (a) all accrued and unpaid principal of and interest on the Storm Recovery Bonds then due shall have been paid in full on a timely basis, (b) the Outstanding Amount of the Storm Recovery Bonds is equal to the Projected Unpaid Balance on each Payment Date during such Remittance Period, (c) the balance on deposit in the Capital Subaccount equals the Required Capital Level and (d) all other fees and expenses due and owing and required or allowed to be paid under Section 8.02 of the Indenture as of such date shall have been paid in full; provided, that, with respect to any Semi-Annual True-Up Adjustment or Optional Interim True-Up Adjustment occurring after the date that is one year prior to the last Scheduled Final Payment Date for the Storm Recovery Bonds, the Periodic Payment Requirements shall be calculated to ensure that sufficient Storm Recovery Charges will be collected to retire the Storm Recovery Bonds in full as of the next Payment Date.

“Periodic Principal” means, with respect to any Payment Date, the excess, if any, of the Outstanding Amount of Storm Recovery Bonds over the outstanding principal balance specified for such Payment Date on the Expected Sinking Fund Schedule.

“Permitted Lien” means the Lien created by the Indenture.

“Permitted Successor” is defined in Section 5.02 of the Sale Agreement.

“Person” means any individual, corporation, limited liability company, estate, partnership, joint venture, association, joint stock company, trust (including any beneficiary thereof), unincorporated organization or Governmental Authority.

“Predecessor Storm Recovery Bond” means, with respect to any particular Storm Recovery Bond, every previous Storm Recovery Bond evidencing all or a portion

of the same debt as that evidenced by such particular Storm Recovery Bond, and, for the purpose of this definition, any Storm Recovery Bond authenticated and delivered under Section 2.06 of the Indenture in lieu of a mutilated, lost, destroyed or stolen Storm Recovery Bond shall be deemed to evidence the same debt as the mutilated, lost, destroyed or stolen Storm Recovery Bond.

“Premises” is defined in Section 1(g) of the Administration Agreement.

“Proceeding” means any suit in equity, action at law or other judicial or administrative proceeding.

“Projected Unpaid Balance” means, as of any Payment Date, the sum of the projected outstanding principal amount of each Tranche of Storm Recovery Bonds for such Payment Date set forth in the Expected Sinking Fund Schedule.

“Protected Purchaser” has the meaning specified in Section 8-303 of the UCC.

“Rating Agency” means, with respect to any Tranche of Storm Recovery Bonds, any of Moody’s, S&P or Fitch that provides a rating with respect to the Storm Recovery Bonds. If no such organization (or successor) is any longer in existence, “Rating Agency” shall be a nationally recognized statistical rating organization or other comparable Person designated by the Issuer, notice of which designation shall be given to the Indenture Trustee and the Servicer.

“Rating Agency Condition” means, with respect to any action, at least ten Business Days’ prior written notification to each Rating Agency of such action, and written confirmation from each of S&P and Moody’s to the Servicer, the Indenture Trustee and the Issuer that such action will not result in a suspension, reduction or withdrawal of the then current rating by such Rating Agency of any Tranche of Storm Recovery Bonds; provided, that, if, within such ten Business Day period, any Rating Agency (other than S&P) has neither replied to such notification nor responded in a manner that indicates that such Rating Agency is reviewing and considering the notification, then (a) the Issuer shall be required to confirm that such Rating Agency has received the Rating Agency Condition request and, if it has, promptly request the related Rating Agency Condition confirmation and (b) if the Rating Agency neither replies to such notification nor responds in a manner that indicates it is reviewing and considering the notification within five Business Days following such second request, the applicable Rating Agency Condition requirement shall not be deemed to apply to such Rating Agency. For the purposes of this definition, any confirmation, request, acknowledgment or approval that is required to be in writing may be in the form of electronic mail or a press release (which may contain a general waiver of a Rating Agency’s right to review or consent).

“Record Date” means one Business Day prior to the applicable Payment Date.

“Registered Holder” means the Person in whose name a Storm Recovery Bond is registered on the Storm Recovery Bond Register.

“Regulation AB” means the rules of the SEC promulgated under Subpart 229.1100 – Asset Backed Securities (Regulation AB), 17 C.F.R. §§229.1100-229.1123.

“Reimbursable Expenses” is defined in Section 2 of the Administration Agreement and Section 6.06(a) of the Servicing Agreement.

“Released Parties” is defined in Section 6.02(d) of the Servicing Agreement.

“Remittance Period” means, with respect to any True-Up Adjustment, the period comprised of 6 consecutive Collection Periods beginning with the Collection Period three months prior to when such True-Up Adjustment would go into effect, from the Series Closing Date to the first Scheduled Payment Date, and for each subsequent period between Scheduled Payment Dates.

“Required Capital Level” means, with respect to any Series of Storm Recovery Bonds, the amount specified as such in the Series Supplement therefor.

“Requirement of Law” means any foreign, U.S. federal, state or local laws, statutes, regulations, rules, codes or ordinances enacted, adopted, issued or promulgated by any Governmental Authority or common law.

“Responsible Officer” means, with respect to: (a) the Issuer, any Manager or any duly authorized officer; (b) the Indenture Trustee, any officer within the Corporate Trust Office of such trustee (including the President, any Vice President, any Assistant Vice President, any Secretary, any Assistant Treasurer or any other officer of the Indenture Trustee customarily performing functions similar to those performed by persons who at the time shall be such officers, respectively, and that has direct responsibility for the administration of the Indenture and also, with respect to a particular matter, any other officer to whom such matter is referred to because of such officer’s knowledge and familiarity with the particular subject); (c) any corporation (other than the Indenture Trustee), the Chief Executive Officer, the President, any Vice President, the Chief Financial Officer, the Treasurer, any Assistant Treasurer or any other duly authorized officer of such Person who has been authorized to act in the circumstances; (d) any partnership, any general partner thereof; and (e) any other Person (other than an individual), any duly authorized officer or member of such Person, as the context may require, who is authorized to act in matters relating to such Person.

“Return on Invested Capital” means, for any Payment Date with respect to any Remittance Period, the sum of (i) rate of return, payable to Duke Energy [Carolinas/Progress], on its Capital Contribution equal to the rate of interest payable on the longest maturing Tranche of Storm Recovery Bonds plus (ii) any Return on Invested Capital not paid on any prior Payment Date.

“S&P” means Standard & Poor’s Ratings Services, a Standard & Poor’s Financial Services LLC business. References to S&P are effective so long as S&P is a Rating Agency.

“Sale Agreement” means the Storm Recovery Property Purchase and Sale Agreement, dated as of the date hereof, or any subsequent Storm Recovery Property Purchase and Sale Agreement relating to another Series of Storm Recovery Bonds by and between the Issuer and Duke Energy [Carolinas/Progress] , and acknowledged and accepted by the Indenture Trustee.

“Scheduled Final Payment Date” means, with respect to each Series of Storm Recovery Bonds, the date when all interest and principal is scheduled to be paid with respect to that applicable Series in accordance with the Expected Sinking Fund Schedule, as specified in the Series Supplement. For the avoidance of doubt, the Scheduled Final Payment Date with respect to any Series shall be the last Scheduled Payment Date set forth in the Expected Sinking Fund Schedule relating to such Series. The “last Scheduled Final Payment Date” means the Scheduled Final Payment Date of the latest maturing Tranche of a Series of Storm Recovery Bonds.

“Scheduled Payment Date” means, with respect to each Series or Tranche of Storm Recovery Bonds, each Payment Date on which principal for such Series or Tranche is to be paid in accordance with the Expected Sinking Fund Schedule for such Series or Tranche.

“SEC” means the Securities and Exchange Commission.

“Secured Obligations” means the payment of principal of and premium, if any, interest on, and any other amounts owing in respect of, the Storm Recovery Bonds and all fees, expenses, counsel fees and other amounts due and payable to the Indenture Trustee.

“Secured Parties” means the Indenture Trustee, the Holders and any credit enhancer described in a Series Supplement.

“Securities Act” means the Securities Act of 1933.

“Securities Intermediary” means [], a national banking association, solely in the capacity of a “securities intermediary” as defined in the NY UCC and Federal Book-Entry Regulations or any successor securities intermediary under the Indenture.

“Seller” is defined in the preamble to the Sale Agreement.

“Semi-Annual Servicer’s Certificate” is defined in Section 4.01(c)(ii) of the Servicing Agreement.

“Semi-Annual True-Up Adjustment” means each adjustment to the Storm Recovery Charges made in accordance with Section 4.01(b)(i) of the Servicing Agreement.

“Semi-Annual True-Up Adjustment Date” means the first billing cycle of [January and July] of each year, commencing in [], 2021.

“Series” means any series of Storm Recovery Bonds.

“Series A Storm Recovery Bonds” means the Series A Senior Secured Storm Recovery Bonds issued by the Issuer on [].

“Series Charges” means Charges for the benefit of a particular Series of Storm Recovery Bonds.

“Series Closing Date” means the date on which a Series of the Storm Recovery Bonds are originally issued in accordance with Section 2.10 of the Indenture and the respective Series Supplement.

“Series Collateral” means Collateral for the benefit of a particular Series of Storm Recovery Bonds.

“Series Property” means Property for the benefit of a particular Series of Storm Recovery Bonds.

“Series Supplement” means an indenture supplemental to the Indenture in the form attached as Exhibit B to the Indenture that authorizes the issuance of Storm Recovery Bonds.

“Servicer” means Duke Energy [Carolinas/Progress], as Servicer under the Servicing Agreement.

“Servicer Business Day” means any day other than a Saturday, a Sunday or a day on which banking institutions in St. Petersburg, Florida, Charlotte, North Carolina or New York, New York are authorized or obligated by law, regulation or executive order to be closed, on which the Servicer maintains normal office hours and conducts business.

“Servicer Default” is defined in Section 7.01 of the Servicing Agreement.

“Servicer Policies and Practices” means, with respect to the Servicer’s duties under Exhibit A to the Servicing Agreement, the policies and practices of the Servicer applicable to such duties that the Servicer follows with respect to comparable assets that it services for itself and, if applicable, others.

“Servicing Agreement” means the Storm Recovery Property Servicing Agreement, dated as of the date hereof, or any subsequent Storm Recovery Property Servicing Agreement relating to another Series of Storm Recovery Bonds by and between the Issuer and Duke Energy [Carolinas/Progress], and acknowledged and accepted by the Indenture Trustee.

“Servicing Fee” is defined in Section 6.06(a) of the Servicing Agreement.

“Servicing Standard” means the obligation of the Servicer to calculate, apply, remit and reconcile proceeds of the Property, including Storm Recovery Charge Payments, and all other Collateral for the benefit of the Issuer and the Holders (a) with the same degree of care and diligence as the Servicer applies with respect to payments owed to it for its own account, (b) in accordance with all applicable procedures and requirements established by the Commission for collection of electric utility tariffs and (c) in accordance with the other terms of the Servicing Agreement.

“Special Payment Date” means the date on which, with respect to any Series or Tranche of Storm Recovery Bonds, any payment of principal of or interest (including any interest accruing upon default) on, or any other amount in respect of, the Storm Recovery Bonds of such Series or Tranche that is not actually paid within five days of the Payment Date applicable thereto is to be made by the Indenture Trustee to the Holders.

“Special Record Date” means, with respect to any Special Payment Date, the close of business on the fifteenth day (whether or not a Business Day) preceding such Special Payment Date.

“Sponsor” means Duke Energy [Carolinas/Progress], in its capacity as “sponsor” of the Storm Recovery Bonds within the meaning of Regulation AB.

“SRB Indenture” means the indenture, as from time to time supplemented or amended by one or more indentures supplemental hereto entered into pursuant to the applicable provisions hereof, as so supplemented or amended or both, and shall include the forms and terms of the SRB Notes established hereunder.

“SRB Issuer” means the issuer of the SRB Notes.

“SRB Noteholder” means any holders of the SRB Notes.

“SRB Notes” means the notes issued by the SRB Issuer pursuant to the SRB Indenture.

“SRB Securities Intermediary” means [], solely in its capacity as a “securities intermediary” as defined in Section 8-102(a)(14) of the UCC, or any successor securities intermediary.

“SRB Trustee” means [], as SRB Trustee under the SRB Indenture, and its successors in interest, and any successor SRB Trustee appointed as provided herein. “State” means any one of the fifty states of the United States of America or the District of Columbia.

“State Pledge” means the pledge of the State of North Carolina as set forth in Section 62-172(k) of the Storm Recovery Law.

“Storms” means Hurricanes Florence[,Dorian] and Michael and Winter Storm Diego.

“Storm Recovery Bond Register” is defined in Section 2.05 of the Indenture.

“Storm Recovery Bond Registrar” is defined in Section 2.05 of the Indenture.

“Storm Recovery Bonds” means all Series of the Storm recovery bonds issued under the Indenture.

“Storm Recovery Charge Collections” means Charges actually received by the Servicer to be remitted to the Collection Account.

“Storm Recovery Charge Payments” means the payments made by Customers based on the Charges.

“Storm Recovery Costs” means (i) Duke Energy [Carolinas'/Progress's] deferred asset balance associated with the Storms, including a return on the unrecovered balance, and with respect to the capital investments, including a deferral of depreciation expense and a return on the investment determined by the Commission to be prudently incurred in Docket No. [E-7, Sub 1214/E-2, Sub 1219] including carrying costs in the amount of X through the projected issuances date of the [Series A] Storm Recovery Bonds, calculated at the Company's approved weighted average cost of capital, (ii) plus up-front Financing Costs “Storm Recovery Law” means the laws of the State of North Carolina adopted in 2019 enacted as Section 62-172, North Carolina Statutes.

“Storm Recovery Property” means all storm recovery property as defined in Section 62-172(a)(15)a. of the Storm Recovery Law created pursuant to the Financing Order or a Subsequent Financing Order and under the Storm Recovery Law, including the right to impose, bill, charge, collect and receive the Charges authorized under the Financing Order and to obtain periodic adjustments of the Charges and all revenue, collections, claims, rights to payments, payments, money, or proceeds arising from the rights and interests specified in Section 62-172(a)(15)b., regardless of whether such revenues, collections, claims, rights to payments, money, or proceeds are imposed, billed, received, collected, or maintained together with or commingled with other revenues, collections, rights to payment, payments, money or proceeds.

“Storm Recovery Property Records” is defined in Section 5.01 of the Servicing Agreement.

“Storm Recovery Rate Class” means one of the [five] separate rate classes to whom Charges are allocated for ratemaking purposes in accordance with the Financing Order.

“Storm Recovery Rate Schedule” means the Tariff sheets to be filed with the Commission stating the amounts of the Charges, as such Tariff sheets may be amended or modified from time to time pursuant to a True-Up Adjustment.

“Subaccounts” is defined in Section 8.02(a) of the Indenture.

“Subsequent Financing Order” means, a financing order of the Commission under the Storm Recovery Law issued to Duke Energy [Carolinas/Progress] subsequent to the Financing Order.

“Successor” means any successor to Duke Energy [Carolinas/Progress] under the Storm Recovery Law, whether pursuant to any bankruptcy, reorganization or other insolvency proceeding or pursuant to any merger, conversion, acquisition, sale or transfer, by operation of law, as a result of electric utility restructuring, or otherwise.

“Successor Servicer” is defined in Section 3.07(e) of the Indenture.

“Tariff” means the most current version on file with the Commission of [], 2021.

“Tax Returns” is defined in Section 1(a)(iii) of the Administration Agreement.

“Temporary Storm Recovery Bonds” means Storm Recovery Bonds executed and, upon the receipt of an Issuer Order, authenticated and delivered by the Indenture Trustee pending the preparation of Definitive Storm Recovery Bonds pursuant to Section 2.04 of the Indenture.

“Termination Notice” is defined in Section 7.01 of the Servicing Agreement.

“TPS” means a third party supplier which is authorized by law to sell electric service to a customer using the transmission or distribution system of Duke Energy [Carolinas/Progress].

“Tranche Maturity Date” means, with respect to any Tranche of Storm Recovery Bonds, the maturity date therefor, as specified in the Series Supplement therefor.

“True-Up Adjustment” means any Semi-Annual True-Up Adjustment or Optional Interim True-Up Adjustment, as the case may be.

“Trust Indenture Act” means the Trust Indenture Act of 1939 as in force on the Series Closing Date, unless otherwise specifically provided.

“UCC” means the Uniform Commercial Code as in effect in the relevant jurisdiction.

“Underwriters” means the underwriters who purchase Storm Recovery Bonds of any Series from the Issuer and sell such Storm Recovery Bonds in a public offering.

“Underwriting Agreement” means the Underwriting Agreement, dated [], 2020, by and among Duke Energy [Carolinas/Progress], the representatives of the several Underwriters named therein and the Issuer.

“U.S. Government Obligations” means direct obligations (or certificates representing an ownership interest in such obligations) of the United States of America (including any agency or instrumentality thereof) for the payment of which the full faith and credit of the United States of America is pledged and that are not callable at the option of the issuer thereof.

“Weighted Average Days Outstanding” means the weighted average number of days Duke Energy [Carolinas/Progress] monthly bills to Customers remain outstanding during the calendar year preceding the calculation thereof pursuant to Section 4.01(b)(i) of the Servicing Agreement.

B. Rules of Construction. Unless the context otherwise requires, in each Basic Document to which this Appendix A is attached:

(a) All accounting terms not specifically defined herein shall be construed in accordance with United States generally accepted accounting principles. To the extent that the definitions of accounting terms in any Basic Document are inconsistent with the meanings of such terms under generally accepted accounting principles or regulatory accounting principles, the definitions contained in such Basic Document shall control.

(b) The term “including” means “including without limitation”, and other forms of the verb “include” have correlative meanings.

(c) All references to any Person shall include such Person’s permitted successors and assigns, and any reference to a Person in a particular capacity excludes such Person in other capacities.

(d) Unless otherwise stated in any of the Basic Documents, in the computation of a period of time from a specified date to a later specified date, the word “from” means “from and including” and each of the words “to” and “until” means “to but excluding”.

(e) The words “hereof”, “herein” and “hereunder” and words of similar import when used in any Basic Document shall refer to such Basic Document as a whole and not to any particular provision of such Basic Document. References to Articles, Sections, Appendices and Exhibits in any Basic Document are references to Articles, Sections, Appendices and Exhibits in or to such Basic Document unless otherwise specified in such Basic Document.

(f) The various captions (including the tables of contents) in each Basic Document are provided solely for convenience of reference and shall not affect the meaning or interpretation of any Basic Document.

(g) The definitions contained in this Appendix A apply equally to the singular and plural forms of such terms, and words of the masculine, feminine or neuter gender shall mean and include the correlative words of other genders.

(h) Unless otherwise specified, references to an agreement or other document include references to such agreement or document as from time to time amended, restated, reformed, supplemented or otherwise modified in accordance with the terms thereof (subject to any restrictions on such amendments, restatements, reformatations, supplements or modifications set forth in such agreement or document) and include any attachments thereto.

(i) References to any law, rule, regulation or order of a Governmental Authority shall include such law, rule, regulation or order as from time to time in effect, including any amendment, modification, codification, replacement or reenactment thereof or any substitution therefor.

(j) The word “will” shall be construed to have the same meaning and effect as the word “shall”.

(k) The word “or” is not exclusive.

(l) All terms defined in the relevant Basic Document to which this Appendix A is attached shall have the defined meanings when used in any certificate or other document made or delivered pursuant thereto unless otherwise defined therein.

(m) A term has the meaning assigned to it.

STORM RECOVERY PROPERTY SERVICING AGREEMENT

by and between

**[DUKE ENERGY [CAROLINAS/PROGRESS] STORM RECOVERY FUNDING],
LLC,**

Issuer

and

DUKE ENERGY [CAROLINAS/PROGRESS], LLC,

Servicer

Acknowledged and Accepted by

[], as Indenture Trustee

Dated as of [], 2021

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APPENDIX

Appendix A	Definitions and Rules of Construction
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This SERIES PROPERTY SERVICING AGREEMENT, dated as of [], 2021, is by and between [DUKE ENERGY [CAROLINAS/PROGRESS] STORM RECOVERY FUNDING], LLC, a Delaware limited liability company, as Issuer, and DUKE ENERGY [CAROLINAS/ PROGRESS], LLC, a North Carolina limited liability company, as servicer, and acknowledged and accepted by [], a national banking association, as Indenture Trustee.

RECITALS

WHEREAS, pursuant to the Storm Recovery Law and the Financing Order, Duke Energy [Carolinas/Progress], in its capacity as seller (the “Seller”), and the Issuer are concurrently entering into the Sale Agreement pursuant to which the Seller is selling and the Issuer is purchasing certain Property created pursuant to the Storm Recovery Law and the Financing Order described therein;

WHEREAS, in connection with its ownership of the Series Property relating to the [Series A] Storm Recovery Bonds and in order to collect the associated Series Charges, the Issuer desires to engage the Servicer to carry out the functions described herein and the Servicer desires to be so engaged;

WHEREAS, the Issuer desires to engage the Servicer to act on its behalf in obtaining True-Up Adjustments from the Commission and the Servicer desires to be so engaged;

WHEREAS, the Storm Recovery Charge Collections initially may be commingled with other funds collected by the Servicer;

WHEREAS, certain parties may have an interest in such commingled collections, and such parties will have entered into the Intercreditor Agreement, which allows Duke Energy [Carolinas/Progress] to allocate the collected, commingled funds according to each party’s interest; and

WHEREAS, the Commission or its attorney will enforce this Servicing Agreement for the benefit of the Customers to the extent permitted by law.

NOW, THEREFORE, in consideration of the premises and the mutual covenants herein contained, the parties hereto agree as follows:

ARTICLE I DEFINITIONS AND RULES OF CONSTRUCTION

Section 1.01. Definitions and Rules of Construction. Capitalized terms used but not otherwise defined in this Servicing Agreement shall have the respective meanings given to such terms in Appendix A, which is hereby incorporated by reference into this Servicing Agreement as if set forth fully in this Servicing Agreement. Not all terms defined in Appendix A are used in this Servicing Agreement. The rules of construction set forth in Appendix A shall apply to this Servicing Agreement and are hereby incorporated by reference into this Servicing Agreement as if set forth fully in this Servicing Agreement, however for purposes of this

Servicing Agreement, unless otherwise indicated herein, the terms Series Charges, Series Closing Date, Series Collateral and Series Property mean the Series Charges, Series Closing Date, Series Collateral and Series Property for the [Series A] Storm Recovery Bonds..

ARTICLE II APPOINTMENT AND AUTHORIZATION

Section 2.01. Appointment of Servicer; Acceptance of Appointment. The Issuer hereby appoints the Servicer, as an independent contractor, and the Servicer hereby accepts such appointment, to perform the Servicer's obligations pursuant to this Servicing Agreement on behalf of and for the benefit of the Issuer or any assignee thereof in accordance with the terms of this Servicing Agreement and applicable law as it applies to the Servicer in its capacity as servicer hereunder. This appointment and the Servicer's acceptance thereof may not be revoked except in accordance with the express terms of this Servicing Agreement.

Section 2.02. Authorization. With respect to all or any portion of the Series Property, the Servicer shall be, and hereby is, authorized and empowered by the Issuer to (a) execute and deliver, on behalf of itself and/or the Issuer, as the case may be, any and all instruments, documents or notices, and (b) on behalf of itself and/or the Issuer, as the case may be, make any filing and participate in proceedings of any kind with any Governmental Authority, including with the Commission. The Issuer shall execute and deliver to the Servicer such documents as have been prepared by the Servicer for execution by the Issuer and shall furnish the Servicer with such other documents as may be in the Issuer's possession, in each case as the Servicer may determine to be necessary or appropriate to enable it to carry out its servicing and administrative duties hereunder. Upon the Servicer's written request, the Issuer shall furnish the Servicer with any powers of attorney or other documents necessary or appropriate to enable the Servicer to carry out its duties hereunder.

Section 2.03. Dominion and Control Over the Series Property. Notwithstanding any other provision herein, the Issuer shall have dominion and control over the Series Property, and the Servicer, in accordance with the terms hereof, is acting solely as the servicing agent and custodian for the Issuer with respect to the Series Property and the Series Property Records for the [Series A] Storm Recovery Bonds. The Servicer shall not take any action that is not authorized by this Servicing Agreement, that would contravene the Commission Regulations or the Financing Order, that is not consistent with its customary procedures and practices or that shall impair the rights of the Issuer or the Indenture Trustee (on behalf of the Holders) in the Series Property, in each case unless such action is required by applicable law or court or regulatory order.

ARTICLE III ROLE OF SERVICER

Section 3.01. Duties of Servicer. The Servicer, as agent for the Issuer, shall have the following duties:

- (a) Duties of Servicer Generally.

(i) The Servicer's duties in general shall include: management, servicing and administration of the Series Property; calculating consumption, billing the Series Charges, collecting the Series Charges from Customers and posting all collections, responding to inquiries by Customers, the Commission or any other Governmental Authority with respect to the Series Property or Series Charges; investigating and handling delinquencies (and furnishing reports with respect to such delinquencies to the Issuer), processing and depositing collections and making periodic remittances; furnishing periodic and current reports to the Issuer, the Commission, the Indenture Trustee, the SRB Trustee and the Rating Agencies; making all filings with the Commission and taking such other action as may be necessary to perfect the Issuer's ownership interests in and the Indenture Trustee's first priority Lien on the Series Property; making all filings and taking such other action as may be necessary to perfect and maintain the perfection and priority of the Indenture Trustee's Lien on all Series Collateral; selling as the agent for the Issuer, as its interests may appear, defaulted or written off accounts in accordance with the Servicer's usual and customary practices; taking all necessary action in connection with True-Up Adjustments as set forth herein; and performing such other duties as may be specified under the Financing Order to be performed by it. Anything to the contrary notwithstanding, the duties of the Servicer set forth in this Servicing Agreement shall be qualified in their entirety by any Commission Regulations, the Financing Order and the U.S. federal securities laws and the rules and regulations promulgated thereunder, including without limitation, Regulation AB, as in effect at the time such duties are to be performed. Without limiting the generality of this Section 3.01(a)(i), in furtherance of the foregoing, the Servicer hereby agrees that it shall also have, and shall comply with, the duties and responsibilities relating to data acquisition, consumption and bill calculation, billing, customer service functions, collections, posting, payment processing and remittance set forth in Exhibit A. Any processing and depositing of collections, making of periodic remittances and furnishing of periodic reports set forth in this Section 3.01(a)(i) shall be subject to the provisions of the Intercreditor Agreement.

(ii) Commission Regulations Control. Notwithstanding anything to the contrary in this Servicing Agreement, the duties of the Servicer set forth in this Servicing Agreement shall be qualified and limited in their entirety by the Storm Recovery Law, the Financing Order and any Commission Regulations as in effect at the time such duties are to be performed.

(b) Reporting Functions.

(i) Monthly Servicer's Certificate. On or before the last Servicer Business Day of each month, the Servicer shall prepare and deliver to the Issuer, the Indenture Trustee, the SRB Trustee, the Commission and the Rating Agencies a written report substantially in the form of Exhibit B (a "Monthly Servicer's Certificate") setting forth certain information relating to Storm Recovery Charge Payments in connection with the Series Charges received by the Servicer during

the Collection Period preceding such date; provided, however, that, for any month in which the Servicer is required to deliver a Semi-Annual Servicer's Certificate pursuant to Section 4.01(c)(ii), the Servicer shall prepare and deliver the Monthly Servicer's Certificate no later than the date of delivery of such Semi-Annual Servicer's Certificate.

(ii) Notification of Laws and Regulations. The Servicer shall immediately notify the Issuer, the Indenture Trustee, and the Rating Agencies in writing of any Requirement of Law or Commission Regulations hereafter promulgated that have a material adverse effect on the Servicer's ability to perform its duties under this Servicing Agreement.

(iii) Other Information. Upon the reasonable request of the Issuer, the Indenture Trustee, the SRB Trustee, the Commission or any Rating Agency, the Servicer shall provide to the Issuer, the Indenture Trustee, the SRB Trustee, the Commission or such Rating Agency, as the case may be, any public financial information in respect of the Servicer, or any material information regarding the Series Property to the extent it is reasonably available to the Servicer, as may be reasonably necessary and permitted by law to enable the Issuer, the Indenture Trustee, the SRB Trustee, the Commission or the Rating Agencies to monitor the performance by the Servicer hereunder; provided however, that any such request by the Indenture Trustee or the SRB Trustee shall not create any obligation for the Indenture Trustee or the SRB Trustee to monitor the performance of the Servicer. In addition, so long as any of the [Series A] Storm Recovery Bonds are outstanding, the Servicer shall provide the Issuer, the Commission, the Indenture Trustee, and SRB Trustee within a reasonable time after written request therefor, any information available to the Servicer or reasonably obtainable by it that is necessary to calculate the Series Charges applicable to each Storm Recovery Rate Class.

(iv) Preparation of Reports. The Servicer shall prepare and deliver such additional reports as required under this Servicing Agreement, including a copy of each Semi-Annual Servicer's Certificate described in Section 4.01(c)(ii), the annual Certificate of Compliance described in Section 3.03 and the Annual Accountant's Report described in Section 3.04. In addition, the Servicer shall prepare, procure, deliver and/or file, or cause to be prepared, procured, delivered or filed, any reports, attestations, exhibits, certificates or other documents required to be delivered or filed with the SEC (and/or any other Governmental Authority) by the Issuer or the Depositor under the U.S. federal securities or other applicable laws or in accordance with the Basic Documents, including but without limiting the generality of foregoing, filing with the SEC, if applicable and required by applicable law, a copy or copies of (A) the Monthly Servicer's Certificates described in Section 3.01(b)(i) (under Form 10-D or any other applicable form), (B) the Semi-Annual Servicer's Certificates described in Section 4.01(c)(ii) (under Form 10-D or any other applicable form), (C) the annual statements of compliance, attestation reports and other certificates described in Section 3.03 and

(D) the Annual Accountant's Report (and any attestation required under Regulation AB) described in Section 3.04. In addition, the appropriate officer or officers of the Servicer shall (in its separate capacity as Servicer) sign the Depositor's annual report on Form 10-K (and any other applicable SEC or other reports, attestations, certifications and other documents), to the extent that the Servicer's signature is required by, and consistent with, the U.S. federal securities laws and/or any other applicable law.

(c) Opinions of Counsel. The Servicer shall obtain on behalf of the Issuer and deliver to the Issuer, the Commission and the Indenture Trustee:

(i) promptly after the execution and delivery of this Servicing Agreement and of each amendment hereto, an Opinion of Counsel from external counsel of the Issuer either (A) to the effect that, in the opinion of such counsel, all filings, including filings with the Secretary of State of the State of North Carolina, the Secretary of State of the State of Delaware and all filings pursuant to the UCC, that are necessary under the UCC and the Storm Recovery Law to perfect or maintain, as applicable, the Liens of the Indenture Trustee in the Series Property have been authorized, executed and filed, and reciting the details of such filings or referring to prior Opinions of Counsel in which such details are given, or (B) to the effect that, in the opinion of such counsel, no such action shall be necessary to preserve, protect and perfect such Liens; and

(ii) within ninety (90) days after the beginning of each calendar year beginning with the first calendar year beginning more than three months after the date hereof, an Opinion of Counsel, which counsel may be an employee of or counsel to the Issuer or the Servicer and which shall be reasonably satisfactory to the Indenture Trustee, or, in the Indenture Trustee's sole judgment, external counsel of the Issuer, dated as of a date during such 90-day period, either (A) to the effect that, in the opinion of such counsel, all filings, including filings with the Secretary of State of the State of North Carolina, the Secretary of State of the State of Delaware and all filings pursuant to the UCC, have been authorized, executed and filed that are necessary under the UCC and the Storm Recovery Law to maintain the Liens of the Indenture Trustee in the Series Property, and reciting the details of such filings or referring to prior Opinions of Counsel in which such details are given, or (B) to the effect that, in the opinion of such counsel, no such action shall be necessary to preserve, protect and perfect such Liens.

Each Opinion of Counsel referred to in Section 3.01(c)(i) or Section 3.01(c)(ii) above shall specify any action necessary (as of the date of such opinion) to be taken in the following year to perfect or maintain, as applicable, such interest or Lien.

Section 3.02. Servicing and Maintenance Standards. The Servicer will monitor payments and impose collection policies on Customers, as permitted under the Financing Order and the rules of the Commission. On behalf of the Issuer, the Servicer shall: (a) manage, service, administer, bill, charge, collect, receive and post collections in respect of the Series Property with reasonable care and in material compliance with each applicable

Requirement of Law, including all applicable Commission Regulations and guidelines, using the same degree of care and diligence that the Servicer exercises with respect to similar assets for its own account and, if applicable, for others; (b) follow standards, policies and procedures in performing its duties as Servicer that are customary in the electric distribution industry; (c) use all reasonable efforts, consistent with its customary servicing procedures, to enforce, and maintain rights in respect of, the Series Property and to impose, bill, charge, collect, receive and post the Series Charges; (d) comply with each Requirement of Law, including all applicable Commission Regulations and guidelines, applicable to and binding on it relating to the Series Property; (e) file all reports with the Commission required by the Financing Order; (f) file and maintain the effectiveness of UCC financing statements filed with the Secretary of State of the State of North Carolina with respect to the property transferred under the Sale Agreement; and (g) take such other action on behalf of the Issuer to ensure that the Lien of the Indenture Trustee on the Series Collateral remains perfected and of first priority. The Servicer shall follow such customary and usual practices and procedures as it shall deem necessary or advisable in its servicing of all or any portion of the Series Property, which, in the Servicer's judgment, may include the taking of legal action, at the Issuer's expense but subject to the priority of payments set forth in Section 8.02(e) of the Indenture.

Section 3.03. Annual Reports on Compliance with Regulation AB.

(a) The Servicer shall deliver to the Issuer, the Indenture Trustee, the Commission and the Rating Agencies, on or before the earlier of (a) March 31 of each year or (b) with respect to each calendar year during which the Depositor's annual report on Form 10-K is required to be filed in accordance with the Exchange Act and the rules and regulations thereunder, the date on which such annual report on Form 10-K is required to be filed in accordance with the Exchange Act and the rules and regulations thereunder, certificates from a Responsible Officer of the Servicer (i) containing, and certifying as to, the statements of compliance required by Item 1123 (or any successor or similar items or rule) of Regulation AB, as then in effect, and (ii) containing, and certifying as to, the statements and assessment of compliance required by Item 1122(a) (or any successor or similar items or rule) of Regulation AB, as then in effect. These certificates may be in the form of, or shall include the forms attached as Exhibit D and Exhibit E, with, in the case of Exhibit D, such changes as may be required to conform to the applicable securities law.

(b) The Servicer shall use commercially reasonable efforts to obtain, from each other party participating in the servicing function, any additional certifications as to the statements and assessment required under Item 1122 (or any successor or similar items or rule) or Item 1123 of Regulation AB to the extent required in connection with the filing of the annual report on Form 10-K; provided, however, that a failure to obtain such certifications shall not be a breach of the Servicer's duties hereunder. The parties acknowledge that the Indenture Trustee's certifications shall be limited to the Item 1122 certifications described in Exhibit C of the Indenture.

(c) The initial Servicer, in its capacity as Depositor, shall post on its or its parent company's website and file with or furnish to the SEC, in periodic reports and other reports as are required from time to time under Section 13 or Section 15(d) of the Exchange Act,

the information described in Section 3.07(g) of the Indenture to the extent such information is reasonably available to the Depositor.

(d) Except to the extent permitted by applicable law, the Issuer, shall not voluntarily suspend or terminate its filing obligations as issuing entity with the SEC as described in Section 3.03(c).

Section 3.04. Annual Report by Independent Registered Public Accountants.

(a) The Servicer, at its own expense in partial consideration of the Servicing Fee paid to it, shall cause a firm of Independent registered public accountants (which may provide other services to the Servicer or the Seller) to prepare annually, and the Servicer shall deliver annually to the Issuer, the Indenture Trustee, SRB Trustee, the Commission and the Rating Agencies on or before the earlier of (i) March 31 of each year, beginning March 31, [2021], or (ii) with respect to each calendar year during which the Issuer's annual report on Form 10-K is required to be filed in accordance with the Exchange Act and the rules and regulations thereunder, the date on which such annual report on Form 10-K is required to be filed in accordance with the Exchange Act and the rules and regulations thereunder, a report (the "Annual Accountant's Report") regarding the Servicer's assessment of compliance with the servicing criteria set forth in Item 1122(d) of Regulation AB during the immediately preceding twelve (12) months ended December 31 (or, in the case of the first Annual Accountant's Report to be delivered on or before March 31, 2021, the period of time from the date of this Agreement until December 31, 2022), in accordance with paragraph (b) of Rule 13a-18 and Rule 15d-18 of the Exchange Act and Item 1122 of Regulation AB. Such report shall be signed by an authorized officer of the Servicer and shall at a minimum address each of the servicing criteria specified in Exhibit C-1. In the event that the accounting firm providing such report requires the Indenture Trustee to agree or consent to the procedures performed by such firm, the Issuer shall direct the Indenture Trustee in writing to so agree; it being understood and agreed that the Indenture Trustee will deliver such letter of agreement or consent in conclusive reliance upon the direction of the Issuer, and the Indenture Trustee will not make any independent inquiry or investigation as to, and shall have no obligation or liability in respect of the sufficiency, validity or correctness of such procedures.

(b) The Annual Accountant's Report delivered pursuant to Section 3.04(a) shall also indicate that the accounting firm providing such report is independent of the Servicer in accordance with the rules of the Public Company Accounting Oversight Board and shall include any attestation report required under Item 1122(b) of Regulation AB, as then in effect. The costs of the Annual Accountant's Report shall be reimbursable as an Operating Expense under the Indenture.

ARTICLE IV

SERVICES RELATED TO TRUE-UP ADJUSTMENTS

Section 4.01. True-Up Adjustments. From time to time, until the Collection in Full of the Charges for the [Series A] Storm Recovery Bonds, the Servicer shall identify the need for Semi-Annual True-Up Adjustments, and Optional Interim True-Up Adjustments and shall take all reasonable action to obtain and implement such True-Up Adjustments, all in accordance with the following:

(a) Expected Sinking Fund Schedule. The Expected Sinking Fund Schedule for the [Series A] Storm Recovery Bonds is attached hereto as Exhibit F. If the Expected Sinking Fund Schedule is revised, the Servicer shall send a copy of such revised Expected Sinking Fund Schedule to the Issuer, the Indenture Trustee, the Commission and the Rating Agencies promptly thereafter.

(b) True-Up Adjustments.

(i) Semi-Annual True-Up Adjustments and Filings. At the beginning of Duke Energy [Carolinas/Progress]'s billing cycle for [March] and [September], and at least every three months beginning twelve months prior to the Scheduled Final Payment Date for the latest maturing tranche, the Servicer shall: (A) update the data and assumptions underlying the calculation of the Series Charges, including projected electricity consumption during the next two Remittance Period for each Storm Recovery Rate Class and including Periodic Principal, interest and estimated expenses and fees of the Issuer to be paid during such period, the Weighted Average Days Outstanding and write-offs; (B) determine the Periodic Payment Requirements and Periodic Billing Requirement for the next two Remittance Period based on such updated data and assumptions; (C) determine the Series Charges to be allocated to each Storm Recovery Rate Class during the next two Remittance Period based on such Periodic Billing Requirement and the terms of the Financing Order, the Tariff and any other tariffs filed pursuant thereto; (D) make all required public notices and other filings with the Commission to reflect the revised Series Charges, including any Amendatory Schedule; and (E) take all reasonable actions and make all reasonable efforts to effect such Semi-Annual True-Up Adjustment and to enforce the provisions of the Storm Recovery Law and the Financing Order; provided, that, in the case of any Semi-Annual True-Up Adjustment following the Scheduled Final Payment Date for the latest maturing tranche of the [Series A] Storm Recovery Bonds, the Semi-Annual True-Up Adjustment will be calculated to ensure that the Series Charges are sufficient to pay the [Series A] Storm Recovery Bonds in full on the next Payment Date. The Servicer shall implement the revised Series Charges, if any, resulting from such Semi-Annual True-Up Adjustment as of the Semi-Annual True-Up Adjustment Date.

(ii) Optional Interim True-Up Adjustments and Filings. No later than 30 days prior to the first day of the applicable monthly billing cycle, the Servicer shall: (A) update the data and assumptions underlying the calculation of the

Series Charges, including projected electricity consumption during the next two Remittance Period for each Storm Recovery Rate Class and including Periodic Principal, interest and estimated expenses and fees of the Issuer and SRB Issuer to be paid during such period, the rate of delinquencies and write-offs; (B) determine the Periodic Payment Requirement and Periodic Billing Requirement for the next two Remittance Period based on such updated data and assumptions; and (C) based upon such updated data and requirements, project whether existing and projected Storm Recovery Charge Collections together with available fund balances in the Excess Funds Subaccount, will be sufficient (x) to make on a timely basis all scheduled payments of Periodic Principal and interest in respect of each Outstanding tranche of [Series A] Storm Recovery Bonds during such Remittance Period, (y) to pay other Ongoing Financing Costs on a timely basis and (z) to maintain the Capital Subaccount at the Required Capital Level. If the Servicer determines that Series Charges will not be sufficient for such purposes, the Servicer shall, no later than the date described in the first sentence of this Section 4.01(b)(ii): (1) determine the Series Charges to be allocated to each Storm Recovery Rate Class during the next two Remittance Period based on such Periodic Billing Requirement and the terms of the Financing Order, the Tariff and other tariffs filed pursuant thereto; (2) make all required public notices and other filings with the Commission to reflect the revised Series Charges, including any Amendatory Schedule; and (3) take all reasonable actions and make all reasonable efforts to effect such Optional Interim True-Up Adjustment and to enforce the provisions of the Storm Recovery Law and the Financing Order.

(c) Reports.

(i) Notification of Amendatory Schedule Filings and True-Up Adjustments. Whenever the Servicer files an Amendatory Schedule with the Commission or implements revised Series Charges with notice to the Commission without filing an Amendatory Schedule [if permitted by the Financing Order], the Servicer shall send a copy of such filing or notice (together with a copy of all notices and documents that, in the Servicer's reasonable judgment, are material to the adjustments effected by such Amendatory Schedule or notice) to the Issuer, the Indenture Trustee, the SRB Trustee and the Rating Agencies concurrently therewith. If, for any reason any revised Series Charges are not implemented and effective on the applicable date set forth herein, the Servicer shall notify the Issuer, the Indenture Trustee, the SRB Trustee and each Rating Agency by the end of the second Servicer Business Day after such applicable date.

(ii) Semi-Annual Servicer's Certificate. Not later than five (5) Servicer Business Days prior to each Payment Date or Special Payment Date, the Servicer shall deliver a written report substantially in the form of Exhibit C (the "Semi-Annual Servicer's Certificate") to the Issuer, the Indenture Trustee, the SRB Trustee, the Commission and the Rating Agencies, which shall include all of the following information (to the extent applicable and including any other information so specified in the Series Supplement) as to the [Series A] Storm

Recovery Bonds with respect to such Payment Date or Special Payment Date or the period since the previous Payment Date, as applicable:

- (A) the amount of the payment to Holders allocable to principal, if any;
- (B) the amount of the payment to Holders allocable to interest;
- (C) the aggregate Outstanding Amount of the [Series A] Storm Recovery Bonds, before and after giving effect to any payments allocated to principal reported under Section 4.01(c)(ii)(A);
- (D) the difference, if any, between the amount specified in Section 4.01(c)(ii)(C) and the Outstanding Amount specified in the Expected Sinking Fund Schedule;
- (E) any other transfers and payments to be made on such Payment Date or Special Payment Date, including amounts paid to the Indenture Trustee and to the Servicer; and
- (F) the amounts on deposit in the Capital Subaccount and the Excess Funds Subaccount, after giving effect to the foregoing payments.

(iii) Reports to Customers.

(A) After each revised Series Charge has gone into effect pursuant to a True-Up Adjustment, the Servicer shall, to the extent and in the manner and time frame required by any applicable Commission Regulations, cause to be prepared and delivered to Customers any required notices announcing such revised Series Charges.

(B) The Servicer shall comply with the requirements of the Financing Order with respect to the filing of the Storm Recovery Rate Schedule to ensure that the Series Charges are separate and apart from the Servicer's other charges and appear as a separate line item on the Bills sent to Customers.

Section 4.02. Limitation of Liability.

(a) The Issuer and the Servicer expressly agree and acknowledge that:

(i) In connection with any True-Up Adjustment, the Servicer is acting solely in its capacity as the servicing agent hereunder.

(ii) None of the Servicer, the Issuer or the Indenture Trustee is responsible in any manner for, and shall have no liability whatsoever as a result of, any action, decision, ruling or other determination made or not made, or any delay (other than any delay resulting from the Servicer's failure to make any

filings required by Section 4.01 in a timely and correct manner or any breach by the Servicer of its duties under this Servicing Agreement that adversely affects the Series Property or the True-Up Adjustments), by the Commission in any way related to the Series Property or in connection with any True-Up Adjustment, the subject of any filings under Section 4.01, any proposed True-Up Adjustment or the approval of any revised Series Charges and the scheduled adjustments thereto.

(iii) Except to the extent that the Servicer is liable under Section 6.02, the Servicer shall have no liability whatsoever relating to the calculation of any revised Series Charges and the scheduled adjustments thereto, including as a result of any inaccuracy of any of the assumptions made in such calculation regarding expected energy consumption volume and the Weighted Average Days Outstanding, write-offs and estimated expenses and fees of the Issuer and the SRB Issuer, so long as the Servicer has acted in good faith and has not acted in a negligent manner in connection therewith, nor shall the Servicer have any liability whatsoever as a result of any Person, including the Holders, not receiving any payment, amount or return anticipated or expected or in respect of any [Series A] Storm Recovery Bond.

(b) Notwithstanding the foregoing, this Section 4.02 shall not relieve the Servicer of liability for any misrepresentation by the Servicer under Section 6.01 or for any breach by the Servicer of its other obligations under this Servicing Agreement.

ARTICLE V THE SERIES PROPERTY

Section 5.01. Custody of Storm Recovery Property Records. To assure uniform quality in servicing the Series Property and to reduce administrative costs, the Issuer hereby revocably appoints the Servicer, and the Servicer hereby accepts such appointment, to act as the agent of the Issuer as custodian of any and all documents and records that the Seller shall keep on file, in accordance with its customary procedures, relating to the Series Property, including copies of the Financing Order and Amendatory Schedules relating thereto and all documents filed with the Commission in connection with any True-Up Adjustment and computational records relating thereto (collectively for the [Series A] Storm Recovery Bonds, the “Storm Recovery Property Records”), which are hereby constructively delivered to the Indenture Trustee, as pledgee of the Issuer with respect to all Series Property.

Section 5.02. Duties of Servicer as Custodian.

(a) Safekeeping. The Servicer shall hold the Storm Recovery Property Records on behalf of the Issuer and the Indenture Trustee and maintain such accurate and complete accounts, records and computer systems pertaining to the Series Property Records as shall enable the Issuer and the Indenture Trustee, as applicable, to comply with this Servicing Agreement, the Sale Agreement and the Indenture. In performing its duties as custodian, the Servicer shall act with reasonable care, using that degree of care and diligence that the Servicer exercises with respect to comparable assets that the Servicer services for itself or, if applicable, for others. The Servicer shall promptly report to the Issuer, the Indenture Trustee, the

Commission and the Rating Agencies any failure on its part to hold the Storm Recovery Property Records and maintain its accounts, records and computer systems as herein provided and promptly take appropriate action to remedy any such failure. Nothing herein shall be deemed to require an initial review or any periodic review by the Issuer or the Indenture Trustee of the Storm Recovery Property Records. The Servicer's duties to hold the Storm Recovery Property Records set forth in this Section 5.02, to the extent the Storm Recovery Property Records have not been previously transferred to a successor Servicer pursuant to ARTICLE VII, shall terminate one year and one day after the earlier of (i) the date on which the Servicer is succeeded by a successor Servicer in accordance with ARTICLE VII and (ii) the first date on which no [Series A] Storm Recovery Bonds are Outstanding.

(b) Maintenance of and Access to Records. The Servicer shall maintain the Storm Recovery Property Records at [550 South Tryon Street, Charlotte, North Carolina 28202 or at its facility located at Iron Mountain, 3125 Parkside Drive, Charlotte, North Carolina 28208 and [ADDRESS], or at such other office as shall be specified to the Issuer, the Commission and the Indenture Trustee by written notice at least 30 days prior to any change in location. The Servicer shall make available for inspection, audit and copying to the Issuer, the Commission and the Indenture Trustee or their respective duly authorized representatives, attorneys or auditors the Storm Recovery Property Records at such times during normal business hours as the Issuer, the Commission or the Indenture Trustee shall reasonably request and that do not unreasonably interfere with the Servicer's normal operations. Nothing in this Section 5.02(b) shall affect the obligation of the Servicer to observe any applicable law (including any Commission Regulation) prohibiting disclosure of information regarding Customers, and the failure of the Servicer to provide access to such information as a result of such obligation shall not constitute a breach of this Section 5.02(b).

(c) Release of Documents. Upon instruction from the Indenture Trustee in accordance with the Indenture, the Servicer shall release any Series Property Records to the Indenture Trustee, the Indenture Trustee's agent or the Indenture Trustee's designee, as the case may be, at such place or places as the Indenture Trustee may designate, as soon as practicable. Nothing in this Section 5.02(c) shall affect the obligation of the Servicer to observe any applicable law (including any Commission Regulation) prohibiting disclosure of information regarding Customers, and the failure of the Servicer to provide access to such information as a result of such obligation shall not constitute a breach of this Section 5.02(c).

(d) Defending Series Property Against Claims. To the extent not undertaken by the Seller pursuant to Section 4.08 of the Sale Agreement, the Servicer shall negotiate for the retention of legal counsel and such other experts as may be needed to institute and maintain any action or proceeding, on behalf of and in the name of the Issuer, necessary to compel performance by the Commission or the State of North Carolina of any of their obligations or duties under the Storm Recovery Law and the Financing Order, and the Servicer agrees to assist the Issuer and its legal counsel in taking such legal or administrative actions, including defending against or instituting and pursuing legal actions and appearing or testifying at hearings or similar proceedings, as may be reasonably necessary to attempt to block or overturn any attempts to cause a repeal of, modification of or supplement to the Storm Recovery Law or the Financing Order, or the rights of holders of Series Property by legislative enactment, constitutional

amendment or other means that would be adverse to Holders or any series of additional [Series A] Storm Recovery Bonds. In any proceedings related to the exercise of the power of eminent domain by any municipality to acquire a portion of Duke Energy [Carolinas/Progress]'s electric distribution facilities, the Servicer will assert that that the court ordering such condemnation must treat such municipality as a successor to Duke Energy [Carolinas/Progress] under the Storm Recovery Law and the Financing Order. The costs of any such action shall be payable as an Operating Expense in accordance with the priorities set forth in Section 8.02(d) of the Indenture and any additional indenture. The Servicer's obligations pursuant to this Section 5.02 shall survive and continue notwithstanding the fact that the payment of Operating Expenses pursuant to Section 8.02 of the Indenture and any supplemental indenture may be delayed; provided, that, the Servicer is obligated to institute and maintain such action or proceedings only if it is being reimbursed on a current basis for its costs and expenses in taking such actions in accordance with Section 8.02 of the Indenture and any additional indenture, and is not required to advance its own funds to satisfy these obligations.

Section 5.03. Custodian's Indemnification. The Servicer as custodian shall indemnify the Issuer, any Independent Manager and the Indenture Trustee (for itself and for the benefit of the Holders) and each of their respective officers, directors, employees and agents for, and defend and hold harmless each such Person from and against, any and all liabilities, obligations, losses, damages, payments and claims, and reasonable costs or expenses, of any kind whatsoever (collectively, "Indemnified Losses") that may be imposed on, incurred by or asserted against each such Person as the result of any negligent act or omission in any way relating to the maintenance and custody by the Servicer, as custodian, of the Series Property Records; provided, however, that the Servicer shall not be liable for any portion of any such amount resulting from the willful misconduct, bad faith or gross negligence of the Issuer, any Independent Manager or the Indenture Trustee, as the case may be.

Indemnification under this Section 5.03 shall survive resignation or removal of the Indenture Trustee or any Independent Manager and shall include reasonable out-of-pocket fees and expenses of investigation and litigation (including reasonable attorneys' fees and expenses).

Section 5.04. Effective Period and Termination. The Servicer's appointment as custodian shall become effective as of the Series Closing Date and shall continue in full force and effect until terminated pursuant to this Section 5.04. If the Servicer shall resign as Servicer in accordance with the provisions of this Servicing Agreement or if all of the rights and obligations of the Servicer shall have been terminated under Section 7.01, the appointment of the Servicer as custodian shall be terminated effective as of the date on which the termination or resignation of the Servicer is effective. Additionally, if not sooner terminated as provided above, the Servicer's obligations as custodian shall terminate one year and one day after the date on which no [Series A] Storm Recovery Bonds are Outstanding. Duke Energy [Carolinas/Progress] shall not resign as Servicer if such resignation does not satisfy the Rating Agency Condition.

Section 5.05. Third-Party Suppliers. So long as any of the [Series A] Storm Recovery Bonds are Outstanding, the Servicer shall take reasonable efforts to assure that no TPS bills or collects Series Charges on behalf of the Issuer unless required by applicable law or

regulation and, to the extent permitted by applicable law or regulation, the Rating Agency Condition is satisfied. If an TPS does bill or collect Series Charges on behalf of the Issuer, upon the reasonable request of the Issuer, the Commission, the Indenture Trustee, or any Rating Agency, the Servicer shall take reasonable steps to assure that such a TPS provides to the Issuer, the Commission, the Indenture Trustee or the Rating Agencies, as the case may be, any public financial information in respect of such TPS, or any material information regarding the Series Property to the extent it is reasonably available to such TPS, as may be reasonably necessary and permitted by law for the Issuer, the Commission, the Indenture Trustee or the Rating Agencies to monitor such TPS' performance hereunder. In addition, so long as any of the [Series A] Storm Recovery Bonds are Outstanding, Servicer will use commercially reasonable efforts to ensure that such TPS provide to the Issuer and to the Indenture Trustee, within a reasonable time after written request therefor, any information available to the TPS or reasonably obtainable by it that is necessary to calculate the Series Charges.

ARTICLE VI THE SERVICER

Section 6.01. Representations and Warranties of Servicer. The Servicer makes the following representations and warranties, as of the Series Closing Date, and as of such other dates as expressly provided in this Section 6.01, on which the Issuer, the Indenture Trustee and the Commission (for the benefit of the Customers) are deemed to have relied in entering into this Servicing Agreement relating to the servicing of the Series Property. The representations and warranties shall survive the execution and delivery of this Servicing Agreement, the sale of the Series Property and the pledge thereof to the Indenture Trustee pursuant to the Indenture.

(a) Organization and Good Standing. The Servicer is duly organized, validly existing and is in good standing under the laws of the state of its organization, with requisite power and authority to own its properties, to conduct its business as such properties are currently owned and such business is presently conducted by it, to service the Series Property and hold the records related to the Series Property, and to execute, deliver and carry out the terms of this Servicing Agreement and the Intercreditor Agreement.

(b) Due Qualification. The Servicer is duly qualified to do business, is in good standing and has obtained all necessary licenses and approvals in all jurisdictions in which the ownership or lease of property or the conduct of its business (including the servicing of the Series Property as required under this Servicing Agreement) requires such qualifications, licenses or approvals (except where a failure to qualify would not be reasonably likely to have a material adverse effect on the Servicer's business, operations, assets, revenues or properties or to its servicing of the Series Property).

(c) Power and Authority. The execution, delivery and performance of the terms of this Servicing Agreement and the Intercreditor Agreement have been duly authorized by all necessary action on the part of the Servicer under its organizational or governing documents and laws.

(d) Binding Obligation. Each of this Servicing Agreement and the Intercreditor Agreement constitutes a legal, valid and binding obligation of the Servicer

enforceable against the Servicer in accordance with its respective terms, subject to applicable bankruptcy, insolvency, reorganization, moratorium, fraudulent transfer and other laws relating to or affecting creditors' rights generally from time to time in effect and to general principles of equity (including concepts of materiality, reasonableness, good faith and fair dealing), regardless of whether considered in a proceeding in equity or at law.

(e) No Violation. The consummation of the transactions contemplated by the Servicing Agreement and the Intercreditor Agreement do not conflict with, result in any breach of or constitute (with or without notice or lapse of time) a default under the Servicer's organizational documents or any indenture or other agreement or instrument to which the Servicer is a party or by which it or any of its property is bound, result in the creation or imposition of any Lien upon the Servicer's properties pursuant to the terms of any such indenture or agreement or other instrument (other than any Lien that may be granted in favor of the Indenture Trustee for the benefit of Holders under the Basic Documents) or violate any existing law or any existing order, rule or regulation applicable to the Servicer of any Governmental Authority having jurisdiction over the Servicer or its properties.

(f) No Proceedings. To the Servicer's knowledge, there are no proceedings or investigations pending or, to the Servicer's knowledge, threatened against the Servicer before any court, federal or state regulatory body, administrative agency or other governmental instrumentality having jurisdiction over the Servicer or its properties: (i) seeking to prevent issuance of the [Series A] Storm Recovery Bonds or the consummation of the transactions contemplated by this Servicing Agreement or any of the other Basic Documents, or, if applicable, any supplement to the Indenture or amendment to the Sale Agreement; (ii) seeking any determination or ruling that might materially and adversely affect the performance by the Servicer of its obligations under, or the validity or enforceability against the Servicer of, this Servicing Agreement or any of the other Basic Documents or, if applicable, any supplement to the Indenture or amendment to the Sale Agreement; or (iii) relating to the Servicer and which might materially and adversely affect the treatment of the [Series A] Storm Recovery Bonds for federal or state income, gross receipts or franchise tax purposes;

(g) Approvals. No governmental approvals, authorizations, consents, orders or other actions or filings with any Governmental Authority are required for the Servicer to execute, deliver and perform its obligations under the Servicing Agreement except those that have previously been obtained or made, those that are required to be made by the Servicer in the future pursuant to Article IV or the Intercreditor Agreement and those that the Servicer may need to file in the future to continue the effectiveness of any financing statements; and

(h) Reports and Certificates. Each report and certificate delivered in connection with any filing made to the Commission by the Servicer on behalf of the Issuer with respect to the Series Charges or True-Up Adjustments will constitute a representation and warranty by the Servicer that each such report or certificate, as the case may be, is true and correct in all material respects; provided, however, that, to the extent any such report or certificate is based in part upon or contains assumptions, forecasts or other predictions of future events, the representation and warranty of the Servicer with respect thereto will be limited to the representation and warranty that such assumptions, forecasts or other predictions of future events

are reasonable based upon historical performance (and facts known to the Servicer on the date such report or certificate is delivered).

The Servicer, the Indenture Trustee and the Issuer are not responsible as a result of any action, decision, ruling or other determination made or not made, or any delay (other than any delay resulting from the Servicer's failure to make any filings with the North Carolina Commission required by this Servicing Agreement in a timely and correct manner or any breach by the Servicer of its duties under the Servicing Agreement that adversely affects the Series Property or the True-Up Adjustments), by the North Carolina Commission in any way related to the Series Property or in connection with any True-Up Adjustment, the subject of any such filings, any proposed True-Up Adjustment or the approval of any revised Series Charges and the scheduled adjustments thereto. Except to the extent that the Servicer otherwise is liable under the provisions of this Servicing Agreement, the Servicer shall have no liability whatsoever relating to the calculation of any revised storm recovery charges and the scheduled adjustments thereto, including as a result of any inaccuracy of any of the assumptions made in such calculations, so long as the Servicer has acted in good faith and has not acted in a negligent manner in connection therewith, nor shall the Servicer have any liability whatsoever as a result of any person or entity, including the Holders, not receiving any payment, amount or return anticipated or expected or in respect of any Storm Recovery Bond generally.

Section 6.02. Indemnities of Servicer; Release of Claims. The Servicer shall be liable in accordance herewith only to the extent of the obligations specifically undertaken by the Servicer under this Servicing Agreement.

(a) The Servicer shall indemnify the Issuer, the Indenture Trustee (for itself and for the benefit of the Holders), the SRB Issuer, the SRB Trustee (for itself and for the benefit of the SRB Noteholders) and the Independent Manager and each of their respective trustees, officers, directors, employees and agents (each, an "Indemnified Party"), for, and defend and hold harmless each such Person from and against, any and all Indemnified Losses imposed on, incurred by or asserted against any such Person as a result of (i) the Servicer's willful misconduct, bad faith or negligence in the performance of, or reckless disregard of, its duties or observance of its covenants under the Servicing Agreement and the Intercreditor Agreement, (ii) the Servicer's material breach of any of its representations or warranties that results in a Servicer Default under this Servicing Agreement or a default under the Intercreditor Agreement; and (iii) litigation and related expenses relating to the Servicer's status and obligations as Servicer (other than any proceeding the Servicer is required to institute under this Servicing Agreement), except to the extent of Indemnified Losses either resulting from the willful misconduct, bad faith or gross negligence of such Person seeking indemnification hereunder or resulting from a breach of a representation or warranty made by such Person seeking indemnification hereunder in any of the Basic Documents that gives rise to the Servicer's breach.

(b) For purposes of Section 6.02(a), in the event of the termination of the rights and obligations of Duke Energy [Carolinas/Progress] (or any successor thereto pursuant to Section 6.03) as Servicer pursuant to Section 7.01, or a resignation by such Servicer pursuant to this Servicing Agreement, such Servicer shall be deemed to be the Servicer pending appointment of a successor Servicer pursuant to Section 7.02.

(c) Indemnification under this Section 6.02 shall survive any repeal of, modification of, or supplement to, or judicial invalidation of, the Storm Recovery Law or the Financing Order and shall survive the resignation or removal of the Indenture Trustee or any Independent Manager or the termination of this Servicing Agreement and shall include reasonable out-of-pocket fees and expenses of investigation and litigation (including reasonable attorneys' fees and expenses).

(d) Except to the extent expressly provided in this Servicing Agreement or the other Basic Documents (including the Servicer's claims with respect to the Servicing Fee and the payment of the purchase price of Series Property), the Servicer hereby releases and discharges the Issuer, any Independent Manager and the Indenture Trustee, and each of their respective officers, directors and agents (collectively, the "Released Parties"), from any and all actions, claims and demands whatsoever, whenever arising, which the Servicer, in its capacity as Servicer or otherwise, shall or may have against any such Person relating to the Series Property or the Servicer's activities with respect thereto, other than any actions, claims and demands arising out of the willful misconduct, bad faith or gross negligence of the Released Parties.

(e) The Servicer shall indemnify the Commission, on behalf of the Customers, to the extent Customers incur Losses associated with higher servicing fees payable to a Successor Servicer as a result of the Servicer's negligence, recklessness or willful misconduct or termination of this Servicing Agreement for cause. Further, if the Servicer remains an entity subject to the Commission's regulatory authority as a public utility (or otherwise for ratemaking purposes), the Servicer hereby acknowledges and agrees that the Commission, subject to the outcome of an appropriate Commission proceeding, may take such action as the Commission deems necessary or appropriate under its regulatory authority to require the Servicer to make Customers whole for any Losses they incur in connection with the failure of any material representation, or warranty by the Servicer under this Agreement, or by reason of the Servicer's negligence, recklessness or willful misconduct or termination of this Servicing Agreement for cause, including without limitation Losses attributable to higher Series Charges imposed on Customers by reason of additional Operating Expenses. The Servicer hereby acknowledges and agrees that such action by the Commission may include, but is not limited to, adjustments to the Servicer's other regulated rates and charges or credits to Customers. If the Servicer does not remain, or is not, subject to the Commission's regulatory authority as a public utility (or otherwise for ratemaking purposes), such Servicer shall indemnify the Commission, on behalf of the Customers, for any Losses incurred by Customers by reason of the Servicer's negligence, recklessness or willful misconduct or termination of this Servicing Agreement for cause, including without limitation Losses attributable to higher Series Charges imposed on Customers by reason of additional Operating Expenses. The Servicer's indemnification under this Section 6.02(e) shall survive the termination of this Agreement, and any amounts paid with respect thereto shall be remitted and deposited with the Indenture Trustee for deposit in the Collection Account, unless otherwise directed by the Commission. Notwithstanding anything to the contrary in this Servicing Agreement or in any other Basic Document, so long as any [Series A] Storm Recovery Bonds are Outstanding, any indemnity payments to the Commission (for the benefit of Customers) pursuant to this Section 6.02(e) shall be promptly remitted to the Indenture Trustee for deposit in the applicable Collection Account.

(f) The Servicer shall not be required to indemnify an Indemnified Party for any amount paid or payable by such Indemnified Party in the settlement of any action, proceeding or investigation without the written consent of the Servicer, which consent shall not be unreasonably withheld. Promptly after receipt by an Indemnified Party of notice (or, in the case of the Indenture Trustee, receipt of notice by a Responsible Officer only) of the commencement of any action, proceeding or investigation, such Indemnified Party shall, if a claim in respect thereof is to be made against the Servicer under this Section 6.02, notify the Servicer in writing of the commencement thereof. Failure by an Indemnified Party to so notify the Servicer shall relieve the Servicer from the obligation to indemnify and hold harmless such Indemnified Party under this Section 6.02 only to the extent that the Servicer suffers actual prejudice as a result of such failure. With respect to any action, proceeding or investigation brought by a third party for which indemnification may be sought under this Section 6.02, the Servicer shall be entitled to conduct and control, at its expense and with counsel of its choosing that is reasonably satisfactory to such Indemnified Party, the defense of any such action, proceeding or investigation (in which case the Servicer shall not thereafter be responsible for the fees and expenses of any separate counsel retained by the Indemnified Party except as set forth below); provided, that the Indemnified Party shall have the right to participate in such action, proceeding or investigation through counsel chosen by it and at its own expense. Notwithstanding the Servicer's election to assume the defense of any action, proceeding or investigation, the Indemnified Party shall have the right to employ separate counsel (including local counsel), and the Servicer shall bear the reasonable fees, costs and expenses of such separate counsel, if (i) the defendants in any such action include both the Indemnified Party and the Servicer and the Indemnified Party shall have reasonably concluded that there may be legal defenses available to it that are different from or additional to those available to the Servicer, (ii) the Servicer shall not have employed counsel reasonably satisfactory to the Indemnified Party to represent the Indemnified Party within a reasonable time after notice of the institution of such action, (iii) the Servicer shall authorize the Indemnified Party to employ separate counsel at the expense of the Servicer or (iv) in the case of the Indenture Trustee, such action exposes the Indenture Trustee to a material risk of criminal liability or forfeiture or a Servicer Default has occurred and is continuing. Notwithstanding the foregoing, the Servicer shall not be obligated to pay for the fees, costs and expenses of more than one separate counsel for the Indemnified Parties other than one local counsel, if appropriate. The Servicer will not, without the prior written consent of the Indemnified Party, settle or compromise or consent to the entry of any judgment with respect to any pending or threatened claim, action, suit or proceeding in respect of which indemnification may be sought under this Section 6.02 (whether or not the Indemnified Party is an actual or potential party to such claim or action) unless such settlement, compromise or consent includes an unconditional release of the Indemnified Party from all liability arising out of such claim, action, suit or proceeding.

Section 6.03. Binding Effect of Servicing Obligations. The obligations to continue to provide service and to collect and account for Series Charges will be binding upon the Servicer, any Successor and any other entity that provides distribution services to a Person that is a North Carolina retail customer of Duke Energy [Carolinas/Progress] or any Successor so long as the Series Charges have not been fully collected and posted. Any Person (a) into which the Servicer may be merged, converted or consolidated and that is a Permitted Successor, (b) that may result from any merger, conversion or consolidation to which the Servicer shall be a party

and that is a Permitted Successor, (c) that may succeed to the properties and assets of the Servicer substantially as a whole and that is a Permitted Successor or (d) that otherwise is a Permitted Successor, which Person in any of the foregoing cases executes an agreement of assumption to perform all of the obligations of the Servicer hereunder, shall be the successor to the Servicer under this Servicing Agreement without further act on the part of any of the parties to this Servicing Agreement; provided, however, that (i) immediately after giving effect to such transaction, no representation or warranty made pursuant to Section 6.01 shall have been breached and no Servicer Default and no event that, after notice or lapse of time, or both, would become a Servicer Default shall have occurred and be continuing, (ii) the Servicer shall have delivered to the Issuer, the Commission, the SRB Trustee and the Indenture Trustee an Officer's Certificate and an Opinion of Counsel from external counsel stating that such consolidation, conversion, merger or succession and such agreement of assumption complies with this Section 6.03 and that all conditions precedent, if any, provided for in this Servicing Agreement relating to such transaction have been complied with, (iii) the Servicer shall have delivered to the Issuer, the Indenture Trustee, the Commission, the SRB Trustee and the Rating Agencies an Opinion of Counsel from external counsel of the Servicer either (A) stating that, in the opinion of such counsel, all filings to be made by the Servicer, including filings with the Commission pursuant to the Storm Recovery Law and the UCC, have been executed and filed and are in full force and effect that are necessary to fully preserve, perfect and maintain the priority of the interests of the Issuer and the Liens of the Indenture Trustee in the Series Property and reciting the details of such filings or (B) stating that, in the opinion of such counsel, no such action shall be necessary to preserve and protect such interests, (iv) the Servicer shall have delivered to the Issuer, the Indenture Trustee, the Commission, the SRB Trustee and the Rating Agencies an Opinion of Counsel from independent tax counsel stating that, for U.S. federal income tax purposes, such consolidation, conversion, merger or succession and such agreement of assumption will not result in a material adverse U.S. federal income tax consequence to the Issuer or the Holders of [Series A] Storm Recovery Bonds, (v) the Servicer shall have given the Rating Agencies prior written notice of such transaction and (vi) any applicable requirements of the Intercreditor Agreement have been satisfied. When any Person (or more than one Person) acquires the properties and assets of the Servicer substantially as a whole or otherwise becomes the successor, by merger, conversion, consolidation, sale, transfer, lease or otherwise, to all or substantially all the assets of the Servicer in accordance with the terms of this Section 6.03, then, upon satisfaction of all of the other conditions of this Section 6.03, the preceding Servicer shall automatically and without further notice be released from all its obligations hereunder (except for responsibilities for its actions prior to such release).

Section 6.04. Limitation on Liability of Servicer and Others.

(a) Except as otherwise provided under this Servicing Agreement, neither the Servicer nor any of the directors, officers, employees or agents of the Servicer shall be liable to the Issuer or any other Person for any action taken or for refraining from the taking of any action pursuant to this Servicing Agreement or for good faith errors in judgment; provided, however, that this provision shall not protect the Servicer or any such Person against any liability that would otherwise be imposed by reason of negligence, recklessness or willful misconduct in the performance of duties or by reason of reckless disregard of obligations and duties under this Servicing Agreement. The Servicer and any director, officer, employee or agent of the Servicer

may rely in good faith on the advice of counsel or on any document of any kind, prima facie properly executed and submitted by any Person, respecting any matters arising under this Servicing Agreement.

(b) [The Servicer acknowledges that the Commission, acting on its own behalf, has authority to enforce all provisions of this Servicing Agreement for the benefit of Customers, including without limitation the enforcement of Section 6.02(e).]

(c) Except as provided in this Servicing Agreement, including Section 5.02(d), the Servicer shall not be under any obligation to appear in, prosecute or defend any legal action relating to the Series Property that is not directly related to one of the Servicer's enumerated duties in this Servicing Agreement or related to its obligation to pay indemnification, and that in its reasonable opinion may cause it to incur any expense or liability; provided, however, that the Servicer may, in respect of any Proceeding, undertake any action that it is not specifically identified in this Servicing Agreement as a duty of the Servicer but that the Servicer reasonably determines is necessary or desirable in order to protect the rights and duties of the Issuer or the Indenture Trustee under this Servicing Agreement and the interests of the Holders and Customers under this Servicing Agreement.

Section 6.05. Duke Energy [Carolinas/Progress] Not to Resign as Servicer. Subject to the provisions of Section 6.03, Duke Energy [Carolinas/Progress] shall not resign from the obligations and duties imposed on it as Servicer under this Servicing Agreement except upon a determination that the performance of its duties under this Servicing Agreement shall no longer be permissible under applicable Requirements of Law. Notice of any such determination permitting the resignation of Duke Energy [Carolinas/Progress] shall be communicated to the Issuer, the Commission, the Indenture Trustee, the SRB Trustee and each Rating Agency at the earliest practicable time (and, if such communication is not in writing, shall be confirmed in writing at the earliest practicable time), and any such determination shall be evidenced by an Opinion of Counsel to such effect delivered to the Issuer, the Commission, the SRB Trustee and each Indenture Trustee concurrently with or promptly after such notice. No such resignation shall become effective until a Successor Servicer [has been approved by the Commission and] has assumed the servicing obligations and duties hereunder of the Servicer in accordance with Section 7.02.

Section 6.06. Servicing Compensation.

(a) In consideration for its services hereunder, until the Collection in Full of the Charges, the Servicer shall receive an annual fee (the "Servicing Fee") in an amount equal to (i) [0.05]% of the aggregate initial principal amount of all [Series A] Storm Recovery Bonds plus out-of-pocket expenses for so long as Duke Energy [Carolinas/Progress] or an Affiliate of Duke Energy [Carolinas/Progress] is the Servicer or (ii) if Duke Energy [Carolinas/Progress] or any of its Affiliates is not the Servicer, an amount agreed upon by the Successor Servicer and the Indenture Trustee, provided, that the annual Servicing Fee shall not exceed 0.60% of the aggregate initial principal amount of all [Series A] Storm Recovery Bonds, unless the Commission has approved the appointment of the Successor Servicer or the Commission does not act to either approve or disapprove such appointment on or before the date which is 45 days after notice of the proposed appointment of the Successor Servicer is provided to the

Commission in the same manner substantially as provided in Section 8.01(c). The Servicing Fee owing shall be calculated based on the initial principal amount of the [Series A] Storm Recovery Bonds and shall be paid semi-annually, with half of the Servicing Fee being paid on each Payment Date, except for the amount of the Servicing Fee to be paid on the first Payment Date in which the Servicing Fee then due will be calculated based on the number of days that this Servicing Agreement has been in effect. In addition, the Servicer shall be entitled to be reimbursed by the Issuer for filing fees and fees and expenses for attorneys, accountants, printing or other professional services retained by the Issuer and paid for by the Servicer (or procured by the Servicer on behalf of the Issuer and paid for by the Servicer) to meet the Issuer's obligations under the Basic Documents ("Reimbursable Expenses"). Except for such Reimbursable Expenses, the Servicer shall be required to pay all other costs and expenses incurred by the Servicer in performing its activities hereunder (but, for the avoidance of doubt, excluding any such costs and expenses incurred by Duke Energy [Carolinas/Progress] in its capacity as Administrator).

(b) The Servicing Fee set forth in Section 6.06(a) shall be paid to the Servicer by the Indenture Trustee, on each Payment Date in accordance with the priorities set forth in Section 8.02(e) of the Indenture, by wire transfer of immediately available funds from the Collection Account to an account designated by the Servicer. Any portion of the Servicing Fee not paid on any such date shall be added to the Servicing Fee payable on the subsequent Payment Date. In no event shall the Indenture Trustee be liable for the payment of any Servicing Fee or other amounts specified in this Section 6.06; provided, that this Section 6.06 does not relieve the Indenture Trustee of any duties it has to allocate funds for payment for such fees under Section 8.02 of the Indenture.

(c) The Servicer and the Issuer acknowledge and agree that the Servicer's actual collections of Series Charges on some days might exceed the Servicer's deemed collections, and that the Servicer's actual collections of Series Charges on other days might be less than the Servicer's deemed collections. The Servicer and the Issuer further acknowledge and agree that the amount of these variances are likely to be small and are not likely to be biased in favor of over-remittances or under-remittances. Consequently, so long as the Servicer faithfully makes all daily remittances based on weighted average days sales outstanding, as provided for herein, the Servicer and the Issuer agree that no actual or deemed investment earnings shall be payable in respect of such over-remittances or under-remittances. However, the Servicer shall remit at least annually to the Indenture Trustee, for the benefit of the Issuer, any late charges received from Customers in respect of Series Charges.

(d) The foregoing Servicing Fee constitutes a fair and reasonable compensation for the obligations to be performed by the Servicer. Such Servicing Fee shall be determined without regard to the income of the Issuer, shall not be deemed to constitute distributions to the recipient of any profit, loss or capital of the Issuer and shall be considered a fixed Operating Expense of the Issuer subject to the limitations on such expenses set forth in the Financing Order.

(e) Any services required for or contemplated by the performance of the above-referenced services by the Servicer to be provided by unaffiliated third parties may, if

provided for or otherwise contemplated by the Financing Order and if the Issuer deems it necessary or desirable, be arranged by the Issuer or by the Servicer at the direction (which may be general or specific) of the Issuer. Costs and expenses associated with the contracting for such third-party professional services may be paid directly by the Issuer or paid by the Servicer and reimbursed by the Issuer in accordance with Section 6.06(a), or otherwise as the Servicer and the Issuer may mutually arrange.

Section 6.07. Compliance with Applicable Law. The Servicer covenants and agrees, in servicing the Series Property, to comply in all material respects with all laws applicable to, and binding upon, the Servicer and relating to the Series Property, the noncompliance with which would have a material adverse effect on the value of the Series Property; provided, however, that the foregoing is not intended to, and shall not, impose any liability on the Servicer for noncompliance with any Requirement of Law that the Servicer is contesting in good faith in accordance with its customary standards and procedures. It is expressly acknowledged that the payment of fees to the Rating Agencies shall be at the expense of the Issuer and that, if the Servicer advances such payments to the Rating Agencies, the Issuer shall reimburse the Servicer for any such advances.

Section 6.08. Access to Certain Records and Information Regarding Series Property. The Servicer shall provide to the Indenture Trustee access to the Series Property Records for the [Series A] Storm Recovery Bonds as is reasonably required for the Indenture Trustee to perform its duties and obligations under the Indenture and the other Basic Documents and shall provide access to such records to the Holders as required by applicable law. Access shall be afforded without charge, but only upon reasonable request and during normal business hours at the offices of the Servicer. Nothing in this Section 6.08 shall affect the obligation of the Servicer to observe any applicable law (including any Commission Regulation) prohibiting disclosure of information regarding Customers, and the failure of the Servicer to provide access to such information as a result of such obligation shall not constitute a breach of this Section 6.08.

Section 6.09. Appointments. The Servicer may at any time appoint any Person to perform all or any portion of its obligations as Servicer hereunder, including a collection agent acting pursuant to the Intercreditor Agreement; provided, however, that, unless such Person is an Affiliate of Duke Energy [Carolinas/Progress], the Rating Agency Condition shall have been satisfied in connection therewith; provided, further, that the Servicer shall remain obligated and be liable under this Servicing Agreement for the servicing and administering of the Series Property in accordance with the provisions hereof without diminution of such obligation and liability by virtue of the appointment of such Person and to the same extent and under the same terms and conditions as if the Servicer alone were servicing and administering the Series Property. The fees and expenses of any such Person shall be as agreed between the Servicer and such Person from time to time, and none of the Issuer, the Indenture Trustee, the Holders or any other Person shall have any responsibility therefor or right or claim thereto. Any such appointment shall not constitute a Servicer resignation under Section 6.05.

Section 6.10. No Servicer Advances. The Servicer shall not make any advances of interest on or principal of the [Series A] Storm Recovery Bonds.

Section 6.11. Remittances.

(a) The Storm Recovery Charge Collections on any Servicer Business Day (the “Daily Remittance”) shall be calculated according to the procedures set forth in Exhibit A and remitted by the Servicer as soon as reasonably practicable to the General Subaccount of the Collection Account but in no event later than two Servicer Business Days following such Servicer Business Day. Prior to each remittance to the General Subaccount of the Collection Account pursuant to this Section 6.11, the Servicer shall provide written notice (which may be via electronic means, including electronic mail) to the Indenture Trustee and, upon request, to the Issuer of each such remittance (including the exact dollar amount to be remitted). The Servicer shall also, promptly upon receipt, remit to the Collection Account any other proceeds of the Series Collateral that it may receive from time to time. Reconciliations of bank statements shall be as set forth in Exhibit A.

(b) The Servicer agrees and acknowledges that it holds all Storm Recovery Charge Payments collected by it and any other proceeds for the Series Collateral received by it for the benefit of the Indenture Trustee and the Holders and that all such amounts will be remitted by the Servicer in accordance with this Section 6.11 without any surcharge, fee, offset, charge or other deduction except for and interest earnings permitted by Section 6.06. The Servicer further agrees not to make any claim to reduce its obligation to remit all Storm Recovery Charge Payments collected by it in accordance with this Servicing Agreement.

(c) Unless otherwise directed to do so by the Issuer, the Servicer shall be responsible for selecting Eligible Investments in which the funds in the Collection Account shall be invested pursuant to Section 8.03 of the Indenture.

Section 6.12. Maintenance of Operations. Subject to Section 6.03, Duke Energy [Carolinas/Progress] agrees to continue, unless prevented by circumstances beyond its control, to operate its electric distribution system to provide service so long as it is acting as the Servicer under this Servicing Agreement.

ARTICLE VII
DEFAULT

Section 7.01. Servicer Default. If any one or more of the following events (a “Servicer Default”) shall occur and be continuing:

(a) any failure by the Servicer to remit to the Collection Account on behalf of the Issuer any required remittance that shall continue unremedied for a period of five Business Days after written notice of such failure is received by the Servicer and the Commission from the Issuer or the Indenture Trustee or after discovery of such failure by a Responsible Officer of the Servicer;

(b) any failure on the part of the Servicer or, so long as the Servicer is Duke Energy [Carolinas/Progress] or an Affiliate thereof, any failure on the part of Duke Energy [Carolinas/Progress], as the case may be, duly to observe or to perform in any material respect any covenants or agreements of the Servicer or Duke Energy [Carolinas/Progress], as the case

may be, set forth in this Servicing Agreement (other than as provided in Section 7.01(a) or Section 7.01(c)) or any other Basic Document to which it is a party, which failure shall (i) materially and adversely affect the rights of the Holders and (ii) continue unremedied for a period of 60 days after the date on which (A) written notice of such failure, requiring the same to be remedied, shall have been given to the Servicer or Duke Energy [Carolinas/Progress], as the case may be, by the Issuer, the Commission (with a copy to the Indenture Trustee) or to the Servicer or Duke Energy [Carolinas/Progress], as the case may be, by the Indenture Trustee or (B) such failure is discovered by a Responsible Officer of the Servicer;

(c) any failure by the Servicer duly to perform its obligations under Section 4.01(b) in the time and manner set forth therein, which failure continues unremedied for a period of five Business Days;

(d) any representation or warranty made by the Servicer in this Servicing Agreement or any other Basic Document shall prove to have been incorrect in a material respect when made, which has a material adverse effect on the Holders and which material adverse effect continues unremedied for a period of 60 days after the date on which (i) written notice thereof, requiring the same to be remedied, shall have been delivered to the Servicer (with a copy to the Indenture Trustee) by the Issuer, the Commission or the Indenture Trustee or (ii) such failure is discovered by a Responsible Officer of the Servicer; or

(e) [an Insolvency Event occurs with respect to the Servicer or Duke Energy [Carolinas/Progress];

then, and in each and every case, so long as the Servicer Default shall not have been remedied, either the Indenture Trustee shall, upon the instruction of Holders evidencing a majority of the Outstanding Amount of the [Series A] Storm Recovery Bonds or by the Commission, subject to the terms of the Intercreditor Agreement, by notice then given in writing to the Servicer (and to the Indenture Trustee if given by the Holders) (a "Termination Notice"), terminate all the rights and obligations (other than the obligations set forth in Section 6.02 and the obligation under Section 7.02 to continue performing its functions as Servicer until a successor Servicer is appointed) of the Servicer under this Servicing Agreement and under the Intercreditor Agreement; *provided, however* the Indenture Trustee shall not give a Termination Notice upon instruction of the Commission unless the Rating Agency Condition is satisfied. In addition, upon a Servicer Default described in Section 7.01(a), the Holders and the Indenture Trustee as financing parties under the Storm Recovery Law (or any of their representatives) shall be entitled to apply to the Commission or a court of appropriate jurisdiction for an order for sequestration and payment of revenues arising with respect to the Series Property. On or after the receipt by the Servicer of a Termination Notice, all authority and power of the Servicer under this Servicing Agreement, whether with respect to the [Series A] Storm Recovery Bonds, the Series Property, the Series Charges or otherwise, shall, without further action, pass to and be vested in such successor Servicer as may be appointed under Section 7.02; and, without limitation, the Indenture Trustee is hereby authorized and empowered to execute and deliver, on behalf of the predecessor Servicer, as attorney-in-fact or otherwise, any and all documents and other

instruments, and to do or accomplish all other acts or things necessary or appropriate to effect the purposes of such Termination Notice, whether to complete the transfer of the Series Property Records and related documents, or otherwise. The predecessor Servicer shall cooperate with the successor Servicer, the Issuer and the Indenture Trustee in effecting the termination of the responsibilities and rights of the predecessor Servicer under this Servicing Agreement, including the transfer to the successor Servicer for administration by it of all Series Property Records and all cash amounts that shall at the time be held by the predecessor Servicer for remittance, or shall thereafter be received by it with respect to the Series Property or the Series Charges. As soon as practicable after receipt by the Servicer of such Termination Notice, the Servicer shall deliver the Series Property Records to the successor Servicer. In case a successor Servicer is appointed as a result of a Servicer Default, all reasonable costs and expenses (including reasonable attorneys' fees and expenses) incurred in connection with transferring the Series Property Records to the successor Servicer and amending this Servicing Agreement and the Intercreditor Agreement to reflect such succession as Servicer pursuant to this Section 7.01 shall be paid by the predecessor Servicer upon presentation of reasonable documentation of such costs and expenses. Termination of Duke Energy [Carolinas/Progress] as Servicer shall not terminate Duke Energy [Carolinas/Progress]'s rights or obligations under the Sale Agreement (except rights thereunder deriving from its rights as the Servicer hereunder).]

Section 7.02. Appointment of Successor.

(a) Upon the Servicer's receipt of a Termination Notice pursuant to Section 7.01 or the Servicer's resignation or removal in accordance with the terms of this Servicing Agreement, the predecessor Servicer shall continue to perform its functions as Servicer under this Servicing Agreement and shall be entitled to receive the requisite portion of the Servicing Fee, until a successor Servicer shall have assumed in writing the obligations of the Servicer hereunder as described below. In the event of the Servicer's removal or resignation hereunder, the Indenture Trustee may, at the written direction and with the consent of the Holders of a majority of the Outstanding Amount of the [Series A] Storm Recovery Bonds or of the Commission shall, but subject to the provisions of the Intercreditor Agreement, appoint a successor Servicer with the Issuer's prior written consent thereto (which consent shall not be unreasonably withheld), and the successor Servicer shall accept its appointment by a written assumption in form reasonably acceptable to the Issuer and the Indenture Trustee and provide prompt written notice of such assumption to the Issuer, the SRB Issuer, the SRB Trustee, the Commission and the Rating Agencies. If, within 30 days after the delivery of the Termination Notice, a new Servicer shall not have been appointed, the Indenture Trustee may, at the direction of the Holders of a majority of the [Series A] Storm Recovery Bonds, petition the Commission or a court of competent jurisdiction to appoint a successor Servicer under this Servicing Agreement. A Person shall qualify as a successor Servicer only if (i) such Person is permitted under Commission Regulations to perform the duties of the Servicer, (ii) the Rating Agency Condition shall have been satisfied, (iii) such Person enters into a servicing agreement with the Issuer having substantially the same provisions as this Servicing Agreement and (iv) such Person agrees to perform the obligations of the Servicer under the Intercreditor Agreement. In no event shall the Indenture Trustee be liable for its appointment of a successor Servicer. The Indenture

Trustee's expenses incurred under this Section 7.02(a) shall be at the sole expense of the Issuer and payable from the Collection Account as provided in Section 8.02 of the Indenture.

(b) Upon appointment, the successor Servicer shall be the successor in all respects to the predecessor Servicer and shall be subject to all the responsibilities, duties and liabilities arising thereafter placed on the predecessor Servicer and shall be entitled to the Servicing Fee and all the rights granted to the predecessor Servicer by the terms and provisions of this Servicing Agreement.

Section 7.03. Waiver of Past Defaults. The Indenture Trustee, with the written consent of the Commission and the consent of the Holders evidencing a majority of the Outstanding Amount of the [Series A] Storm Recovery Bonds, may waive in writing any default by the Servicer in the performance of its obligations hereunder and its consequences, except a default in making any required deposits to the Collection Account in accordance with this Servicing Agreement. Upon any such waiver of a past default, such default shall cease to exist, and any Servicer Default arising therefrom shall be deemed to have been remedied for every purpose of this Servicing Agreement. No such waiver shall extend to any subsequent or other default or impair any right consequent thereto. Promptly after the execution of any such waiver, the Servicer shall furnish copies of such waiver to each of the Rating Agencies.

Section 7.04. Notice of Servicer Default. The Servicer shall deliver to the Issuer, the Indenture Trustee, the SRB Issuer, the SRB Trustee, the Commission and the Rating Agencies, promptly after having obtained knowledge thereof, but in no event later than five Business Days thereafter, written notice of any event that, with the giving of notice or lapse of time, or both, would become a Servicer Default under Section 7.01.

Section 7.05. Cooperation with Successor. The Servicer covenants and agrees with the Issuer that it will, on an ongoing basis, cooperate with the successor Servicer and provide whatever information is, and take whatever actions are, reasonably necessary to assist the successor Servicer in performing its obligations hereunder.

ARTICLE VIII MISCELLANEOUS PROVISIONS

Section 8.01. Amendment.

(a) Subject to Section 8.01(c), this Servicing Agreement may be amended in writing by the Servicer and the Issuer with the prior written consent of the Indenture Trustee and the satisfaction of the Rating Agency Condition; provided, that any such amendment may not adversely affect the interest of any Holder in any material respect without the consent of the Holders of a majority of the Outstanding Amount. Promptly after the execution of any such amendment or consent, the Issuer shall furnish copies of such amendment or consent to each of the Rating Agencies.

(b) Prior to the execution of any amendment to this Servicing Agreement, the Issuer and the Indenture Trustee shall be entitled to receive and conclusively rely upon an Opinion of Counsel of external counsel stating that such amendment is authorized and permitted

by this Servicing Agreement and all conditions precedent, if any, provided for in this Servicing Agreement relating to such amendment have been satisfied and upon the Opinion of Counsel from external counsel referred to in Section 3.01(c)(i). The Issuer and the Indenture Trustee may, but shall not be obligated to, enter into any such amendment that affects their own rights, duties, indemnities or immunities under this Servicing Agreement or otherwise.

(c) [Notwithstanding anything to the contrary in this Section 8.01, no amendment or modification of this Servicing Agreement, nor any waiver required by Section 7.03 hereof, shall be effective except upon satisfaction of the conditions precedent in this paragraph (c).

(i) At least 15 days prior to the effectiveness of any such amendment or modification and after obtaining the other necessary approvals set forth in Section 8.01(a) (except that the consent of the Indenture Trustee may be subject to the consent of the Holders if such consent is required or sought by the Indenture Trustee in connection with such amendment or modification) or prior to the effectiveness of any waiver of a default approved by the Holders of a majority of the Outstanding Amount of the [Series A] Storm Recovery Bonds, the Servicer shall have delivered to the Commission's executive director and general counsel written notification of any proposed amendment, which notification shall contain:

(A) a reference to Docket Nos. [];

(B) an Officer's Certificate stating that the proposed amendment or modification has been approved by all parties to this Servicing Agreement or alternatively, the waiver of default has been approved by the Holders of a majority of the Outstanding Amount of [Series A] Storm Recovery Bonds; and

(C) a statement identifying the person to whom the Commission is to address any response to the proposed amendment or to request additional time.

(ii) If the Commission or an authorized representative of the Commission, within 15 days (subject to extension as provided in clause (iii)) of receiving a notification complying with subparagraph (i), shall have delivered to the office of the person specified in clause (i)(C) a written statement that the Commission might object to the proposed amendment or modification, or to the waiver of default, then, subject to clause (iv) below, such proposed amendment or modification, or the waiver of default, shall not be effective unless and until the Commission subsequently delivers a written statement that it does not object to such proposed amendment or modification.

(iii) If the Commission or an authorized representative of the Commission, within 15 days of receiving a notification complying with subparagraph (i), shall have delivered to the office of the person specified in clause (i)(C) a written statement requesting an additional amount of time not to

exceed thirty days (or, in the case of a waiver of default, 15 days) in which to consider such proposed amendment or modification, then such proposed amendment or modification shall not be effective if, within such extended period, the Commission shall have delivered to the office of the person specified in clause (i)(C) a written statement as described in subparagraph (ii), unless and until the Commission subsequently delivers a written statement that it does not object to such proposed amendment or modification.

(iv) If (A) the Commission or an authorized representative of the Commission, shall not have delivered written notice that the Commission might object to such proposed amendment or modification, or the waiver of default, within the time periods described in subparagraphs (ii) or (iii), whichever is applicable, or (B) the Commission or authorized representative of the Commission, has delivered such written notice but does not within 60 days of the delivery of the notification in (a) above, provide subsequent written notice confirming that it does in fact object and the reasons therefore or advise that it has initiated a proceeding to determine what action it might take with respect to the matter, then the Commission shall be conclusively deemed not to have any objection to the proposed amendment or modification or waiver of default, as the case may be, and such amendment or modification or waiver of default, as the case may be, may subsequently become effective upon satisfaction of the other conditions specified in Section 8.01(a).

(v) Following the delivery of a statement from the Commission or an authorized representative of the Commission to the Servicer under subparagraph (ii), the Servicer and the Issuer shall have the right at any time to withdraw from the Commission further consideration of any proposed amendment, modification or waiver of default.]

(d) For the purpose of this Section 8.01(a), an “authorized representative of the Commission” means any person authorized to act on behalf of the Commission, as evidenced by an Opinion of Counsel (which may be the general counsel) to the Commission.

Section 8.02. Maintenance of Accounts and Records.

(a) The Servicer shall maintain accounts and records as to the Series Property accurately and in accordance with its standard accounting procedures and in sufficient detail to permit reconciliation between Storm Recovery Charge Payments received by the Servicer and Storm Recovery Charge Collections from time to time deposited in the Collection Account.

(b) The Servicer shall permit the Indenture Trustee and its agents at any time during normal business hours, upon reasonable notice to the Servicer and to the extent it does not unreasonably interfere with the Servicer’s normal operations, to inspect, audit and make copies of and abstracts from the Servicer’s records regarding the Series Property and the Series Charges. Nothing in this Section 8.02(b) shall affect the obligation of the Servicer to observe any applicable law (including any Commission Regulation) prohibiting disclosure of information

regarding Customers, and the failure of the Servicer to provide access to such information as a result of such obligation shall not constitute a breach of this Section 8.02(b).

Section 8.03. Notices. Any notice, report or other communication given hereunder shall be in writing and shall be effective (i) upon receipt when sent through the mails, registered or certified mail, return receipt requested, postage prepaid, with such receipt to be effective the date of delivery indicated on the return receipt, (ii) upon receipt when sent by an overnight courier, (iii) on the date personally delivered to an authorized officer of the party to which sent or (iv) on the date transmitted by facsimile or other electronic transmission with a confirmation of receipt in all cases, addressed as follows:

(a) in the case of the Servicer, to [Duke Energy [Carolinas/Progress]LLC, at (i) [ADDRESS], Attention: Director, Rates and Regulatory Strategy, Telephone: [727-820-4560] and (ii) 550 South Tryon Street, Charlotte, North Carolina 28202, Attention: Treasurer, Telephone: 704-382-3853 c/o Assistant Treasurer;

(b) in the case of the Issuer, to [Duke Energy [Carolinas/Progress] Storm Recovery Funding], LLC, at [ADDRESS] Attention: Managers, Telephone: [];

(c) in the case of the Indenture Trustee, to the Corporate Trust Office;

(d) in the case of the SRB Issuer, to [];

(e) in the case of the SRB Trustee, to [];

(f) in the case of Fitch, to Fitch Ratings, 33 Whitehall Street, New York, New York 10004, Attention: ABS Surveillance, Telephone: (212) 908-0500, Facsimile: (212) 908-0355;

(g) in the case of S&P, to S&P Global Ratings, a S&P Global Inc. business, [Structured Credit Surveillance], [55 Water Street, New York, New York 10041], Telephone: (212) 438-8991, Email: [servicer_reports@standardandpoors.com] (all such notices to be delivered to S&P in writing by email); and

(h) in the case of the Commission, North Carolina Utilities Commission, [4325 Mail Service Center, Raleigh, NC 27603-5918], Attention: Staff Director of Accounting & Finance.

Each party hereto may, by notice given in accordance herewith to the other party or parties hereto, designate any further or different address to which subsequent notices, reports and other communications shall be sent.

Section 8.04. Assignment. Notwithstanding anything to the contrary contained herein, except as provided in Section 6.03 and as provided in the provisions of this Servicing Agreement concerning the resignation of the Servicer, this Servicing Agreement may not be assigned by the Servicer. Any assignment of this Servicing Agreement is subject to satisfaction of any conditions set forth in the Intercreditor Agreement.

Section 8.05. Limitations on Rights of Others. The provisions of this Servicing Agreement are solely for the benefit of the Servicer, the Issuer, the SRB Issuer, the SRB Trustee, the Commission, on behalf of itself and Customers, and, to the extent provided herein or in the other Basic Documents, the Indenture Trustee and the Holders, and the other Persons expressly referred to herein, and such Persons shall have the right to enforce the relevant provisions of this Servicing Agreement. Nothing in this Servicing Agreement, whether express or implied, shall be construed to give to any other Person any legal or equitable right, remedy or claim in the Series Property or Series Collateral or under or in respect of this Servicing Agreement or any covenants, conditions or provisions contained herein. Notwithstanding anything to the contrary contained herein, for the avoidance of doubt, any right, remedy or claim to which any Customer may be entitled pursuant to the Financing Order and to this Servicing Agreement may be asserted or exercised only by the Commission (or by its counsel in the name of the Commission) for the benefit of such Customer.

Section 8.06. Severability. Any provision of this Servicing Agreement that is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remainder of such provision (if any) or the remaining provisions hereof (unless such a construction shall be unreasonable), and any such prohibition or unenforceability in any jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction.

Section 8.07. Separate Counterparts. This Servicing Agreement may be executed by the parties hereto in separate counterparts, each of which when so executed and delivered shall be an original, but all such counterparts shall together constitute but one and the same instrument.

Section 8.08. Governing Law. This Servicing Agreement shall be governed by and construed in accordance with the laws of the State of North Carolina, without reference to its conflict of law provisions, and the obligations, rights and remedies of the parties hereunder shall be determined in accordance with such laws.

Section 8.09. Assignment to Indenture Trustee. The Servicer hereby acknowledges and consents to the assignment by the Issuer to the Indenture Trustee of any or all of the Issuer's rights hereunder and the further assignment of such rights by the SRB Issuer to the SRB Trustee pursuant to the SRB Indenture for the benefit of the SRB Noteholders and the SRB Trustee in all of the Holder's rights in all rights of the SRB Trustee or the SRB Issuer, as holder of the [Series A] Storm Recovery Bonds, in and to this Servicing Agreement. In no event shall the Indenture Trustee have any liability for the representations, warranties, covenants, agreements or other obligations of the Issuer hereunder or in any of the certificates delivered pursuant hereto, as to all of which any recourse shall be had solely to the assets of the Issuer subject to the availability of funds therefor under Section 8.02 of the Indenture.

Section 8.10. Nonpetition Covenants. Notwithstanding any prior termination of this Servicing Agreement or the Indenture, the Servicer shall not, prior to the date that is one year and one day after the satisfaction and discharge of the Indenture, acquiesce, petition or otherwise invoke or cause the Issuer to invoke or join with any Person in provoking the process of any Governmental Authority for the purpose of commencing or sustaining an involuntary case

against the Issuer under any U.S. federal or state bankruptcy, insolvency or similar law or appointing a receiver, liquidator, assignee, trustee, custodian, sequestrator or other similar official of the Issuer for any substantial part of the property of the Issuer or ordering the dissolution, winding up or liquidation of the affairs of the Issuer.

Section 8.11. Limitation of Liability. It is expressly understood and agreed by the parties hereto that this Servicing Agreement is executed and delivered by the Indenture Trustee, not individually or personally but solely as Indenture Trustee in the exercise of the powers and authority conferred and vested in it, and that the Indenture Trustee, in acting hereunder, is entitled to all rights, benefits, protections, immunities and indemnities accorded to it under the Indenture.

Section 8.12. Rule 17g-5 Compliance. The Servicer agrees that any notice, report, request for satisfaction of the Rating Agency Condition, document or other information provided by the Servicer to any Rating Agency under this Servicing Agreement or any other Basic Document to which it is a party for the purpose of determining the initial credit rating of the [Series A] Storm Recovery Bonds and SRB Notes or undertaking credit rating surveillance of the [Series A] Storm Recovery Bonds and SRB Notes with any Rating Agency, or satisfy the Rating Agency Condition, shall be substantially concurrently posted by the Servicer on the 17g-5 Website.

Section 8.13. Indenture Trustee Actions. In acting hereunder, the Indenture Trustee shall have the rights, protections and immunities granted to it under the Indenture.

{SIGNATURE PAGE FOLLOWS}

IN WITNESS WHEREOF, the parties hereto have caused this Servicing Agreement to be duly executed by their respective officers as of the day and year first above written.

[DUKE ENERGY [CAROLINAS/PROGRESS]
STORM RECOVERY FUNDING], LLC,
as Issuer

By: _____
Name: []
Title: President, Chief Financial Officer and
Treasurer

DUKE ENERGY [CAROLINAS/ PROGRESS],
LLC,
as Servicer

By: _____
Name: []
Title: Senior Vice President, Tax and Treasurer

ACKNOWLEDGED AND ACCEPTED:

[],
as Indenture Trustee

By: _____
Name:
Title:

EXHIBIT A

SERVICING PROCEDURES

The Servicer agrees to comply with the following servicing procedures:

SECTION 1. Definitions.

Capitalized terms used herein and not otherwise defined herein shall have the meanings ascribed to such terms in the Servicing Agreement (the “Agreement”).

SECTION 2. Data Acquisition.

(a) Installation and Maintenance of Meters. The Servicer shall cause to be installed, replaced and maintained meters in accordance with the Servicer Policies and Practices.

(b) Meter Reading. In accordance with the Servicer Policies and Practices, the Servicer shall obtain consumption measurements for each Customer or determine any Customer’s consumption on the basis of estimates in accordance with Commission Regulations.

(c) Cost of Metering. The Issuer shall not be obligated to pay any costs associated with the metering duties set forth in this Section 2, including the costs of installing, replacing and maintaining meters, nor shall the Issuer be entitled to any credit against the Servicing Fee for any cost savings realized by the Servicer as a result of new metering and/or billing technologies.

SECTION 3. Consumption and Bill Calculation.

The Servicer shall obtain a calculation of each Customer’s consumption (which may be based on data obtained from such Customer’s meter read or on consumption estimates determined in accordance with Commission Regulations) in accordance with the Servicer Policies and Practices and shall determine therefrom Billed Series Charges for the [Series A] Storm Recovery Bonds.

SECTION 4. Billing.

(a) Commencement of Billing. The Servicer shall implement the Series Charges as of the date following Series Closing Date for the [Series A] Storm Recovery Bonds and shall thereafter bill each Customer for each Customer’s Billed Series Charges for the [Series A] Storm Recovery Bonds in accordance with the provisions of this Section 4.

(b) Frequency of Bills; Billing Practices. In accordance with the Servicer Policies and Practices, the Servicer shall generate and issue a Bill to each Customer. In the event that the Servicer makes any material modification to the Servicer Policies and Practices, it shall notify

the Issuer, the Indenture Trustee and the Rating Agencies as soon as practicable, and in no event later than 30 Servicer Business Days after such modification goes into effect, but the Servicer may not make any modification that will materially adversely affect the Holders.

(c) Format.

(i) The Customer's Bill will contain a separate line item identifying the monthly charge representing the Series Property. The Customer's Bill shall contain in text or in a footnote, text substantially to the effect that the monthly charge representing Series Property has been approved by the Financing Order, and that a portion of the monthly charge is being collected by the Servicer, as servicer, on behalf of the Issuer as owner of the Series Property.

(ii) The Servicer shall conform to such requirements in respect of the format, structure and text of Bills delivered to Customers as Commission Regulations shall from time to time prescribe. To the extent that Bill format, structure and text are not prescribed by applicable law or by Commission Regulations, the Servicer shall, subject to clause (i) of this subsection (c), determine the format, structure and text of all Bills in accordance with its reasonable business judgment, the Servicer Policies and Practices and historical practice.

(d) Delivery. Except as provided in the next sentence, the Servicer shall deliver all Bills to Customers (i) by United States mail in such class or classes as are consistent with the Servicer Policies and Practices or (ii) by any other means, whether electronic or otherwise, that the Servicer may from time to time use in accordance with the Servicer Policies and Practices. The Servicer shall pay from its own funds all costs of issuance and delivery of all Bills that it renders, including printing and postage costs as the same may increase or decrease from time to time.

SECTION 5. Customer Service Functions.

The Servicer shall handle all Customer inquiries and other Customer service matters according to the Servicer Policies and Practices.

SECTION 6. Collections; Payment Processing; Remittance.

(a) Collection Efforts, Policies, Procedures.

(i) The Servicer shall collect Billed Series Charges for the [Series A] Storm Recovery Bonds (including late charges in respect of Series Charges) from Customers as and when the same become due in accordance with such collection procedures as it follows with respect to comparable assets that it services for itself or others including, in accordance with Commission Regulations and the Servicer Policies and Practices, that:

(A) The Servicer shall prepare and deliver overdue notices to Customers.

(B) The Servicer shall deliver past-due and shut-off notices.

(C) The Servicer may employ the assistance of collection agents.

(D) The Servicer shall apply Customer deposits to the payment of delinquent accounts.

(ii) The Servicer shall not waive any late payment charge or any other fee or charge relating to delinquent payments, if any, or waive, vary or modify any terms of payment of any amounts payable by a Customer, in each case unless such waiver or action: (A) would be in accordance with the Servicer Policies and Practices and (B) would comply in all material respects with applicable law.

(iii) The Servicer shall accept payment from Customers in respect of Billed Storm Recovery Charges for the [Series A] Storm Recovery Bonds in such forms and methods and at such times and places in accordance with the Servicer Policies and Practices.

(b) Payment Processing; Allocation; Priority of Payments. The Servicer shall post all payments received to Customer accounts as promptly as practicable, and, in any event, substantially all payments shall be posted no later than two Servicer Business Days after receipt.

(c) Investment of Estimated Storm Recovery Charge Payments Received. Prior to remittance on the applicable remittance date, the Servicer may invest estimated Storm Recovery Charges Payments at its own risk and for its own benefit, and such investments and funds shall not be required to be segregated from the other investments and funds of the Servicer.

(d) Calculation of Daily Remittance.

(i) The Servicer will remit Series Charges directly to the Indenture Trustee pursuant to Section 6.11 of the Servicing Agreement. The Servicer will remit Series Charges based on estimated collections using a weighted average balance of days outstanding (“ADO”) on Duke Energy [Carolinas/Progress]’s retail bills. Storm Recovery Charge Collections for the [Series A] Storm Recovery Bonds remitted will represent the charges estimated to be received for any period based upon the ADO and an estimated system-wide write-off percentage.

(ii) The Storm Recovery Charge Collections for the [Series A] Storm Recovery Bonds will be remitted by the Servicer to the Indenture Trustee as soon as reasonably practicable to the General Subaccount of the Collection Account on each Servicer Business Day, but in no event later than two Servicer Business Days following such Servicer Business Day. Estimated daily Storm Recovery Charge Collections for the [Series A] Storm Recovery Bonds will be remitted to the Indenture Trustee on each Servicer Business Day based upon the ADO and estimated write-offs. Each day on which those remittances are made is referred to as a daily remittance date.

(iii) No less often than semi-annually, the Servicer and the Indenture Trustee will reconcile remittances of estimated Storm Recovery Charge Collections for the [Series A] Storm Recovery Bonds with actual Storm Recovery Charge Payments for the [Series A]

Storm Recovery Bonds received by the Servicer to more accurately reflect the amount of Billed Series Charges for the [Series A] Storm Recovery Bonds that should have been remitted, based on ADO and the actual system-wide write-off percentage. To the extent the remittances of estimated payments arising from the Series Charges exceed the amounts that should have been remitted based on actual system-wide write-offs, the Servicer will be entitled to withhold the excess amount from any subsequent remittance to the Indenture Trustee until the balance of such excess is reduced to zero. To the extent the remittances of estimated payments arising from the Series Charges are less than the amount that should have been remitted based on actual system wide write-offs, the Servicer will remit the amount of the shortfall to the Indenture Trustee within two Servicer Business Days. Although the Servicer will remit estimated Storm Recovery Charge Collections for the [Series A] Storm Recovery Bonds to the Indenture Trustee, the Servicer will not be obligated to make any payments on the [Series A] Storm Recovery Bonds.

(iv) At least annually, the Servicer also will remit to the Indenture Trustee, for the benefit of the Issuer, any late charges received from Customers with respect to the Series Charges.

(v) The Servicer agrees and acknowledges that it holds all Storm Recovery Charge Collections for the [Series A] Storm Recovery Bonds received by it and any other proceeds for the Series Collateral received by it for the benefit of the Indenture Trustee and the Holders and that all such amounts will be remitted by the Servicer without any surcharge, fee, offset, charge or other deduction. The Servicer further agrees not to make any claim to reduce its obligation to remit all Storm Recovery Charge Payments for the [Series A] Storm Recovery Bonds collected by it in accordance with the Servicing Agreement.

(e) Partial Collections. Upon a partial payment of amounts billed, including amounts billed under special contracts, such partial payments shall be allocated ratably among the Series Charges and the Seller's other billed amounts (including any accrued interest and late fees) based on the ratio of each component of the bill to the total bill. If more than one Series of [Series A] Storm Recovery Bonds are Outstanding, partial payments allocable to Series Charges shall be allocated pro rata based upon the amount of Storm Recovery Charges owing with respect to each series.

(f) No Advances. The Servicer shall not be obligated to advance any of its own funds to the Issuer.

EXHIBIT B
FORM OF MONTHLY SERVICER'S CERTIFICATE

See Attached

MONTHLY SERVICER'S CERTIFICATE

[DUKE ENERGY [CAROLINAS/PROGRESS] STORM RECOVERY FUNDING], LLC

§[] Storm Recovery Senior Secured [Series A] Storm Recovery Bonds

Pursuant to Section 3.01(b) of the Series Property Servicing Agreement dated as of June 22, 2016 by and between **Duke Energy [Carolinas/Progress], LLC**, as Servicer, and **[Duke Energy [Carolinas/Progress] Storm Recovery Funding], LLC**, as Issuer (the "Servicing Agreement"), the Servicer does hereby certify as follows:

Capitalized terms used but not defined in this Monthly Servicer's Certificate have their respective meanings as set forth in the Servicing Agreement. References herein to certain sections and subsections are references to the respective sections or subsections of the Servicing Agreement.

Current BILLING MONTH: {_____}

Current BILLING MONTH: {__/__/20__} - {__/__/20__}

Standard Billing for prior BILLING MONTH

Residential Total Billed	#{_____}	
Residential STORM RECOVERY CHARGE ("SRC") Billed	#{_____}	{____}%
Small General Service Total Billed	#{_____}	
Small General Service SRC Billed	#{_____}	{____}%
Medium General Service Billed	#{_____}	
Medium General Service SRC Billed ¹	#{_____}	{____}%
Large General Service Total Billed	#{_____}	
Large General Service SRC Billed	#{_____}	{____}%
Lighting Total Billed	#{_____}	
Lighting SRC Billed	#{_____}	{____}%
<u>YTD Net Write-offs as a % of Billed Revenue</u>		
Non-Residential Class Customer Write-offs	{____}%	
Residential Class Customer Write-offs	{____}%	
Total Write-offs	{____}%	

Aggregate SRC Collections

¹ Customer classes shown above are for Duke Energy Progress. Duke Energy Carolinas has a single General Service customer class and a separate Industrial customer class.

Total SRC Remitted for BILLING MONTH

Residential SRC Collected	\${_____}
Small General Service SRC Collected	\${_____}
Medium General Service SRC Collected	\${_____}
Large General Service SRC Collected ²	\${_____}
Lighting SRC Collected	\${_____}
Sub-Total of SRC Collected	\${_____}

Total SRC Collected and Remitted

\${_____}

Aggregate SRC Remittances for {_____} 20__	BILLING MONTH	\${_____}
Aggregate SRC Remittances for {_____} 20__	BILLING MONTH	\${_____}
Aggregate SRC Remittances for {_____} 20__	BILLING MONTH	\${_____}

Total Current SRC Remittances

\${_____}

Current BILLING MONTH: {__/__/20__} - {__/__/20__}

Executed as of this {____} day of {_____} 20{__}.

**Duke Energy [Carolinas/Progress], LLC,
as Servicer**

By: _____
Name:
Title:

CC: [DUKE ENERGY [CAROLINAS/PROGRESS] STORM RECOVERY FUNDING],
LLC

² Customer classes shown above are for Duke Energy Progress. Duke Energy Carolinas has a single General Service customer class and a separate Industrial customer class.

EXHIBIT C

FORM OF SEMI-ANNUAL SERVICER'S CERTIFICATE

See attached

SEMI-ANNUAL SERVICER'S CERTIFICATE

Pursuant to Section 4.01(c)(ii) of the Series Property Servicing Agreement, dated as of [], 2021 (the "Servicing Agreement"), by and between **Duke Energy [Carolinas/Progress], LLC**, as servicer (the "Servicer"), and **[Duke Energy [Carolinas/Progress] Storm Recovery Funding], LLC**, the Servicer does hereby certify, for the { }, 20{ } Payment Date (the "Current Payment Date"), as follows:

Capitalized terms used but not defined herein have their respective meanings as set forth in the Servicing Agreement. References herein to certain sections and subsections are references to the respective sections of the Servicing Agreement or the Indenture, as the context indicates.

Collection Periods: { } to { }

Payment Date: { }, 20{ }

1. Collections Allocable and Aggregate Amounts Available for the Current Payment Date:

i.	Remittances for the { } Collection Period	\$ { }
ii.	Remittances for the { } Collection Period	\$ { }
iii.	Remittances for the { } Collection Period	\$ { }
iv.	Remittances for the { } Collection Period	\$ { }
v.	Remittances for the { } Collection Period	\$ { }
vi.	Remittances for the { } Collection Period	\$ { }
vii.	Investment Earnings on Capital Subaccount	\$ { }
viii.	Investment Earnings on Excess Funds Subaccount	\$ { }
ix.	Investment Earnings on General Subaccount	\$ { }
x.	General Subaccount Balance (sum of i through ix above)	\$ { }
xi.	Excess Funds Subaccount Balance as of prior Payment Date	\$ { }
xii.	Capital Subaccount Balance as of prior Payment Date	\$ { }
xiii.	Collection Account Balance (sum of xi through xii above)	\$ { }

2. Outstanding Amounts of as of prior Payment Date:

i.	Storm Recovery [] { } Outstanding Amount	\$ { }
ii.	Storm Recovery [] { } Outstanding Amount	\$ { }
iii.	Storm Recovery [] { } Outstanding Amount	\$ { }
iv.	Storm Recovery [] { } Outstanding Amount	\$ { }
v.	Storm Recovery [] { } Outstanding Amount	\$ { }
vi.	Aggregate Outstanding Amount of all [Series A] Storm Recovery Bonds	\$ { }

3. Required Funding/Payments as of Current Payment Date:

	<i>Principal</i>	<i>Principal Due</i>
i.	Storm Recovery [] { }	\$()
ii.	Storm Recovery [] { }	\$()
iii.	Storm Recovery [] { }	\$()
iv.	Storm Recovery [] { }	\$()
v.	Storm Recovery [] { }	\$()
vi.	All [Series A] Storm Recovery Bonds	\$()
	<i>Interest</i>	

[Tranche/Class]	Interest Rate	Days in Interest Period ³	Principal Balance	Interest Due
vii. Storm Recovery [] { }	{ }%	{ }	\$()	\$()
viii. Storm Recovery [] { }	{ }%	{ }	\$()	\$()
ix. Storm Recovery [] { }	{ }%	{ }	\$()	\$()
x. Storm Recovery [] { }	{ }%	{ }	\$()	\$()
xi. Storm Recovery [] { }	{ }%	{ }	\$()	\$()
xii.	All [Series A] Storm Recovery Bonds			\$()
		<u>Required Level</u>	<u>Funding Required</u>	
xiii. Capital Subaccount		\$()	\$()	

4. Allocation of Remittances as of Current Payment Date Pursuant to 8.02(e) of Indenture:

i. Trustee Fees and Expenses; Indemnity Amounts		\$()
ii. Servicing Fee		\$()
iii. Administration Fee		\$()
iv. Operating Expenses		\$()
		Per \$1,000 of Original Principal
[Series A] Storm Recovery Bonds	Aggregate	Amount
v. Semi-Annual Interest (including any past-due for prior periods)		\$()
1. Storm Recovery [] { } Interest Payment	\$()	\$()
2. Storm Recovery [] { } Interest Payment	\$()	\$()
3. Storm Recovery [] { } Interest Payment	\$()	\$()
4. Storm Recovery [] { } Interest Payment	\$()	\$()
5. Storm Recovery [] { } Interest Payment	\$()	\$()
	\$()	
vi. Principal Due and Payable as a Result of an Event of Default or on Final Maturity Date		\$()
1. Storm Recovery [] { } Interest Payment	\$()	\$()
2. Storm Recovery [] { } Interest Payment	\$()	\$()

³On 30/360 day basis for initial payment date; otherwise use one-half of annual rate.

3. Storm Recovery [] { }	\$ { }	\$ { }	
4. Storm Recovery [] { }	\$ { }	\$ { }	
5. Storm Recovery [] { }	\$ { }	\$ { }	
	\$ { }		
vii. Semi-Annual Principal			\$ { }
1. Storm Recovery [] { }	\$ { }	\$ { }	
2. Storm Recovery [] { }	\$ { }	\$ { }	
3. Storm Recovery [] { }	\$ { }	\$ { }	
4. Storm Recovery [] { }	\$ { }	\$ { }	
5. Storm Recovery [] { }	\$ { }	\$ { }	
	\$ { }		
viii. Other unpaid Operating Expenses			\$ { }
ix. Funding of Capital Subaccount (to required level)			\$ { }
x. Capital Subaccount Return to Duke Energy [Carolinas/Progress]			\$ { }
xi. Deposit to Excess Funds Subaccount			\$ { }
xii. Released to Issuer upon Retirement of all [Series A] Storm Recovery Bonds			\$ { }
xiii. Aggregate Remittances as of Current Payment Date			\$ { }

5. Outstanding Amount and Collection Account Balance as of Current Payment Date (after giving effect to payments to be made on such Payment Date):

i.	Storm Recovery [] { }	\$ { }
ii.	Storm Recovery [] { }	\$ { }
iii.	Storm Recovery [] { }	\$ { }
iv.	Storm Recovery [] { }	\$ { }
v.	Storm Recovery [] { }	\$ { }
vi.	Aggregate Outstanding Amount of all [Series A] Storm Recovery Bonds	\$ { }
vii.	Excess Funds Subaccount Balance	\$ { }
viii.	Capital Subaccount Balance	\$ { }
ix.	Aggregate Collection Account Balance	\$ { }

6. Subaccount Withdrawals as of Current Payment Date (if applicable, pursuant to Section 8.02(e) of Indenture):

i.	Excess Funds Subaccount	\$ { }
ii.	Capital Subaccount	\$ { }
iii.	Total Withdrawals	\$ { }

7. Shortfalls in Interest and Principal Payments as of Current Payment Date:

i.	Semi-annual Interest	
	Storm Recovery [] { } Interest Payment	\$ { }
	Storm Recovery [] { } Interest Payment	\$ { }
	Storm Recovery [] { } Interest Payment	\$ { }
	Storm Recovery [] { } Interest Payment	\$ { }

	Storm Recovery [] {__} Interest Payment	#{_____}
	Total	#{_____}
ii.	Semi-annual Principal	
	Storm Recovery [] {__} Principal Payment	#{_____}
	Storm Recovery [] {__} Principal Payment	#{_____}
	Storm Recovery [] {__} Principal Payment	#{_____}
	Storm Recovery [] {__} Principal Payment	#{_____}
	Storm Recovery [] {__} Principal Payment	#{_____}
	Total	#{_____}
8.	Shortfalls in Payment of Return on Invested Capital as of Current Payment Date:	
i.	Return on Invested Capital	#{_____}
9.	Shortfalls in Required Subaccount Levels as of Current Payment Date:	
i.	Capital Subaccount	#{_____}

IN WITNESS WHEREOF, the undersigned has duly executed and delivered this Semi-Annual Servicer's Certificate this {____} day of {_____}, 20{__}.

**Duke Energy [Carolinas/Progress], LLC,
as Servicer**

By: _____
Name:
Title:

EXHIBIT D
FORM OF SERVICER CERTIFICATE

See attached

SERVICER CERTIFICATE

The undersigned hereby certifies that the undersigned is the duly elected and acting {_____} of **DUKE ENERGY [CAROLINAS/PROGRESS], LLC**, as servicer (the “Servicer”) under the Series Property Servicing Agreement dated as of [, 20] (the “Servicing Agreement”) by and between the Servicer and **[DUKE ENERGY [CAROLINAS/PROGRESS] STORM RECOVERY FUNDING], LLC**, and further certifies that:

1. The undersigned is responsible for assessing the Servicer’s compliance with the servicing criteria set forth in Item 1122(d) of Regulation AB (the “Servicing Criteria”).

2. With respect to each of the Servicing Criteria, the undersigned has made the following assessment of the Servicing Criteria in accordance with Item 1122(d) of Regulation AB, with such discussion regarding the performance of such Servicing Criteria during the fiscal year covered by the Depositor’s annual report on Form 10-K:

Regulation AB Reference	Servicing Criteria	Assessment
General Servicing Considerations		
1122(d)(1)(i)	Policies and procedures are instituted to monitor any performance or other triggers and events of default in accordance with the transaction agreements.	Applicable; assessment below.
1122(d)(1)(ii)	If any material servicing activities are outsourced to third parties, policies and procedures are instituted to monitor the third party’s performance and compliance with such servicing activities.	Not applicable; no servicing activities were outsourced.
1122(d)(1)(iii)	Any requirements in the transaction agreements to maintain a back-up servicer for pool assets are maintained.	Not applicable; transaction agreements do not provide for a back-up servicer.
1122(d)(1)(iv)	A fidelity bond and errors and omissions policy is in effect on the party participating in the servicing function throughout the reporting period in the amount of coverage required by and otherwise in accordance with the terms of the transaction agreements.	Not applicable; transaction agreements do not require a fidelity bond or errors and omissions policy.
1122(d)(1)(v)	Aggregation of information, as applicable, is mathematically accurate and the information conveyed accurately reflects the information.	Applicable
Cash Collection and Administration		
1122(d)(2)(i)	Payments on pool assets are deposited into the appropriate custodial bank accounts and related bank clearing accounts no more than two business days following receipt, or such other number of days specified in the transaction agreements.	Applicable.
1122(d)(2)(ii)	Disbursements made via wire transfer on behalf of an obligor or to an investor are made only by authorized personnel.	Applicable.

Regulation AB Reference	Servicing Criteria	Assessment
1122(d)(2)(iii)	Advances of funds or guarantees regarding collections, cash flows or distributions, and any interest or other fees charged for such advances, are made, reviewed and approved as specified in the transaction agreements.	Applicable; no advances by the Servicer are permitted under the transaction agreements, except for payments of certain indemnities.
1122(d)(2)(iv)	The related accounts for the transaction, such as cash reserve accounts or accounts established as a form of overcollateralization, are separately maintained (e.g., with respect to commingling of cash) as set forth in the transaction agreements.	Applicable, but no current assessment is required since the related accounts are maintained by the Indenture Trustee.
1122(d)(2)(v)	Each custodial account is maintained at a federally insured depository institution as set forth in the transaction agreements. For purposes of this criterion, “federally insured depository institution” with respect to a foreign financial institution means a foreign financial institution that meets the requirements of Rule 13k-1(b)(1) under the Exchange Act.	Applicable, but no current assessment required; all “custodial accounts” are maintained by the Indenture Trustee.
1122(d)(2)(vi)	Unissued checks are safeguarded so as to prevent unauthorized access.	Not applicable; all payments made by wire transfer.
1122(d)(2)(vii)	Reconciliations are prepared on a monthly basis for all asset-backed securities related bank accounts, including custodial accounts and related bank clearing accounts. These reconciliations are: (A) mathematically accurate; (B) prepared within 30 calendar days after the bank statement cutoff date, or such other number of days specified in the transaction agreements; (C) reviewed and approved by someone other than the person who prepared the reconciliation; and (D) contain explanations for reconciling items. These reconciling items are resolved within 90 calendar days of their original identification, or such other number of days specified in the transaction agreements.	Applicable; assessment below.
Investor Remittances and Reporting		
1122(d)(3)(i)	Reports to investors, including those to be filed with the SEC, are maintained in accordance with the transaction agreements and applicable SEC requirements. Specifically, such reports: (A) are prepared in accordance with timeframes and other terms set forth in the transaction agreements; (B) provide information calculated in accordance with the terms specified in the transaction agreements; (C) are filed with the SEC as required by its rules and regulations; and (D) agree with investors’ or the trustee’s records as to the total unpaid principal balance and number of pool assets serviced by the servicer.	Applicable; assessment below.

Regulation AB Reference	Servicing Criteria	Assessment
1122(d)(3)(ii)	Amounts due to investors are allocated and remitted in accordance with timeframes, distribution priority and other terms set forth in the transaction agreements.	Not applicable; investor records maintained by the Indenture Trustee.
1122(d)(3)(iii)	Disbursements made to an investor are posted within two business days to the servicer's investor records, or such other number of days specified in the transaction agreements.	Applicable.
1122(d)(3)(iv)	Amounts remitted to investors per the investor reports agree with cancelled checks, or other form of payment, or custodial bank statements.	Applicable; assessment below.
Pool Asset Administration		
1122(d)(4)(i)	Collateral or security on pool assets is maintained as required by the transaction agreements or related pool asset documents.	Applicable; assessment below.
1122(d)(4)(ii)	Pool assets and related documents are safeguarded as required by the transaction agreements.	Applicable; assessment below.
1122(d)(4)(iii)	Any additions, removals or substitutions to the asset pool are made, reviewed and approved in accordance with any conditions or requirements in the transaction agreements.	Not applicable; no removals or substitutions of Storm Recovery Property are contemplated or allowed under the transaction documents.
1122(d)(4)(iv)	Payments on pool assets, including any payoffs, made in accordance with the related pool asset documents are posted to the servicer's obligor records maintained no more than two business days after receipt, or such other number of days specified in the transaction agreements, and allocated to principal, interest or other items (e.g., escrow) in accordance with the related pool asset agreements.	Applicable; assessment below.
1122(d)(4)(v)	The servicer's records regarding the pool assets agree with the servicer's records with respect to an obligor's unpaid principal balance.	Not applicable; because underlying obligation (Storm Recovery Charge) is not an interest-bearing instrument.
1122(d)(4)(vi)	Changes with respect to the terms or status of an obligor's pool assets (e.g., loan modifications or re-agings) are made, reviewed and approved by authorized personnel in accordance with the transaction agreements and related pool asset documents.	Applicable; assessment below.
1122(d)(4)(vii)	Loss mitigation or recovery actions (e.g., forbearance plans, modifications and deeds in lieu of foreclosure, foreclosures and repossessions, as applicable) are initiated, conducted and concluded in accordance with the timeframes or other requirements established by the transaction agreements.	Applicable; limited assessment below. Servicer actions governed by Commission regulations.

Regulation AB Reference	Servicing Criteria	Assessment
1122(d)(4)(viii)	Records documenting collection efforts are maintained during the period a pool asset is delinquent in accordance with the transaction agreements. Such records are maintained on at least a monthly basis, or such other period specified in the transaction agreements, and describe the entity's activities in monitoring delinquent pool assets, including, for example, phone calls, letters and payment rescheduling plans in cases where delinquency is deemed temporary (e.g., illness or unemployment).	Applicable, but does not require assessment since no explicit documentation requirement with respect to delinquent accounts are imposed under the transaction agreements due to availability of "true-up" mechanism; and any such documentation is maintained in accordance with applicable North Carolina commission rules and regulations..
1122(d)(4)(ix)	Adjustments to interest rates or rates of return for pool assets with variable rates are computed based on the related pool asset documents.	Not applicable; Storm Recovery Charges are not interest-bearing instruments.
1122(d)(4)(x)	Regarding any funds held in trust for an obligor (such as escrow accounts): (A) such funds are analyzed, in accordance with the obligor's pool asset documents, on at least an annual basis, or such other period specified in the transaction agreements; (B) interest on such funds is paid, or credited, to obligors in accordance with applicable pool asset documents and state laws; and (C) such funds are returned to the obligor within 30 calendar days of full repayment of the related pool assets, or such other number of days specified in the transaction agreements.	Not applicable.
1122(d)(4)(xi)	Payments made on behalf of an obligor (such as tax or insurance payments) are made on or before the related penalty or expiration dates, as indicated on the appropriate bills or notices for such payments, provided that such support has been received by the servicer at least 30 calendar days prior to these dates, or such other number of days specified in the transaction agreements.	Not applicable; Servicer does not make payments on behalf of obligors.
1122(d)(4)(xii)	Any late payment penalties in connection with any payment to be made on behalf of an obligor are paid from the servicer's funds and not charged to the obligor, unless the late payment was due to the obligor's error or omission.	Not applicable; Servicer cannot make advances of its own funds on behalf of customers under the transaction agreements.
1122(d)(4)(xiii)	Disbursements made on behalf of an obligor are posted within two business days to the obligor's records maintained by the servicer, or such other number of days specified in the transaction agreements.	Not applicable; Servicer cannot make advances of its own funds on behalf of customers to pay principal or interest on the bonds.

Regulation AB Reference	Servicing Criteria	Assessment
1122(d)(4)(xiv)	Delinquencies, charge-offs and uncollectible accounts are recognized and recorded in accordance with the transaction agreements.	Applicable; assessment below.
1122(d)(4)(xv)	Any external enhancement or other support, identified in Item 1114(a)(1) through (3) or Item 1115 of Regulation AB, is maintained as set forth in the transaction agreements.	Not applicable; no external enhancement is required under the transaction agreements.

3. To the best of the undersigned's knowledge, based on such review, the Servicer is in compliance in all material respects with the applicable servicing criteria set forth above as of and for the period ended the end of the fiscal year covered by the Issuer's annual report on Form 10-K. {If not true, include description of any material instance of noncompliance.}

4. {[], an independent registered public accounting firm, has issued an attestation report on the Servicer's assessment of compliance with the applicable servicing criteria as of and for the period ended the end of the fiscal year covered by the Issuer's annual report on Form 10-K.}

5. Capitalized terms used but not defined herein have their respective meanings as set forth in the Servicing Agreement.

Executed as of this {____} day of {____}, 20{__}.

**DUKE ENERGY [CAROLINAS/PROGRESS],
LLC,
as Servicer**

By: _____
Name:
Title:

EXHIBIT E
FORM OF CERTIFICATE OF COMPLIANCE

See attached

CERTIFICATE OF COMPLIANCE

The undersigned hereby certifies that the undersigned is the duly elected and acting {_____} of **DUKE ENERGY [CAROLINAS/PROGRESS], LLC**, as servicer (the "Servicer") under the Storm Recovery Property Servicing Agreement dated as of [,20] (the "Servicing Agreement") by and between the Servicer and **DUKE ENERGY [CAROLINAS/PROGRESS] STORM RECOVERY PROPERTY, LLC**, and further certifies that:

1. A review of the activities of the Servicer and of its performance under the Servicing Agreement during the twelve months ended {_____, 20{__}} has been made under the supervision of the undersigned pursuant to Section 3.03 of the Servicing Agreement.

2. To the undersigned's knowledge, based on such review, the Servicer has fulfilled all of its obligations in all material respects under the Servicing Agreement throughout the twelve months ended {_____, 20{__}}, except as set forth on EXHIBIT A hereto.

Executed as of this {__} day of {_____, 20{__}}.

**DUKE ENERGY [CAROLINAS/PROGRESS],
LLC,
as Servicer**

By: _____
Name:
Title:

EXHIBIT A
TO
CERTIFICATE OF COMPLIANCE

LIST OF SERVICER DEFAULTS

The following Servicer Defaults, or events that with the giving of notice, the lapse of time, or both, would become Servicer Defaults, known to the undersigned occurred during the twelve months ended {_____}, 20{__}:

Nature of Default

{_____}

Status

{_____}

EXHIBIT F
EXPECTED SINKING FUND SCHEDULE

See Attached

EXPECTED SINKING FUND SCHEDULE

Outstanding Principal Balance Per Storm Recovery Bond

APPENDIX A

DEFINITIONS AND RULES OF CONSTRUCTION

A. Defined Terms. The following terms have the following meanings:

“17g-5 Website” is defined in Section 10.18(a) of the Indenture.

“Account Records” is defined in Section 1(a)(i) of the Administration Agreement.

“Act” is defined in Section 10.03(a) of the Indenture.

“Additional Series” means issuance by the Issuer of any series of Storm Recovery Bonds issued after the date hereof, that will be undertaken only if (i) such issuance has been authorized by the Commission, (ii) the Rating Agency Condition has been satisfied and it is a condition of issuance for each Series of Storm Recovery Bonds that the new Series receive a rating or ratings as required by the Financing Order or a Subsequent Financing Order, (iii) the Issuer has delivered to the Indenture Trustee an Opinion of Counsel of a nationally recognized firm experienced in such matters to the effect that after such issuance, in the opinion of such counsel, if either or both of Duke Energy [Carolinas/Progress] or the Seller were to become a debtor in a case under the United States Bankruptcy Code (Title 11, U.S.C.), a federal court exercising bankruptcy jurisdiction and exercising reasonable judgment after full consideration of all relevant factors would not order substantive consolidation of the assets and liabilities of the Issuer with those of the bankruptcy estate of Duke Energy [Carolinas/Progress] or the Seller, subject to the customary exceptions, qualifications and assumptions contained therein.

“Administration Agreement” means the Administration Agreement, dated as of the date hereof, by and between Duke Energy [Carolinas/Progress] and the Issuer.

“Administration Fee” is defined in Section 2 of the Administration Agreement.

“Administrator” means Duke Energy [Carolinas/Progress], as Administrator under the Administration Agreement, or any successor Administrator to the extent permitted under the Administration Agreement.

“Affiliate” means, with respect to any specified Person, any other Person controlling or controlled by or under common control with such specified Person. For the purposes of this definition, “control” when used with respect to any specified Person means the power to direct the management and policies of such specified Person, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise, and the terms “controlling” and “controlled” have meanings correlative to the foregoing.

“Amendatory Schedule” means a revision to service riders or any other notice filing filed with the Commission in respect of the Storm Recovery Rate Schedule pursuant to a True-Up Adjustment.

“Annual Accountant’s Report” is defined in Section 3.04(a) of the Servicing Agreement.

“Authorized Denomination” means, with respect to any Storm Recovery Bond, the authorized denomination therefor specified in the Series Supplement, which shall be at least \$2,000 and, except as otherwise provided in the Series Supplement, integral multiples of \$1,000 in excess thereof, except for one Storm Recovery bond which may be of a smaller denomination.

“Bankruptcy Code” means Title 11 of the United States Code (11 U.S.C. §§ 101 et seq.).

“Basic Documents” means the Indenture, each Series Supplement, the Certificate of Formation, the LLC Agreement, the Declaration of Trust, the SRB Indenture, the Administration Agreement, and, with respect to each Series, the applicable Sale Agreement, Bill of Sale, Servicing Agreement, Intercreditor Agreement, Letter of Representations, Underwriting Agreement and all other documents and certificates delivered in connection therewith.

“Bill of Sale” means a bill of sale substantially in the form of Exhibit A to the Sale Agreement delivered pursuant to Section 2.02(a) of the Sale Agreement.

“Billed Storm Recovery Charges” means the amounts of Storm Recovery Charges billed by the Servicer.

“Billing Period” means the period created by dividing the calendar year into 12 consecutive periods of approximately 21 Servicer Business Days.

“Bills” means each of the regular monthly bills, summary bills, opening bills and closing bills issued to Customers by Duke Energy [Carolinas/Progress] in its capacity as Servicer.

“Bond Interest Rate” means, with respect to any Series or Tranche of Storm Recovery Bonds, the rate at which interest accrues on the Storm Recovery Bonds of such Series or Tranche, as specified in the applicable Series Supplement.

“Book-Entry Form” means, with respect to any Storm Recovery Bond, that such Storm Recovery Bond is not certificated and the ownership and transfers thereof shall be made through book entries by a Clearing Agency as described in Section 2.11 of the Indenture and the Series Supplement pursuant to which such Storm Recovery Bond was issued.

“Book-Entry Storm Recovery Bonds” means any Storm Recovery Bonds issued in Book-Entry Form; provided, however, that, after the occurrence of a condition

whereupon book-entry registration and transfer are no longer permitted and Definitive Storm Recovery Bonds are to be issued to the Holder of such Storm Recovery Bonds, such Storm Recovery Bonds shall no longer be “Book-Entry Storm Recovery Bonds”.

“Business Day” means any day other than a Saturday, a Sunday or a day on which banking institutions in Raleigh, North Carolina, Charlotte, North Carolina or New York, New York are, or DTC or the Corporate Trust Office is, authorized or obligated by law, regulation or executive order to be closed.

“Capital Contribution” means the amount of cash contributed to the Issuer by Duke Energy [Carolinas/Progress] as specified in the LLC Agreement.

“Capital Subaccount” is defined in Section 8.02(a) of the Indenture.

“Certificate of Compliance” means the certificate referred to in Section 3.03 of the Servicing Agreement and substantially in the form of Exhibit E to the Servicing Agreement.

“Certificate of Formation” means the Certificate of Formation filed with the Secretary of State of the State of Delaware on [], 20[21] pursuant to which the Issuer was formed.

“Charge” means any storm-recovery charges as defined in Section 62-172(a)(13) of the Storm Recovery Law that are authorized by the Financing Order or any Subsequent Financing Order.

“Claim” means a “claim” as defined in Section 101(5) of the Bankruptcy Code.

“Clearing Agency” means an organization registered as a “clearing agency” pursuant to Section 17A of the Exchange Act.

“Clearing Agency Participant” means a securities broker, dealer, bank, trust company, clearing corporation or other financial institution or other Person for whom from time to time a Clearing Agency effects book entry transfers and pledges of securities deposited with such Clearing Agency.

“Code” means the Internal Revenue Code of 1986.

“Collateral” is defined in the preamble of the Indenture.

“Collection Account” is defined in Section 8.02(a) of the Indenture for such Series.

“Collection in Full of the Charges” means the day on which the aggregate amounts on deposit in the General Subaccount and the Excess Funds Subaccount are sufficient to pay in full all the Outstanding Storm Recovery Bonds and to replenish any shortfall in the Capital Subaccount.

“Collection Period” means any period commencing on the first Servicer Business Day of any Billing Period and ending on the last Servicer Business Day of such Billing Period.

“Commission” means the North Carolina Utilities Commission.

[“Commission Condition” means the satisfaction of any precondition to any amendment or modification to or action under any Basic Documents through the obtaining of Commission consent or acquiescence, as described in the related Basic Document.]

“Commission Regulations” means any regulations, including temporary regulations, promulgated by the North Carolina Utilities Commission pursuant to North Carolina law.

“Company Minutes” is defined in Section 1(a)(iv) of the Administration Agreement.

“Corporate Trust Office” means the office of the Indenture Trustee at which, at any particular time, its corporate trust business shall be administered, which office as of the date hereof is located at [BNY Mellon Global Corporate Trust, 10161 Centurion Parkway North, Jacksonville, Florida 32256]; Telephone: [904-998-4714]; Facsimile: [904-645-1930], or at such other address as the Indenture Trustee may designate from time to time by notice to the Holders of Storm Recovery Bonds and the Issuer, or the principal corporate trust office of any successor trustee designated by like notice.

“Covenant Defeasance Option” is defined in Section 4.01(b) of the Indenture.

“Customer” means any existing or future customer (including individuals, corporations, other businesses, and federal, state and local governmental entities) receiving transmission or distribution service from Duke Energy [Carolinas/Progress] or its successors or assignees under Commission-approved rate schedules or under special contracts, even if such customer elects to purchase electricity from an AES following a fundamental change in regulation of public utilities in North Carolina.

“Daily Remittance” is defined in Section 6.11(a) of the Servicing Agreement.

“Declaration of Trust” means the Declaration of Trust filed with the Secretary of State of the State of Delaware on []. 20[21] pursuant to which the SRB Trust was formed.

“Default” means any occurrence that is, or with notice or the lapse of time or both would become, an Event of Default.

“Definitive Storm Recovery Bonds” is defined in Section 2.11 of the Indenture.

“Delaware Trustee” means the Person acting as Delaware trustee under the Declaration of Trust.

“Delaware UCC” means the Uniform Commercial Code as in effect on the Series Closing Date in the State of Delaware.

“DTC” means The Depository Trust Company.

[“Duke Energy Carolinas” means Duke Energy Carolinas, LLC, a North Carolina limited liability company.

“Duke Energy Progress” means Duke Energy Progress, LLC, a North Carolina limited liability company.]

“[Duke Energy Carolinas/Progress Storm Recovery Funding], LLC” means the Issuer.

“Eligible Account” means a segregated non-interest-bearing trust account with an Eligible Institution.

“Eligible Institution” means:

(a) the corporate trust department of the Indenture Trustee or a subsidiary thereof, so long as any of the securities of the Indenture Trustee has a credit rating from each Rating Agency in one of its generic rating categories that signifies investment grade; or

(b) a depository institution organized under the laws of the United States of America or any State (or any domestic branch of a foreign bank) (i) that has either (A) a long-term issuer rating of “AA-” or higher by S&P, “A2” or higher by Moody’s and “AA” or higher by Fitch, if rated by Fitch, or (B) a short-term issuer rating of “A-1+” or higher by S&P, “P-1” or higher by Moody’s and “F1” or higher by Fitch, if rated by Fitch, or any other long-term, short-term or certificate of deposit rating acceptable to the Rating Agencies, and (ii) whose deposits are insured by the Federal Deposit Insurance Corporation.

If so qualified under clause (b) of this definition, the Indenture Trustee may be considered an Eligible Institution for the purposes of clause (a) of this definition.

“Eligible Investments” means instruments or investment property that evidence:

(a) direct obligations of, or obligations fully and unconditionally guaranteed as to timely payment by, the United States of America;

(b) demand or time deposits of, unsecured certificates of deposit of, money market deposit accounts of, bank deposit products of or bankers' acceptances issued by, any depository institution (including, but not limited to, bank deposit products of the Indenture Trustee, acting in its commercial capacity) incorporated or organized under the laws of the United States of America or any State thereof and subject to supervision and examination by U.S. federal or state banking authorities, so long as the commercial paper or other short-term debt obligations of such depository institution are, at the time of deposit, rated at least "A-1" and "P-1" or their equivalents by each of S&P and Moody's and, if Fitch provides ratings thereon by Fitch, or such lower rating as will not result in the downgrading or withdrawal of the ratings of the Storm Recovery Bonds;

(c) commercial paper (including commercial paper of the Indenture Trustee, acting in its commercial capacity, and other than commercial paper of Duke Energy [Carolinas/Progress] or any of its Affiliates), which at the time of purchase is rated at least "A-1" and "P-1" or their equivalents by each of S&P and Moody's or such lower rating as will not result in the downgrading or withdrawal of the ratings of the Storm Recovery Bonds;

(d) investments in money market funds having a rating in the highest investment category granted thereby (including funds for which the Indenture Trustee or any of its Affiliates is investment manager or advisor) from Moody's, S&P and Fitch, if rated by Fitch;

(e) repurchase obligations with respect to any security that is a direct obligation of, or fully guaranteed by, the United States of America or its agencies or instrumentalities, entered into with Eligible Institutions;

(f) repurchase obligations with respect to any security or whole loan entered into with an Eligible Institution or with a registered broker/dealer acting as principal and that meets the ratings criteria set forth below:

(i) a broker/dealer (acting as principal) registered as a broker or dealer under Section 15 of the Exchange Act (any such broker/dealer being referred to in this definition as a "broker/dealer"), the unsecured short-term debt obligations of which are rated at least "P-1" by Moody's, "A-1+" by S&P and, if Fitch provides a rating thereon, "F-1+" by Fitch at the time of entering into such repurchase obligation; or

(ii) an unrated broker/dealer, acting as principal, that is a wholly-owned subsidiary of a non-bank or bank holding company the unsecured short-term debt obligations of which are rated at least "P-1" by Moody's, "A-1+" by S&P and, if Fitch provides a rating thereon, "F-1+" by Fitch at the time of purchase so long as the obligations of such unrated broker/dealer are unconditionally guaranteed by such non-bank or bank holding company; and

(g) any other investment permitted by each of the Rating Agencies;

in each case maturing not later than the Business Day preceding the next Payment Date or Special Payment Date, if applicable (for the avoidance of doubt, investments in money market funds or similar instruments that are redeemable on demand shall be deemed to satisfy the foregoing requirement). Notwithstanding the foregoing: (1) no securities or investments that mature in 30 days or more shall be “Eligible Investments” unless the issuer thereof has either a short-term unsecured debt rating of at least “P-1” from Moody’s or a long-term unsecured debt rating of at least “A1” from Moody’s and also has a long-term unsecured debt rating of at least “A” from S&P; (2) no securities or investments described in clauses (b) through (d) above that have maturities of more than 30 days but less than or equal to 3 months shall be “Eligible Investments” unless the issuer thereof has a long-term unsecured debt rating of at least “A1” from Moody’s and a short-term unsecured debt rating of at least “P-1” from Moody’s; and (3) no securities or investments described in clauses (b) through (d) above that have maturities of more than 3 months shall be “Eligible Investments” unless the issuer thereof has a long-term unsecured debt rating of at least “A1” from Moody’s and a short-term unsecured debt rating of at least “P-1” from Moody’s.

“Event of Default” is defined in Section 5.01 of the Indenture.

“Excess Funds Subaccount” is defined in Section 8.02(a) of the Indenture.

“Exchange Act” means the Securities Exchange Act of 1934.

“Expected Sinking Fund Schedule” means, with respect to any Tranche, the expected sinking fund schedule related thereto set forth in the applicable Series Supplement.

“Federal Book-Entry Regulations” means 31 C.F.R. Part 357 et seq. (Department of Treasury).

“Final” means, with respect to the Financing Order or Subsequent Financing Order, that the Financing Order has become final, that the Financing Order is not being appealed and that the time for filing an appeal thereof has expired.

“Final Maturity Date” means, with respect to each Series of Tranche of Storm Recovery Bonds, the final maturity date therefor as specified in the applicable Series Supplement.

“Financing Costs” means all financing costs as defined in Section 62-172(a)(4) of the Storm Recovery Law allowed to be recovered by Duke Energy [Carolinas/Progress] under the Financing Order.

“Financing Order” means the financing order issued by the Commission to Duke Energy [Carolinas/Progress] on [], 20[21], Docket No. [], authorizing the creation of the Storm Recovery Property.

“Financing Party” means any and all of the following: the Holders, the Indenture Trustee, Duke Energy [Carolinas/Progress], collateral agents, any party under the Basic Documents, or any other person acting for the benefit of the Holders.

“Fitch” means Fitch Ratings or any successor thereto. References to Fitch are effective so long as Fitch is a Rating Agency.

“North Carolina Secured Transactions Registry” means the centralized database in which all initial financing statements, amendments, assignments, and other statements of charge authorized to be filed under N.C. Gen. Stat. 25- [].

“North Carolina UCC” means the Uniform Commercial Code as in effect on the Series Closing Date in the State of North Carolina.

“General Subaccount” is defined in Section 8.02(a) of the Indenture for such Series.

“Global Storm Recovery Bond” means a Storm Recovery Bond to be issued to the Holders thereof in Book-Entry Form, which Global Storm Bond shall be issued to the Clearing Agency, or its nominee, in accordance with Section 2.11 of the Indenture and the Series Supplement.

“Governmental Authority” means any nation or government, any U.S. federal, state, local or other political subdivision thereof and any court, administrative agency or other instrumentality or entity exercising executive, legislative, judicial, regulatory or administrative functions of government.

“Grant” means mortgage, pledge, bargain, sell, warrant, alienate, remise, release, convey, grant, transfer, create, grant a lien upon, a security interest in and right of set-off against, deposit, set over and confirm pursuant to the Indenture and the Series Supplement. A Grant of the Collateral shall include all rights, powers and options (but none of the obligations) of the granting party thereunder, including the immediate and continuing right to claim for, collect, receive and give receipt for payments in respect of the Collateral and all other moneys payable thereunder, to give and receive notices and other communications, to make waivers or other agreements, to exercise all rights and options, to bring Proceedings in the name of the granting party or otherwise and generally to do and receive anything that the granting party is or may be entitled to do or receive thereunder or with respect thereto.

“Holder” means the Person in whose name a Storm Recovery Bond is registered on the Storm Recovery Bond Register.

“Indemnified Losses” is defined in Section 5.03 of the Servicing Agreement.

“Indemnified Party” is defined in Section 6.02(a) of the Servicing Agreement.

“Indemnified Person” is defined in Section 5.01(f) of the Sale Agreement.

“Indenture” means the Indenture, dated as [], by and between the Issuer and [], as Indenture Trustee and as Securities Intermediary.

“Indenture Trustee” means [], a national banking association, as indenture trustee for the benefit of the Secured Parties, or any successor indenture trustee for the benefit of the Secured Parties, under the Indenture.

“Independent” means, when used with respect to any specified Person, that such specified Person (a) is in fact independent of the Issuer, any other obligor on the Storm Recovery Bonds, the Seller, the Servicer and any Affiliate of any of the foregoing Persons, (b) does not have any direct financial interest or any material indirect financial interest in the Issuer, any such other obligor, the Seller, the Servicer or any Affiliate of any of the foregoing Persons and (c) is not connected with the Issuer, any such other obligor, the Seller, the Servicer or any Affiliate of any of the foregoing Persons as an officer, employee, promoter, underwriter, trustee, partner, director (other than as an independent director or manager) or person performing similar functions.

“Independent Certificate” means a certificate to be delivered to the Indenture Trustee under the circumstances described in, and otherwise complying with, the applicable requirements of Section 10.01 of the Indenture, made by an Independent appraiser or other expert appointed by an Issuer Order and consented to by the Indenture Trustee, and such certificate shall state that the signer has read the definition of “Independent” in the Indenture and that the signer is Independent within the meaning thereof.

“Independent Manager” is defined in Section 4.01(a) of the LLC Agreement.

“Independent Manager Fee” is defined in Section 4.01(a) of the LLC Agreement.

“Insolvency Event” means, with respect to a specified Person: (a) the filing of a decree or order for relief by a court having jurisdiction in the premises in respect of such specified Person or any substantial part of its property in an involuntary case under any applicable U.S. federal or state bankruptcy, insolvency or other similar law in effect as of the date hereof or thereafter, or appointing a receiver, liquidator, assignee, custodian, trustee, sequestrator or similar official for such specified Person or for any substantial part of its property, or ordering the winding-up or liquidation of such specified Person’s affairs, and such decree or order shall remain unstayed and in effect for a period of 60 consecutive days; or (b) the commencement by such specified Person of a voluntary case under any applicable U.S. federal or state bankruptcy, insolvency or other similar law in effect as of the Series Closing Date or thereafter, or the consent by such specified Person to the entry of an order for relief in an involuntary case under any

such law, or the consent by such specified Person to the appointment of or taking possession by a receiver, liquidator, assignee, custodian, trustee, sequestrator or similar official for such specified Person or for any substantial part of its property, or the making by such specified Person of any general assignment for the benefit of creditors, or the failure by such specified Person generally to pay its debts as such debts become due, or the taking of action by such specified Person in furtherance of any of the foregoing.

“Intercreditor Agreement” means the Intercreditor Agreement, dated as of the date hereof, by and among the Issuer, the Indenture Trustee, Duke Energy [Carolinas/Progress] and the parties to the accounts receivables sale program Duke Energy [Carolinas/Progress] Receivables LLC, and any subsequent such agreement.

“Investment Company Act” means the Investment Company Act of 1940.

“Investment Earnings” means investment earnings on funds deposited in the Collection Account net of losses and investment expenses.

“Issuer” means [Duke Energy [Carolinas/Progress] Storm Recovery Funding], LLC, a Delaware limited liability company, named as such in the Indenture until a successor replaces it and, thereafter, means the successor and, for purposes of any provision contained herein and required by the Trust Indenture Act, each other obligor on the Storm Recovery Bonds.

“Issuer Documents” is defined in Section 1(a)(iv) of the Administration Agreement.

“Issuer Order” means a written order signed in the name of the Issuer by any one of its Responsible Officers and delivered to the Indenture Trustee or Paying Agent, as applicable.

“Issuer Request” means a written request signed in the name of the Issuer by any one of its Responsible Officers and delivered to the Indenture Trustee or Paying Agent, as applicable.

“Legal Defeasance Option” is defined in Section 4.01(b) of the Indenture.

“Letter of Representations” means any applicable agreement between the Issuer and the applicable Clearing Agency, with respect to such Clearing Agency’s rights and obligations (in its capacity as a Clearing Agency) with respect to any Book-Entry Storm Recovery Bonds.

“Lien” means a security interest, lien, mortgage, charge, pledge, claim or encumbrance of any kind.

“LLC Agreement” means the Amended and Restated Limited Liability Company Agreement of [Duke Energy [Carolinas/Progress] Storm Recovery Funding], LLC, dated as of [], 20[21].

“Losses” means (a) any and all amounts of principal of and interest on the Storm Recovery Bonds not paid when due or when scheduled to be paid in accordance with their terms and the amounts of any deposits by or to the Issuer required to have been made in accordance with the terms of the Basic Documents or the Financing Order or Subsequent that are not made when so required and (b) any and all other liabilities, obligations, losses, claims, damages, payments, costs or expenses of any kind whatsoever.

“Manager” means each manager of the Issuer under the LLC Agreement.

“Member” has the meaning specified in the first paragraph of the LLC Agreement.

“Monthly Servicer’s Certificate” is defined in Section 3.01(b)(i) of the Servicing Agreement.

“Moody’s” means Moody’s Investors Service, Inc. References to Moody’s are effective so long as Moody’s is a Rating Agency.

“North Carolina UCC” means the Uniform Commercial Code as in effect on the Series Closing Date in the State of North Carolina.

“NRSRO” is defined in Section 10.19(b) of the Indenture.

“NY UCC” means the Uniform Commercial Code as in effect on the date hereof in the State of New York.

“Officer’s Certificate” means a certificate signed by a Responsible Officer of the Issuer under the circumstances described in, and otherwise complying with, the applicable requirements of Section 10.01 of the Indenture, and delivered to the Indenture Trustee.

“Ongoing Financing Costs” means the Financing Costs described as such in the Financing Order, including Operating Expenses and any other costs identified in the Basic Documents; provided, however, that Ongoing Financing Costs do not include the Issuer’s costs of issuance of the Storm Recovery Bonds.

“Operating Expenses” means all unreimbursed fees, costs and out-of-pocket expenses of the Issuer, including all amounts owed by the Issuer to the Indenture Trustee (including indemnities, legal, audit fees and expenses), the Delaware Trustee, the SRB Trustee or any Manager, the Servicing Fee, the Administration Fee, legal and accounting fees, Rating Agency fees, any Regulatory Assessment Fees and related fees (i.e. website provider fees) and any franchise or other taxes owed by the Issuer, including on investment income in the Collection Account.

“Opinion of Counsel” means one or more written opinions of counsel, who may, except as otherwise expressly provided in the Basic Documents, be employees of or counsel to the party providing such opinion of counsel, which counsel shall be

reasonably acceptable to the party receiving such opinion of counsel, and shall be in form and substance reasonably acceptable to such party.

“Optional Interim True-Up Adjustment” means any Optional Interim True-Up Adjustment made pursuant to Section 4.01(b)(ii) of the Servicing Agreement.

“Outstanding” means, as of the date of determination, all Storm Recovery Bonds theretofore authenticated and delivered under the Indenture, except:

(a) Storm Recovery Bonds theretofore canceled by the Storm Recovery Bond Registrar or delivered to the Storm Recovery Bond Registrar for cancellation;

(b) Storm Recovery Bonds or portions thereof the payment for which money in the necessary amount has been theretofore deposited with the Indenture Trustee or any Paying Agent in trust for the Holders of such Storm Recovery Bonds; and

(c) Storm Recovery Bonds in exchange for or in lieu of other Storm Recovery Bonds that have been issued pursuant to the Indenture unless proof satisfactory to the Indenture Trustee is presented that any such Storm Recovery Bonds are held by a Protected Purchaser; provided, that, in determining whether the Holders of the requisite Outstanding Amount of the Storm Recovery Bonds or any Series or Tranche thereof have given any request, demand, authorization, direction, notice, consent or waiver under any Basic Document, Storm Recovery Bonds owned by the Issuer, any other obligor upon the Storm Recovery Bonds, the Member, the Seller, the Servicer or any Affiliate of any of the foregoing Persons shall be disregarded and deemed not to be Outstanding (unless one or more such Persons owns 100% of such Storm Recovery Bonds), except that, in determining whether the Indenture Trustee shall be protected in relying upon any such request, demand, authorization, direction, notice, consent or waiver, only Storm Recovery Bonds that the Indenture Trustee actually knows to be so owned shall be so disregarded. Storm Recovery Bonds so owned that have been pledged in good faith may be regarded as Outstanding if the pledgee establishes to the satisfaction of the Indenture Trustee the pledgee’s right so to act with respect to such Storm Recovery Bonds and that the pledgee is not the Issuer, any other obligor upon the Storm Recovery Bonds, the Member, the Seller, the Servicer or any Affiliate of any of the foregoing Persons.

“Outstanding Amount” means the aggregate principal amount of all Storm Recovery Bonds, or, if the context requires, all Storm Recovery Bonds of a Series or Tranche, Outstanding at the date of determination.

“Paying Agent” means, with respect to the Indenture, the Indenture Trustee and any other Person appointed as a paying agent for the Storm Recovery Bonds pursuant to the Indenture.

“Payment Date” means, with respect to any Series or Tranche of Storm Recovery Bonds, the dates specified in the applicable Series Supplement; provided, that if any such date is not a Business Day, the Payment Date shall be the Business Day succeeding such date.

“Periodic Billing Requirement” means, for any Remittance Period, the aggregate amount of Charges calculated by the Servicer as necessary to be billed during such period in order to collect the Periodic Payment Requirement on a timely basis.

“Periodic Interest” means, with respect to any Payment Date, the periodic interest for such Payment Date as specified in the Series Supplement.

“Periodic Payment Requirement” for any Remittance Period means the total dollar amount of Storm Recovery Charge Collections reasonably calculated by the Servicer in accordance with Section 4.01 of the Servicing Agreement as necessary to be received during such Remittance Period (after giving effect to the allocation and distribution of amounts on deposit in the Excess Funds Subaccount at the time of calculation and that are projected to be available for payments on the Storm Recovery Bonds at the end of such Remittance Period and including any shortfalls in Periodic Payment Requirements for any prior Remittance Period) in order to ensure that, as of the last Payment Date occurring in such Remittance Period, (a) all accrued and unpaid principal of and interest on the Storm Recovery Bonds then due shall have been paid in full on a timely basis, (b) the Outstanding Amount of the Storm Recovery Bonds is equal to the Projected Unpaid Balance on each Payment Date during such Remittance Period, (c) the balance on deposit in the Capital Subaccount equals the Required Capital Level and (d) all other fees and expenses due and owing and required or allowed to be paid under Section 8.02 of the Indenture as of such date shall have been paid in full; provided, that, with respect to any Semi-Annual True-Up Adjustment or Optional Interim True-Up Adjustment occurring after the date that is one year prior to the last Scheduled Final Payment Date for the Storm Recovery Bonds, the Periodic Payment Requirements shall be calculated to ensure that sufficient Storm Recovery Charges will be collected to retire the Storm Recovery Bonds in full as of the next Payment Date.

“Periodic Principal” means, with respect to any Payment Date, the excess, if any, of the Outstanding Amount of Storm Recovery Bonds over the outstanding principal balance specified for such Payment Date on the Expected Sinking Fund Schedule.

“Permitted Lien” means the Lien created by the Indenture.

“Permitted Successor” is defined in Section 5.02 of the Sale Agreement.

“Person” means any individual, corporation, limited liability company, estate, partnership, joint venture, association, joint stock company, trust (including any beneficiary thereof), unincorporated organization or Governmental Authority.

“Predecessor Storm Recovery Bond” means, with respect to any particular Storm Recovery Bond, every previous Storm Recovery Bond evidencing all or a portion

of the same debt as that evidenced by such particular Storm Recovery Bond, and, for the purpose of this definition, any Storm Recovery Bond authenticated and delivered under Section 2.06 of the Indenture in lieu of a mutilated, lost, destroyed or stolen Storm Recovery Bond shall be deemed to evidence the same debt as the mutilated, lost, destroyed or stolen Storm Recovery Bond.

“Premises” is defined in Section 1(g) of the Administration Agreement.

“Proceeding” means any suit in equity, action at law or other judicial or administrative proceeding.

“Projected Unpaid Balance” means, as of any Payment Date, the sum of the projected outstanding principal amount of each Tranche of Storm Recovery Bonds for such Payment Date set forth in the Expected Sinking Fund Schedule.

“Protected Purchaser” has the meaning specified in Section 8-303 of the UCC.

“Rating Agency” means, with respect to any Tranche of Storm Recovery Bonds, any of Moody’s, S&P or Fitch that provides a rating with respect to the Storm Recovery Bonds. If no such organization (or successor) is any longer in existence, “Rating Agency” shall be a nationally recognized statistical rating organization or other comparable Person designated by the Issuer, notice of which designation shall be given to the Indenture Trustee and the Servicer.

“Rating Agency Condition” means, with respect to any action, at least ten Business Days’ prior written notification to each Rating Agency of such action, and written confirmation from each of S&P and Moody’s to the Servicer, the Indenture Trustee and the Issuer that such action will not result in a suspension, reduction or withdrawal of the then current rating by such Rating Agency of any Tranche of Storm Recovery Bonds; provided, that, if, within such ten Business Day period, any Rating Agency (other than S&P) has neither replied to such notification nor responded in a manner that indicates that such Rating Agency is reviewing and considering the notification, then (a) the Issuer shall be required to confirm that such Rating Agency has received the Rating Agency Condition request and, if it has, promptly request the related Rating Agency Condition confirmation and (b) if the Rating Agency neither replies to such notification nor responds in a manner that indicates it is reviewing and considering the notification within five Business Days following such second request, the applicable Rating Agency Condition requirement shall not be deemed to apply to such Rating Agency. For the purposes of this definition, any confirmation, request, acknowledgment or approval that is required to be in writing may be in the form of electronic mail or a press release (which may contain a general waiver of a Rating Agency’s right to review or consent).

“Record Date” means one Business Day prior to the applicable Payment Date.

“Registered Holder” means the Person in whose name a Storm Recovery Bond is registered on the Storm Recovery Bond Register.

“Regulation AB” means the rules of the SEC promulgated under Subpart 229.1100 – Asset Backed Securities (Regulation AB), 17 C.F.R. §§229.1100-229.1123.

“Reimbursable Expenses” is defined in Section 2 of the Administration Agreement and Section 6.06(a) of the Servicing Agreement.

“Released Parties” is defined in Section 6.02(d) of the Servicing Agreement.

“Remittance Period” means, with respect to any True-Up Adjustment, the period comprised of 6 consecutive Collection Periods beginning with the Collection Period three months prior to when such True-Up Adjustment would go into effect, from the Series Closing Date to the first Scheduled Payment Date, and for each subsequent period between Scheduled Payment Dates.

“Required Capital Level” means, with respect to any Series of Storm Recovery Bonds, the amount specified as such in the Series Supplement therefor.

“Requirement of Law” means any foreign, U.S. federal, state or local laws, statutes, regulations, rules, codes or ordinances enacted, adopted, issued or promulgated by any Governmental Authority or common law.

“Responsible Officer” means, with respect to: (a) the Issuer, any Manager or any duly authorized officer; (b) the Indenture Trustee, any officer within the Corporate Trust Office of such trustee (including the President, any Vice President, any Assistant Vice President, any Secretary, any Assistant Treasurer or any other officer of the Indenture Trustee customarily performing functions similar to those performed by persons who at the time shall be such officers, respectively, and that has direct responsibility for the administration of the Indenture and also, with respect to a particular matter, any other officer to whom such matter is referred to because of such officer’s knowledge and familiarity with the particular subject); (c) any corporation (other than the Indenture Trustee), the Chief Executive Officer, the President, any Vice President, the Chief Financial Officer, the Treasurer, any Assistant Treasurer or any other duly authorized officer of such Person who has been authorized to act in the circumstances; (d) any partnership, any general partner thereof; and (e) any other Person (other than an individual), any duly authorized officer or member of such Person, as the context may require, who is authorized to act in matters relating to such Person.

“Return on Invested Capital” means, for any Payment Date with respect to any Remittance Period, the sum of (i) rate of return, payable to Duke Energy [Carolinas/Progress], on its Capital Contribution equal to the rate of interest payable on the longest maturing Tranche of Storm Recovery Bonds plus (ii) any Return on Invested Capital not paid on any prior Payment Date.

“S&P” means Standard & Poor’s Ratings Services, a Standard & Poor’s Financial Services LLC business. References to S&P are effective so long as S&P is a Rating Agency.

“Sale Agreement” means the Storm Recovery Property Purchase and Sale Agreement, dated as of the date hereof, or any subsequent Storm Recovery Property Purchase and Sale Agreement relating to another Series of Storm Recovery Bonds by and between the Issuer and Duke Energy [Carolinas/Progress] , and acknowledged and accepted by the Indenture Trustee.

“Scheduled Final Payment Date” means, with respect to each Series of Storm Recovery Bonds, the date when all interest and principal is scheduled to be paid with respect to that applicable Series in accordance with the Expected Sinking Fund Schedule, as specified in the Series Supplement. For the avoidance of doubt, the Scheduled Final Payment Date with respect to any Series shall be the last Scheduled Payment Date set forth in the Expected Sinking Fund Schedule relating to such Series. The “last Scheduled Final Payment Date” means the Scheduled Final Payment Date of the latest maturing Tranche of a Series of Storm Recovery Bonds.

“Scheduled Payment Date” means, with respect to each Series or Tranche of Storm Recovery Bonds, each Payment Date on which principal for such Series or Tranche is to be paid in accordance with the Expected Sinking Fund Schedule for such Series or Tranche.

“SEC” means the Securities and Exchange Commission.

“Secured Obligations” means the payment of principal of and premium, if any, interest on, and any other amounts owing in respect of, the Storm Recovery Bonds and all fees, expenses, counsel fees and other amounts due and payable to the Indenture Trustee.

“Secured Parties” means the Indenture Trustee, the Holders and any credit enhancer described in a Series Supplement.

“Securities Act” means the Securities Act of 1933.

“Securities Intermediary” means [], a national banking association, solely in the capacity of a “securities intermediary” as defined in the NY UCC and Federal Book-Entry Regulations or any successor securities intermediary under the Indenture.

“Seller” is defined in the preamble to the Sale Agreement.

“Semi-Annual Servicer’s Certificate” is defined in Section 4.01(c)(ii) of the Servicing Agreement.

“Semi-Annual True-Up Adjustment” means each adjustment to the Storm Recovery Charges made in accordance with Section 4.01(b)(i) of the Servicing Agreement.

“Semi-Annual True-Up Adjustment Date” means the first billing cycle of [January and July] of each year, commencing in [], 2021.

“Series” means any series of Storm Recovery Bonds.

“Series A Storm Recovery Bonds” means the Series A Senior Secured Storm Recovery Bonds issued by the Issuer on [].

“Series Charges” means Charges for the benefit of a particular Series of Storm Recovery Bonds.

“Series Closing Date” means the date on which a Series of the Storm Recovery Bonds are originally issued in accordance with Section 2.10 of the Indenture and the respective Series Supplement.

“Series Collateral” means Collateral for the benefit of a particular Series of Storm Recovery Bonds.

“Series Property” means Property for the benefit of a particular Series of Storm Recovery Bonds.

“Series Supplement” means an indenture supplemental to the Indenture in the form attached as Exhibit B to the Indenture that authorizes the issuance of Storm Recovery Bonds.

“Servicer” means Duke Energy [Carolinas/Progress], as Servicer under the Servicing Agreement.

“Servicer Business Day” means any day other than a Saturday, a Sunday or a day on which banking institutions in St. Petersburg, Florida, Charlotte, North Carolina or New York, New York are authorized or obligated by law, regulation or executive order to be closed, on which the Servicer maintains normal office hours and conducts business.

“Servicer Default” is defined in Section 7.01 of the Servicing Agreement.

“Servicer Policies and Practices” means, with respect to the Servicer’s duties under Exhibit A to the Servicing Agreement, the policies and practices of the Servicer applicable to such duties that the Servicer follows with respect to comparable assets that it services for itself and, if applicable, others.

“Servicing Agreement” means the Storm Recovery Property Servicing Agreement, dated as of the date hereof, or any subsequent Storm Recovery Property Servicing Agreement relating to another Series of Storm Recovery Bonds by and between the Issuer and Duke Energy [Carolinas/Progress], and acknowledged and accepted by the Indenture Trustee.

“Servicing Fee” is defined in Section 6.06(a) of the Servicing Agreement.

“Servicing Standard” means the obligation of the Servicer to calculate, apply, remit and reconcile proceeds of the Property, including Storm Recovery Charge Payments, and all other Collateral for the benefit of the Issuer and the Holders (a) with the same degree of care and diligence as the Servicer applies with respect to payments owed to it for its own account, (b) in accordance with all applicable procedures and requirements established by the Commission for collection of electric utility tariffs and (c) in accordance with the other terms of the Servicing Agreement.

“Special Payment Date” means the date on which, with respect to any Series or Tranche of Storm Recovery Bonds, any payment of principal of or interest (including any interest accruing upon default) on, or any other amount in respect of, the Storm Recovery Bonds of such Series or Tranche that is not actually paid within five days of the Payment Date applicable thereto is to be made by the Indenture Trustee to the Holders.

“Special Record Date” means, with respect to any Special Payment Date, the close of business on the fifteenth day (whether or not a Business Day) preceding such Special Payment Date.

“Sponsor” means Duke Energy [Carolinas/Progress], in its capacity as “sponsor” of the Storm Recovery Bonds within the meaning of Regulation AB.

“SRB Indenture” means the indenture, as from time to time supplemented or amended by one or more indentures supplemental hereto entered into pursuant to the applicable provisions hereof, as so supplemented or amended or both, and shall include the forms and terms of the SRB Notes established hereunder.

“SRB Issuer” means the issuer of the SRB Notes.

“SRB Noteholder” means any holders of the SRB Notes.

“SRB Notes” means the notes issued by the SRB Issuer pursuant to the SRB Indenture.

“SRB Securities Intermediary” means [], solely in its capacity as a “securities intermediary” as defined in Section 8-102(a)(14) of the UCC, or any successor securities intermediary.

“SRB Trustee” means [], as SRB Trustee under the SRB Indenture, and its successors in interest, and any successor SRB Trustee appointed as provided herein. “State” means any one of the fifty states of the United States of America or the District of Columbia.

“State Pledge” means the pledge of the State of North Carolina as set forth in Section 62-172(k) of the Storm Recovery Law.

“Storms” means Hurricanes Florence[,Dorian] and Michael and Winter Storm Diego.

“Storm Recovery Bond Register” is defined in Section 2.05 of the Indenture.

“Storm Recovery Bond Registrar” is defined in Section 2.05 of the Indenture.

“Storm Recovery Bonds” means all Series of the Storm recovery bonds issued under the Indenture.

“Storm Recovery Charge Collections” means Charges actually received by the Servicer to be remitted to the Collection Account.

“Storm Recovery Charge Payments” means the payments made by Customers based on the Charges.

“Storm Recovery Costs” means (i) Duke Energy [Carolinas'/Progress's] deferred asset balance associated with the Storms, including a return on the unrecovered balance, and with respect to the capital investments, including a deferral of depreciation expense and a return on the investment determined by the Commission to be prudently incurred in Docket No. [E-7, Sub 1214/E-2, Sub 1219] including carrying costs in the amount of X through the projected issuances date of the [Series A] Storm Recovery Bonds, calculated at the Company's approved weighted average cost of capital, (ii) plus up-front Financing Costs “Storm Recovery Law” means the laws of the State of North Carolina adopted in 2019 enacted as Section 62-172, North Carolina Statutes.

“Storm Recovery Property” means all storm recovery property as defined in Section 62-172(a)(15)a. of the Storm Recovery Law created pursuant to the Financing Order or a Subsequent Financing Order and under the Storm Recovery Law, including the right to impose, bill, charge, collect and receive the Charges authorized under the Financing Order and to obtain periodic adjustments of the Charges and all revenue, collections, claims, rights to payments, payments, money, or proceeds arising from the rights and interests specified in Section 62-172(a)(15)b., regardless of whether such revenues, collections, claims, rights to payments, money, or proceeds are imposed, billed, received, collected, or maintained together with or commingled with other revenues, collections, rights to payment, payments, money or proceeds.

“Storm Recovery Property Records” is defined in Section 5.01 of the Servicing Agreement.

“Storm Recovery Rate Class” means one of the [five] separate rate classes to whom Charges are allocated for ratemaking purposes in accordance with the Financing Order.

“Storm Recovery Rate Schedule” means the Tariff sheets to be filed with the Commission stating the amounts of the Charges, as such Tariff sheets may be amended or modified from time to time pursuant to a True-Up Adjustment.

“Subaccounts” is defined in Section 8.02(a) of the Indenture.

“Subsequent Financing Order” means, a financing order of the Commission under the Storm Recovery Law issued to Duke Energy [Carolinas/Progress] subsequent to the Financing Order.

“Successor” means any successor to Duke Energy [Carolinas/Progress] under the Storm Recovery Law, whether pursuant to any bankruptcy, reorganization or other insolvency proceeding or pursuant to any merger, conversion, acquisition, sale or transfer, by operation of law, as a result of electric utility restructuring, or otherwise.

“Successor Servicer” is defined in Section 3.07(e) of the Indenture.

“Tariff” means the most current version on file with the Commission of [], 2021.

“Tax Returns” is defined in Section 1(a)(iii) of the Administration Agreement.

“Temporary Storm Recovery Bonds” means Storm Recovery Bonds executed and, upon the receipt of an Issuer Order, authenticated and delivered by the Indenture Trustee pending the preparation of Definitive Storm Recovery Bonds pursuant to Section 2.04 of the Indenture.

“Termination Notice” is defined in Section 7.01 of the Servicing Agreement.

“TPS” means a third party supplier which is authorized by law to sell electric service to a customer using the transmission or distribution system of Duke Energy [Carolinas/Progress].

“Tranche Maturity Date” means, with respect to any Tranche of Storm Recovery Bonds, the maturity date therefor, as specified in the Series Supplement therefor.

“True-Up Adjustment” means any Semi-Annual True-Up Adjustment or Optional Interim True-Up Adjustment, as the case may be.

“Trust Indenture Act” means the Trust Indenture Act of 1939 as in force on the Series Closing Date, unless otherwise specifically provided.

“UCC” means the Uniform Commercial Code as in effect in the relevant jurisdiction.

“Underwriters” means the underwriters who purchase Storm Recovery Bonds of any Series from the Issuer and sell such Storm Recovery Bonds in a public offering.

“Underwriting Agreement” means the Underwriting Agreement, dated [], 2020, by and among Duke Energy [Carolinas/Progress], the representatives of the several Underwriters named therein and the Issuer.

“U.S. Government Obligations” means direct obligations (or certificates representing an ownership interest in such obligations) of the United States of America (including any agency or instrumentality thereof) for the payment of which the full faith and credit of the United States of America is pledged and that are not callable at the option of the issuer thereof.

“Weighted Average Days Outstanding” means the weighted average number of days Duke Energy [Carolinas/Progress] monthly bills to Customers remain outstanding during the calendar year preceding the calculation thereof pursuant to Section 4.01(b)(i) of the Servicing Agreement.

B. Rules of Construction. Unless the context otherwise requires, in each Basic Document to which this Appendix A is attached:

(a) All accounting terms not specifically defined herein shall be construed in accordance with United States generally accepted accounting principles. To the extent that the definitions of accounting terms in any Basic Document are inconsistent with the meanings of such terms under generally accepted accounting principles or regulatory accounting principles, the definitions contained in such Basic Document shall control.

(b) The term “including” means “including without limitation”, and other forms of the verb “include” have correlative meanings.

(c) All references to any Person shall include such Person’s permitted successors and assigns, and any reference to a Person in a particular capacity excludes such Person in other capacities.

(d) Unless otherwise stated in any of the Basic Documents, in the computation of a period of time from a specified date to a later specified date, the word “from” means “from and including” and each of the words “to” and “until” means “to but excluding”.

(e) The words “hereof”, “herein” and “hereunder” and words of similar import when used in any Basic Document shall refer to such Basic Document as a whole and not to any particular provision of such Basic Document. References to Articles, Sections, Appendices and Exhibits in any Basic Document are references to Articles, Sections, Appendices and Exhibits in or to such Basic Document unless otherwise specified in such Basic Document.

(f) The various captions (including the tables of contents) in each Basic Document are provided solely for convenience of reference and shall not affect the meaning or interpretation of any Basic Document.

(g) The definitions contained in this Appendix A apply equally to the singular and plural forms of such terms, and words of the masculine, feminine or neuter gender shall mean and include the correlative words of other genders.

(h) Unless otherwise specified, references to an agreement or other document include references to such agreement or document as from time to time amended, restated, reformed, supplemented or otherwise modified in accordance with the terms thereof (subject to any restrictions on such amendments, restatements, reformatations, supplements or modifications set forth in such agreement or document) and include any attachments thereto.

(i) References to any law, rule, regulation or order of a Governmental Authority shall include such law, rule, regulation or order as from time to time in effect, including any amendment, modification, codification, replacement or reenactment thereof or any substitution therefor.

(j) The word “will” shall be construed to have the same meaning and effect as the word “shall”.

(k) The word “or” is not exclusive.

(l) All terms defined in the relevant Basic Document to which this Appendix A is attached shall have the defined meanings when used in any certificate or other document made or delivered pursuant thereto unless otherwise defined therein.

(m) A term has the meaning assigned to it.

INDENTURE

by and between

[DUKE ENERGY [CAROLINAS/PROGRESS] STORM RECOVERY FUNDING], LLC,

Issuer

and

[], NATIONAL ASSOCIATION,

Indenture Trustee and Securities Intermediary

Dated as of [], 2021

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Exhibit B	Form of Series Supplement
Exhibit C	Servicing Criteria to be Addressed by Indenture Trustee in Assessment of Compliance

APPENDIX

Appendix A	Definitions and Rules of Construction
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TRUST INDENTURE ACT CROSS REFERENCE TABLE

<u>TRUST INDENTURE ACT SECTION</u>		<u>INDENTURE SECTION</u>
310	(a)(1)	6.11
	(a)(2)	6.11
	(a)(3)	6.10(b)(i)
	(a)(4)	Not applicable
	(a)(5)	6.11
	(b)	6.11
311	(a)	6.12
	(b)	6.12
312	(a)	7.01 and 7.02
	(b)	7.02(b)
	(c)	7.02(c)
313	(a)	7.04
	(b)(1)	7.04
	(b)(2)	7.04
	(c)	7.03(a) and 7.04
	(d)	Not applicable
314	(a)	3.09, 4.01 and 7.03(a)
	(b)	3.06 and 4.01
	(c)(1)	2.10, 4.01, 8.04(b) and 10.01(a)
	(c)(2)	2.10, 4.01, 8.04(b) and 10.01(a)
	(c)(3)	2.10, 4.01, 4.02 and 10.01(a)
	(d)	2.10, 8.04(b) and 10.01
	(e)	10.01(a)
	(f)	10.01(a)
315	(a)	6.01(b)(i) and 6.01(b)(ii)

<u>TRUST INDENTURE ACT</u> <u>SECTION</u>		<u>INDENTURE SECTION</u>
	(b)	6.05
	(c)	6.01(a)
	(d)	6.01(c)(i), 6.01(c)(ii) and SECTION 6.01(c)(iii)
	(e)	5.13
316	(a) (last sentence)	Appendix A – definition of “Outstanding”
	(a)(1)(A)	5.11
	(a)(1)(B)	5.12
	(a)(2)	Not applicable
	(b)	5.07
	(c)	Appendix A – definition of “Record Date”
317	(a)(1)	5.03(a)
	(a)(2)	5.03(c)(iv)
	(b)	3.03
318	(a)	10.06
	(b)	10.06
	(c)	10.06

THIS CROSS REFERENCE TABLE SHALL NOT, FOR ANY PURPOSE, BE DEEMED TO BE PART OF THIS INDENTURE.

This INDENTURE, dated as of [], 2021, is by and between [DUKE ENERGY [CAROLINAS/PROGRESS] STORM RECOVERY FUNDING], LLC, a Delaware limited liability company, and [], in its capacity as trustee for the benefit of the Secured Parties and in its separate capacity as a securities intermediary.

In consideration of the mutual agreements herein contained, each party hereto agrees as follows for the benefit of the other party hereto and each of the Holders:

RECITALS OF THE ISSUER

The Issuer has duly authorized the execution and delivery of this Indenture and the creation and issuance of one or more Series of Storm Recovery Bonds issuable hereunder, which will be of substantially the tenor set forth in a Series Supplement for each Series. Each such Series of Storm Recovery Bonds will be issued only under a separate Series Supplement to this Indenture duly executed and delivered by the Issuer and the Indenture Trustee.

Each Series of Storm Recovery Bonds shall be non-recourse obligations and shall be secured by and payable solely out of the proceeds of the Series Property and the other Series Collateral as provided herein. If and to the extent that such proceeds of the Series Property and the other Series Collateral are insufficient to pay all amounts owing with respect to a Series of Storm Recovery Bonds, then, except as otherwise expressly provided hereunder, the Holders shall have no Claim in respect of such insufficiency against the Issuer or the Indenture Trustee, and the Holders, by their acceptance of the Storm Recovery Bonds, waive any such Claim.

All things necessary to (a) make the Storm Recovery Bonds, when executed by the Issuer and authenticated and delivered by the Indenture Trustee hereunder and duly issued by the Issuer, valid obligations, and (b) make this Indenture a valid agreement of the Issuer, in each case, in accordance with their respective terms, have been done.

NOW, THEREFORE, THIS INDENTURE WITNESSETH:

That the Issuer, in consideration of the premises herein contained and of the purchase of Storm Recovery Bonds by the Holders and of other good and lawful consideration, the receipt and sufficiency of which are hereby acknowledged, and to secure, equally and ratably without prejudice, priority or distinction, except as specifically otherwise set forth in this Indenture, the payment of the Storm Recovery Bonds, the payment of all other amounts due under or in connection with this Indenture (including all fees, expenses, counsel fees, other amounts due and owing to the Indenture Trustee and the SRB Trustee) and the performance and observance of all of the covenants and conditions contained herein or in the Storm Recovery Bonds, has hereby executed and delivered this Indenture and by these presents does hereby and by one or more Series Supplements will convey, grant, assign, transfer and pledge, in each case, in and unto the Indenture Trustee, its successors and assigns forever, for the benefit of the Secured Parties of the related Series, all and singular the property described in one or more Series Supplements (such property with respect to a particular Series herein referred to as “Series Collateral” and all such property, collectively, hereinafter referred to as the “Collateral”). Each Series Supplement will more particularly describe the obligations of the Issuer secured by the applicable Series Collateral.

AND IT IS HEREBY COVENANTED, DECLARED AND AGREED between the parties hereto that all Storm Recovery Bonds are to be issued, countersigned and delivered and that all of the Collateral is to be held and applied, subject to the further covenants, conditions, releases, uses and trusts hereinafter set forth, and the Issuer, for itself and any successor, does hereby covenant and agree to and with the Indenture Trustee and its successors in said trust, for the benefit of the Secured Parties, as follows:

ARTICLE I

DEFINITIONS AND RULES OF CONSTRUCTION; INCORPORATION BY REFERENCE

SECTION 1.01. Definitions and Rules of Construction. Capitalized terms used but not otherwise defined in this Indenture shall have the respective meanings given to such terms in Appendix A, which is hereby incorporated by reference into this Indenture as if set forth fully in this Indenture. Not all terms defined in Appendix A are used in this Indenture. The rules of construction set forth in Appendix A shall apply to this Indenture and are hereby incorporated by reference into this Indenture as if set forth fully in this Indenture.

SECTION 1.02. Incorporation by Reference of Trust Indenture Act. Whenever this Indenture refers to a provision of the Trust Indenture Act, that provision is incorporated by reference in and made a part of this Indenture. The following Trust Indenture Act terms used in this Indenture have the following meanings:

“indenture securities” means the Storm Recovery Bonds.

“indenture security holder” means a Holder.

“indenture to be qualified” means this Indenture.

“indenture trustee” or “institutional trustee” means the Indenture Trustee.

“obligor” on the indenture securities means the Issuer and any other obligor on the indenture securities.

All other Trust Indenture Act terms used in this Indenture that are defined by the Trust Indenture Act, defined by Trust Indenture Act reference to another statute or defined by SEC rule have the meanings assigned to them by such definitions.

ARTICLE II

THE STORM RECOVERY BONDS

SECTION 2.01. Form. The Storm Recovery Bonds and the Indenture Trustee’s certificate of authentication shall be in substantially the forms set forth in Exhibit A, with such appropriate insertions, omissions, substitutions and other variations as are required or permitted by this Indenture or by the related Series Supplement and may have such letters, numbers or other marks of identification and such legends or endorsements placed thereon as may,

consistently herewith, be determined by the officers executing the Storm Recovery Bonds, as evidenced by their execution of the Storm Recovery Bonds.

The Storm Recovery Bonds shall be typewritten, printed, lithographed or engraved or produced by any combination of these methods (with or without steel engraved borders), all as determined by the officers executing the Storm Recovery Bonds, as evidenced by their execution of the Storm Recovery Bonds.

Each Storm Recovery Bond shall be dated the date of its authentication.

SECTION 2.02. Denominations: Storm Recovery Bonds Issuable in Series.

The Storm Recovery Bonds of each Series shall be issuable in the Authorized Denominations specified in the applicable Series Supplement.

The Storm Recovery Bonds shall, at the election of and as authorized by a Responsible Officer of the Issuer, and set forth in a Series Supplement, be issued in one or more Series (each of which may be comprised of one or more tranches¹), and shall be designated generally as the “Series { } Senior Secured Storm Recovery Bonds” of the Issuer, with such further particular designations added or incorporated in such title for the Storm Recovery Bonds of any particular Series or tranche as a Responsible Officer of the Issuer may determine. Each Series of Storm Recovery Bond shall bear the designation so selected for the Series or tranche to which it belongs. All Storm Recovery Bonds of a Series shall be identical in all respects except for the denominations thereof, the Holder thereof, the numbering thereon and the legends thereon, unless such Series of Storm Recovery Bonds are comprised of one or more tranches, in which case all of such Series of Storm Recovery Bonds of the same tranche shall be identical in all respects except for the denominations thereof, the Holder thereof, the numbering thereon, the legends thereon and the CUSIP number thereon. All Storm Recovery Bonds of a Series and of a particular tranche shall be in all respects equally and ratably entitled to the benefits hereof without preference, priority or distinction on account of the actual time or times of authentication and delivery, all in accordance with the terms and provisions of this Indenture.

Each Series of Storm Recovery Bonds shall be created by the Series Supplement authorized by a Responsible Officer of the Issuer, which Series Supplement shall specify and establish the terms and provisions of such Series, including the following (which terms and provisions may differ as between tranches):

- (a) designation of the Series and, if applicable, the tranches thereof;
- (b) the principal amount of the Series (and, if more than one tranche is issued, the respective principal amounts of such tranches);
- (c) the Bond Interest Rate of the Series and, if applicable, each tranche thereof or the formula, if any, used to calculate Bond Interest Rate or Bond Interest Rates for the Series and, if applicable, each tranche thereof;

- (d) the Payment Dates for the Series and, if applicable, each tranche thereof;
- (e) the Scheduled Payment Dates for the Series, and if applicable, for each tranche thereof;
- (f) the Scheduled Final Payment Date(s) of the Series, and if applicable, for each tranche thereof;
- (g) the Final Maturity Date(s) of the Series, and if applicable, for each tranche thereof;
- (h) the issuance date for the Series;
- (i) the Authorized Denominations for the Series;
- (j) the Expected Sinking Fund Schedule(s) for the Series;
- (k) the place or places for the payment of interest, principal and premium, if any;
- (l) any additional Secured Parties;
- (m) the identity of the Indenture Trustee;
- (n) the Storm Recovery Charges for the Series and the Series Collateral;
- (o) whether or not the Storm Recovery Bonds are to be Book-Entry Storm Recovery Bonds and the extent to which Section 2.11 should apply; and
- (p) any other terms of the Series of Storm Recovery Bonds (or tranches thereof) that are not inconsistent with the provisions of this Indenture and as to which the Rating Agency Condition is satisfied.

SECTION 2.03. Execution, Authentication and Delivery. The Storm Recovery Bonds shall be executed on behalf of the Issuer by any of its Responsible Officers. The signature of any such Responsible Officer on the Storm Recovery Bonds may be manual or facsimile.

Storm Recovery Bonds bearing the manual or facsimile signature of individuals who were at any time Responsible Officers of the Issuer shall bind the Issuer, notwithstanding that such individuals or any of them have ceased to hold such offices prior to the authentication and delivery of the Storm Recovery Bonds or did not hold such offices at the date of the Storm Recovery Bonds.

At any time and from time to time after the execution and delivery of this Indenture, the Issuer may deliver Storm Recovery Bonds executed by the Issuer to the Indenture Trustee pursuant to an Issuer Order for authentication; and the Indenture Trustee shall authenticate and deliver the Storm Recovery Bonds as in this Indenture provided and not otherwise.

No Storm Recovery Bond shall be entitled to any benefit under this Indenture or related Series Supplement or be valid or obligatory for any purpose, unless there appears on such Storm Recovery Bond a certificate of authentication substantially in the form provided for therein executed by the Indenture Trustee by the manual signature of one of its authorized signatories, and such certificate upon any Storm Recovery Bond shall be conclusive evidence, and the only evidence, that such Storm Recovery Bond has been duly authenticated and delivered hereunder.

SECTION 2.04. Temporary Storm Recovery Bonds. Pending the preparation of Definitive Storm Recovery Bonds pursuant to Section 2.13, the Issuer may execute, and upon receipt of an Issuer Order the Indenture Trustee shall authenticate and deliver, Temporary Storm Recovery Bonds that are printed, lithographed, typewritten, mimeographed or otherwise produced, of the tenor of the Definitive Storm Recovery Bonds in lieu of which they are issued and with such variations not inconsistent with the terms of this Indenture and the related Series Supplement as the officers executing the Storm Recovery Bonds may determine, as evidenced by their execution of the Storm Recovery Bonds.

If Temporary Storm Recovery Bonds are issued, the Issuer will cause Definitive Storm Recovery Bonds to be prepared without unreasonable delay. After the preparation of Definitive Storm Recovery Bonds, the Temporary Storm Recovery Bonds shall be exchangeable for Definitive Storm Recovery Bonds upon surrender of the Temporary Storm Recovery Bonds at the office or agency of the Issuer to be maintained as provided in Section 3.02, without charge to the Holder. Upon surrender for cancellation of any one or more Temporary Storm Recovery Bonds, the Issuer shall execute and the Indenture Trustee shall authenticate and deliver in exchange therefor a like principal amount of Definitive Storm Recovery Bonds of authorized denominations. Until so delivered in exchange, the Temporary Storm Recovery Bonds shall in all respects be entitled to the same benefits under this Indenture as Definitive Storm Recovery Bonds.

SECTION 2.05. Registration; Registration of Transfer and Exchange of Storm Recovery Bonds. The Issuer shall cause to be kept a register (the "Storm Recovery Bond Register") in which, subject to such reasonable regulations as it may prescribe, the Issuer shall provide for the registration of Storm Recovery Bonds and the registration of transfers of Storm Recovery Bonds. The Indenture Trustee shall be "Storm Recovery Bond Registrar" for the purpose of registering the Storm Recovery Bonds and transfers of Storm Recovery Bonds as herein provided. Upon any resignation of any Storm Recovery Bond Registrar, the Issuer shall promptly appoint a successor or, if it elects not to make such an appointment, assume the duties of Storm Recovery Bond Registrar.

If a Person other than the Indenture Trustee is appointed by the Issuer as Storm Recovery Bond Registrar, the Issuer will give the Indenture Trustee prompt written notice of the appointment of such Storm Recovery Bond Registrar and of the location, and any change in the location, of the Storm Recovery Bond Register, and the Indenture Trustee shall have the right to inspect the Storm Recovery Bond Register at all reasonable times and to obtain copies thereof, and the Indenture Trustee shall have the right to rely conclusively upon a certificate executed on behalf of the Storm Recovery Bond Registrar by a Responsible Officer thereof as to the names

and addresses of the Holders and the principal amounts and number of the Storm Recovery Bonds (separately stated by Series, and if applicable by tranche).

Upon surrender for registration of transfer of any Storm Recovery Bond at the office or agency of the Issuer to be maintained as provided in Section 3.02, provided that the requirements of Section 8-401 of the UCC are met, the Issuer shall execute, and the Indenture Trustee shall authenticate and the Holder shall obtain from the Indenture Trustee, in the name of the designated transferee or transferees, one or more new Storm Recovery Bonds in any Authorized Denominations, of the same Series (and, if applicable, tranche) and aggregate principal amount.

At the option of the Holder, Storm Recovery Bonds may be exchanged for other Storm Recovery Bonds in any Authorized Denominations, of the same Series (and, if applicable, tranche) and aggregate principal amount, upon surrender of the Storm Recovery Bonds to be exchanged at such office or agency as provided in Section 3.02. Whenever any Storm Recovery Bonds are so surrendered for exchange, the Issuer shall, provided that the requirements of Section 8-401 of the UCC are met, execute, and, upon any such execution, the Indenture Trustee shall authenticate and the Holder shall obtain from the Indenture Trustee, the Storm Recovery Bonds that the Holder making the exchange is entitled to receive.

All Storm Recovery Bonds issued upon any registration of transfer or exchange of other Storm Recovery Bonds shall be the valid obligations of the Issuer, evidencing the same debt, and entitled to the same benefits under this Indenture, as the Storm Recovery Bonds surrendered upon such registration of transfer or exchange.

Every Storm Recovery Bond presented or surrendered for registration of transfer or exchange shall be duly endorsed by, or be accompanied by: (a) a written instrument of transfer in form satisfactory to the Indenture Trustee duly executed by the Holder thereof or such Holder's attorney duly authorized in writing, with such signature guaranteed by an institution that is a member of: (i) The Securities Transfer Agent Medallion Program (STAMP); (ii) The New York Stock Exchange Medallion Program (MSP); (iii) The Stock Exchange Medallion Program (SEMP); or (iv) such other signature guaranty program acceptable to the Indenture Trustee; and (b) such other documents as the Indenture Trustee may require.

No service charge shall be made to a Holder for any registration of transfer or exchange of Storm Recovery Bonds, but the Issuer or the Indenture Trustee may require payment of a sum sufficient to cover any tax or other governmental charge or any fees or expenses of the Indenture Trustee that may be imposed in connection with any registration of transfer or exchange of Storm Recovery Bonds, other than exchanges pursuant to Section 2.04 or Section 2.06 not involving any transfer.

The preceding provisions of this Section 2.05 notwithstanding, the Issuer shall not be required to make, and the Storm Recovery Bond Registrar need not register, transfers or exchanges of any Storm Recovery Bond that has been submitted within 15 days preceding the due date for any payment with respect to such Storm Recovery Bond until after such due date has occurred.

SECTION 2.06. Mutilated, Destroyed, Lost or Stolen Storm Recovery Bonds.

If (a) any mutilated Storm Recovery Bond is surrendered to the Indenture Trustee or the Indenture Trustee receives evidence to its satisfaction of the destruction, loss or theft of any Storm Recovery Bond and (b) there is delivered to the Indenture Trustee such security or indemnity as may be required by it to hold the Issuer and the Indenture Trustee harmless, then, in the absence of notice to the Issuer, the Storm Recovery Bond Registrar or the Indenture Trustee that such Storm Recovery Bond has been acquired by a Protected Purchaser, the Issuer shall, provided that the requirements of Section 8-401 of the UCC are met, execute, and, upon the Issuer's written request, the Indenture Trustee shall authenticate and deliver, in exchange for or in lieu of any such mutilated, destroyed, lost or stolen Storm Recovery Bond, a replacement Storm Recovery Bond of like Series, tranche and principal amount, bearing a number not contemporaneously outstanding; provided, however, that, if any such destroyed, lost or stolen Storm Recovery Bond, but not a mutilated Storm Recovery Bond, shall have become or within seven days shall be due and payable, instead of issuing a replacement Storm Recovery Bond, the Issuer may pay such destroyed, lost or stolen Storm Recovery Bond when so due or payable without surrender thereof. If, after the delivery of such replacement Storm Recovery Bond or payment of a destroyed, lost or stolen Storm Recovery Bond pursuant to the proviso to the preceding sentence, a Protected Purchaser of the original Storm Recovery Bond in lieu of which such replacement Storm Recovery Bond was issued presents for payment such original Storm Recovery Bond, the Issuer and the Indenture Trustee shall be entitled to recover such replacement Storm Recovery Bond (or such payment) from the Person to whom it was delivered or any Person taking such replacement Storm Recovery Bond from such Person to whom such replacement Storm Recovery Bond was delivered or any assignee of such Person, except a Protected Purchaser, and shall be entitled to recover upon the security or indemnity provided therefor to the extent of any loss, damage, cost or expense incurred by the Issuer or the Indenture Trustee in connection therewith.

Upon the issuance of any replacement Storm Recovery Bond under this Section 2.06, the Issuer and/or the Indenture Trustee may require the payment by the Holder of such Storm Recovery Bond of a sum sufficient to cover any tax or other governmental charge that may be imposed in relation thereto and any other reasonable expenses (including the fees and expenses of the Indenture Trustee and the Storm Recovery Bond Registrar) in connection therewith.

Every replacement Storm Recovery Bond issued pursuant to this Section 2.06 in replacement of any mutilated, destroyed, lost or stolen Storm Recovery Bond shall constitute an original additional contractual obligation of the Issuer, whether or not the mutilated, destroyed, lost or stolen Storm Recovery Bond shall be found at any time or enforced by any Person, and shall be entitled to all the benefits of this Indenture equally and proportionately with any and all other Storm Recovery Bonds duly issued hereunder.

The provisions of this Section 2.06 are exclusive and shall preclude (to the extent lawful) all other rights and remedies with respect to the replacement or payment of mutilated, destroyed, lost or stolen Storm Recovery Bonds.

SECTION 2.07. Persons Deemed Owner. Prior to due presentment for registration of transfer of any Storm Recovery Bond, the Issuer, the Indenture Trustee, the Storm

Recovery Bond Registrar and any agent of the Issuer or the Indenture Trustee may treat the Person in whose name any Storm Recovery Bond is registered (as of the day of determination) as the owner of such Storm Recovery Bond for the purpose of receiving payments of principal of and premium, if any, and interest on such Storm Recovery Bond and for all other purposes whatsoever, whether or not such Storm Recovery Bond be overdue, and none of the Issuer, the Indenture Trustee or any agent of the Issuer or the Indenture Trustee shall be affected by notice to the contrary.

SECTION 2.08. Payment of Principal, Premium, if any, and Interest; Interest on Overdue Principal; Principal, Premium, if any, and Interest Rights Preserved.

(a) The Storm Recovery Bonds shall accrue interest as provided in applicable Series Supplement at the applicable Bond Interest Rate, and such interest shall be payable on each applicable Payment Date. Any installment of interest, principal or premium, if any, payable on any Storm Recovery Bond that is punctually paid or duly provided for on the applicable Payment Date shall be paid to the Person in whose name such Storm Recovery Bond (or one or more Predecessor Storm Recovery Bonds) is registered on the Record Date for the applicable Payment Date by check mailed first-class, postage prepaid, to the Person whose name appears as the Registered Holder (or by wire transfer to an account maintained by such Holder) in accordance with payment instructions delivered to the Indenture Trustee by such Holder, and, with respect to Book-Entry Storm Recovery Bonds, payments will be made by wire transfer in immediately available funds to the account designated by the Holder of the applicable Global Storm Recovery Bond unless and until such Global Storm Recovery Bond is exchanged for Definitive Storm Recovery Bonds (in which event payments shall be made as provided above) and except for the final installment of principal and premium, if any, payable with respect to such Storm Recovery Bond on a Payment Date, which shall be payable as provided below.

(b) The principal of each Storm Recovery Bond of each Series (and, if applicable, tranche) shall be paid, to the extent funds are available therefor in the Collection Account for such Series, in installments on each Payment Date specified in the applicable Series Supplement; provided, that installments of principal not paid when scheduled to be paid in accordance with the Expected Sinking Fund Schedule shall be paid upon receipt of money available for such purpose, in the order set forth in the Expected Sinking Fund Schedule. Failure to pay principal in accordance with such Expected Sinking Fund Schedule because moneys are not available pursuant to Section 8.02 to make such payments shall not constitute a Default or Event of Default under this Indenture; provided, however, that failure to pay the entire unpaid principal amount of the Storm Recovery Bonds of a Series or tranche upon the Final Maturity Date for the Storm Recovery Bonds of such Series or tranche shall constitute an Event of Default under this Indenture as set forth in Section 5.01. Notwithstanding the foregoing, the entire unpaid principal amount of the Storm Recovery Bonds of any Series shall be due and payable, if not previously paid, on the date on which an Event of Default shall have occurred and be continuing, if the Indenture Trustee or the Holders of any Series of Storm Recovery Bonds representing a majority of the Outstanding Amount of the related Series of Storm Recovery Bonds have declared such Storm Recovery Bonds to be immediately due and payable in the manner provided in Section 5.02. All payments of principal and premium, if any, on such Storm Recovery Bonds shall be made pro rata to the Holders entitled thereto unless otherwise provided in the applicable Series Supplement. The Indenture Trustee shall notify the Person in whose

name a Storm Recovery Bond is registered at the close of business on the Record Date preceding the Payment Date on which the Issuer expects that the final installment of principal of and premium, if any, and interest on such Storm Recovery Bond will be paid. Such notice shall be mailed no later than five days prior to such final Payment Date and shall specify that such final installment will be payable only upon presentation and surrender of such Storm Recovery Bond and shall specify the place where such Storm Recovery Bond may be presented and surrendered for payment of such installment.

(c) If interest on the Storm Recovery Bonds of any Series is not paid when due, such defaulted interest shall be paid (plus interest on such defaulted interest at the applicable Bond Interest Rate to the extent lawful) to the Persons who are Holders on a subsequent Special Record Date, which date shall be at least 15 Business Days prior to the Special Payment Date. The Issuer shall fix or cause to be fixed any such Special Record Date and Special Payment Date, and, at least ten days before any such Special Record Date, the Issuer shall mail to each affected Holder a notice that states the Special Record Date, the Special Payment Date and the amount of defaulted interest (plus interest on such defaulted interest) to be paid.

SECTION 2.09. Cancellation. All Storm Recovery Bonds surrendered for payment, registration of transfer or exchange shall, if surrendered to any Person other than the Indenture Trustee, be delivered to the Indenture Trustee and shall be promptly canceled by the Indenture Trustee. The Issuer may at any time deliver to the Indenture Trustee for cancellation any Storm Recovery Bonds previously authenticated and delivered hereunder that the Issuer may have acquired in any manner whatsoever, and all Storm Recovery Bonds so delivered shall be promptly canceled by the Indenture Trustee. No Storm Recovery Bonds shall be authenticated in lieu of or in exchange for any Storm Recovery Bonds canceled as provided in this Section 2.09, except as expressly permitted by this Indenture. All canceled Storm Recovery Bonds may be held or disposed of by the Indenture Trustee in accordance with its standard retention or disposal policy as in effect at the time.

SECTION 2.10. Outstanding Amount; Authentication and Delivery of Storm Recovery Bonds. The aggregate Outstanding Amount of Storm Recovery Bonds that may be authenticated and delivered under this Indenture shall not exceed the aggregate of the amount of Storm Recovery Bonds that are authorized in the Financing Order, together with any Subsequent Financing Order, if any, but otherwise shall be unlimited.

Storm Recovery Bonds of a new Series may at any time be executed by the Issuer and delivered to the Indenture Trustee for authentication and thereupon the same shall be authenticated and delivered by the Indenture Trustee upon Issuer Request and upon delivery by the Issuer to the Indenture Trustee of the following (and if applicable, subject further to the requirements of Section 3.21):

(a) Issuer Action. An Issuer Order authorizing and directing the authentication and delivery of the Storm Recovery Bonds by the Indenture Trustee and specifying the principal amount of Storm Recovery Bonds to be authenticated.

(b) Authorizations. Copies of (i) the Financing Order or Subsequent Financing Order, as applicable, which shall be in full force and effect and be Final, (ii) certified

resolutions of the Managers or Member of the Issuer authorizing the execution and delivery of the Series Supplement and the execution, authentication and delivery of the Series of Storm Recovery Bonds and (iii) a Series Supplement duly executed by the Issuer.

(c) Opinions. An opinion or opinions, portions of which may be delivered by one or more counsel for the Issuer, portions of which may be delivered by one or more counsel for the Servicer, and portions of which may be delivered by one or more counsel for the Seller, dated the Series Closing Date and portions of which may be delivered by counsel to the SRB Issuer, in each case subject to the customary exceptions, qualifications and assumptions contained therein, to the collective effect (and upon which SRB Trustee shall be entitled to rely), that (i) all conditions precedent provided for in this Indenture relating to (A) the authentication and delivery of the Issuer's Series of Storm Recovery Bonds and (B) the execution of the related Series Supplement to this Indenture dated the Series Closing Date have been complied with, (ii) the execution of the Series Supplement to this Indenture dated the Series Closing Date is permitted by this Indenture, (iii) such action has been taken with respect to the recording and filing of this Indenture, any indentures supplemental hereto and any other requisite documents, and with respect to the execution and filing of any filings with the Commission, the Secretary of State of the State of Delaware or the Secretary of State of the State of North Carolina pursuant to the Storm Recovery Law and the Financing Order or Subsequent Financing Order, as applicable, financing statements and continuation statements, as are necessary to perfect and make effective the Lien and the perfected security interest created by this Indenture and applicable Series Supplement, and, based on a review of a current report of a search of the appropriate governmental filing office, no other Lien that can be perfected solely by the filing of financing statements under the applicable Uniform Commercial Code ranks equal or prior to the Lien of the Indenture Trustee in the Series Collateral, and reciting the details of such action, or stating that, in the opinion of such counsel, no such action is necessary to make effective such Lien, together with the other Opinions of Counsel described in Sections 9(c) through 9(i) of the Underwriting Agreement for such Series (other than Sections 9(g) and 9(h) thereof) relating to the Issuer's Storm Recovery Bonds.

(d) Authorizing Certificate. An Officer's Certificate, dated the Series Closing Date, of the Issuer certifying that (i) the Issuer has duly authorized the execution and delivery of this Indenture and the related Series Supplement and the execution and delivery of the Series of Storm Recovery Bonds and (ii) the related Series Supplement is in the form attached thereto and complies with the requirements of Section 2.02.

(e) The Collateral. The Issuer shall have made or caused to be made all filings with the Commission and the Secretary of State of the State of North Carolina pursuant to the Financing Order or Subsequent Financing Order, as applicable, and the Storm Recovery Law and all other filings necessary to perfect the Grant of the Series Collateral to the Indenture Trustee and the Lien of this Indenture and the related Series Supplement, including but not limited to UCC Financing Statements in Delaware or North Carolina as applicable.

(f) Series Supplement. A Series Supplement for the Series of Storm Recovery Bonds applied for, which shall set forth the provisions and form of the Storm Recovery Bonds of such Series (and, if applicable, each tranche thereof).

(g) Certificates of the Issuer and the Seller.

(i) An Officer's Certificate from the Issuer, dated as of the Series Closing Date:

(A) to the effect that (1) the Issuer is not in Default under this Indenture and that the issuance of the Storm Recovery Bonds of such Series will not result in any Default or in any breach of any of the terms, conditions or provisions of or constitute a default under the Financing Order or any Subsequent Financing Order, as applicable, or any indenture, mortgage, deed of trust or other agreement or instrument to which the Issuer is a party or by which it or its property is bound or any order of any court or administrative agency entered in any Proceeding to which the Issuer is a party or by which it or its property may be bound or to which it or its property may be subject and (2) all conditions precedent provided in this Indenture relating to the execution, authentication and delivery of the Storm Recovery Bonds of such Series have been complied with;

(B) to the effect that: the Issuer has not assigned any interest or participation in the Series Collateral except for the Grant contained in this Indenture and the related Series Supplement; the Issuer has the power and right to Grant the Series Collateral to the Indenture Trustee as security hereunder and thereunder; and the Issuer, subject to the terms of this Indenture, has Granted to the Indenture Trustee a first priority perfected security interest in all of its right, title and interest in and to such Series Collateral free and clear of any Lien arising as a result of actions of the Issuer or through the Issuer, except Permitted Liens;

(C) to the effect that the Issuer has appointed the firm of Independent registered public accountants as contemplated in Section 8.06;

(D) to the effect that the respective Sale Agreement, Servicing Agreement, Administration Agreement and Intercreditor Agreement are, to the knowledge of the Issuer (and assuming such agreements are enforceable against all parties thereto other than the Issuer and Duke Energy [Carolinas/Progress]), in full force and effect and, to the knowledge of the Issuer, that no party is in default of its obligations under such agreements; and

(E) certifying that the Storm Recovery Bonds of such Series have received the ratings from the Rating Agencies if required by the Underwriting Agreement for such Series as a condition to the issuance of such Storm Recovery Bonds.

(ii) An officer's certificate from the Seller, dated as of the Series Closing Date, to the effect that:

(A) in the case of the Series Property identified in the Bill of Sale for such Series, immediately prior to the conveyance thereof to the Issuer pursuant to the Sale Agreement for such Series: the Seller was the original and the sole owner of such Property, free and clear of any Lien; the Seller had not assigned any interest or participation in such Series Property and the proceeds thereof other than to the Issuer pursuant to the Sale Agreement for such Series; the Seller has the power, authority and right to own, sell and assign such Series Property and the proceeds thereof to the Issuer; the Seller has its chief executive office in the State of North Carolina; and the Seller, subject to the terms of the Sale Agreement for such Series, has validly sold and assigned to the Issuer all of its right, title and interest in and to such Series Property and the proceeds thereof, free and clear of any Lien (other than Permitted Liens) and such sale and assignment is absolute and irrevocable and has been perfected;

(B) in the case of the Series Property identified in the Bill of Sale, immediately prior to the conveyance thereof to the Issuer pursuant to the Sale Agreement for such Series, the attached copy of the Financing Order or Subsequent Financing Order, as applicable, creating such Series Property is true and complete and is in full force and effect; and

(C) the Required Capital Level has been deposited or caused to be deposited by the Seller with the Indenture Trustee for crediting to the Capital Subaccount for such Series.

(h) Certificate or Letter of Independent Firm. One or more certificates or letters, addressed to the Issuer, of a firm, Independent of the Issuer, Seller, Servicer or any Affiliate to the effect that (i) such firm is Independent with respect to the Issuer within the meaning of this Indenture and (ii) it has performed procedures as instructed by the addressees of such certificate or letter.

(i) Requirements of Series Supplement. Such other funds, accounts, documents, certificates, agreements, instruments or opinions as may be required by the terms of the Series Supplement.

(j) Other Requirements. Such other documents, certificates, agreements, instruments or opinions as the Indenture Trustee may reasonably require.

SECTION 2.11. Book-Entry Storm Recovery Bonds. Unless the Series Supplement provides otherwise, all of the Storm Recovery Bonds shall be issued in Book-Entry Form, and the Issuer shall execute and the Indenture Trustee shall, in accordance with this Section 2.11 and the Issuer Order, authenticate and deliver one or more Global Storm Recovery

Bonds, evidencing the Storm Recovery Bonds, which (a) shall be an aggregate original principal amount equal to the aggregate original principal amount of the Storm Recovery Bonds to be issued pursuant to the Issuer Order, (b) shall be registered in the name of the Clearing Agency therefor or its nominee, which shall initially be Cede & Co., as nominee for The Depository Trust Company, the initial Clearing Agency, (c) shall be delivered by the Indenture Trustee pursuant to such Clearing Agency's or such nominee's instructions and (d) shall bear a legend substantially to the effect set forth in Exhibit A to the Form of Series Supplement.

Each Clearing Agency designated pursuant to this Section 2.11 must, at the time of its designation and at all times while it serves as Clearing Agency hereunder, be a "clearing agency" registered under the Exchange Act and any other applicable statute or regulation.

No Holder of Storm Recovery Bonds issued in Book-Entry Form shall receive a Definitive Storm Recovery Bond representing such Holder's interest in any of the Storm Recovery Bonds, except as provided in Section 2.13. Unless (and until) certificated, fully registered Storm Recovery Bonds (the "Definitive Storm Recovery Bonds") have been issued to the Holders pursuant to Section 2.13 or pursuant to the Series Supplement relating thereto:

- (i) the provisions of this Section 2.11 shall be in full force and effect;
- (ii) the Issuer, the Servicer, the Paying Agent, the Storm Recovery Bond Registrar and the Indenture Trustee may deal with the Clearing Agency for all purposes (including the making of distributions on the Storm Recovery Bonds and the giving of instructions or directions hereunder) as the authorized representative of the Holders;
- (iii) to the extent that the provisions of this Section 2.11 conflict with any other provisions of this Indenture, the provisions of this Section 2.11 shall control;
- (iv) the rights of Holders shall be exercised only through the Clearing Agency and the Clearing Agency Participants and shall be limited to those established by law and agreements between such Holders and the Clearing Agency and/or the Clearing Agency Participants. Pursuant to the Letter of Representations, unless and until Definitive Storm Recovery Bonds are issued pursuant to Section 2.13, the initial Clearing Agency will make book-entry transfers among the Clearing Agency Participants and receive and transmit distributions of principal of and interest on the Book-Entry Storm Recovery Bonds to such Clearing Agency Participants; and
- (v) whenever this Indenture requires or permits actions to be taken based upon instruction or directions of the Holders evidencing a specified percentage of the Outstanding Amount of Storm Recovery Bonds, the Clearing Agency shall be deemed to represent such percentage only to the extent that it has received instructions to such effect from the Holders and/or the Clearing Agency Participants owning or representing, respectively, such required percentage of the beneficial interest in the Storm Recovery Bonds and has delivered such instructions to a Responsible Officer of the Indenture Trustee.

SECTION 2.12. Notices to Clearing Agency. Unless and until Definitive Storm Recovery Bonds shall have been issued to Holders pursuant to Section 2.13, whenever notice,

payment or other communications to the holders of Book-Entry Storm Recovery Bonds is required under this Indenture, the Indenture Trustee, the Servicer and the Paying Agent, as applicable, shall give all such notices and communications specified herein to be given to Holders to the Clearing Agency.

SECTION 2.13. Definitive Storm Recovery Bonds. If (a) (i) the Issuer advises the Indenture Trustee in writing that the Clearing Agency is no longer willing or able to properly discharge its responsibilities under any Letter of Representations and (ii) the Issuer is unable to locate a qualified successor Clearing Agency, (b) the Issuer, at its option, advises the Indenture Trustee in writing that it elects to terminate the book-entry system through the Clearing Agency or (c) after the occurrence of an Event of Default hereunder, Holders holding Storm Recovery Bonds aggregating a majority of the aggregate Outstanding Amount of Storm Recovery Bonds of all Series maintained as Book-Entry Storm Recovery Bonds advise the Indenture Trustee, the Issuer and the Clearing Agency (through the Clearing Agency Participants) in writing that the continuation of a book-entry system through the Clearing Agency is no longer in the best interests of the Holders, the Issuer shall notify the Clearing Agency, the Indenture Trustee and all such Holders in writing of the occurrence of any such event and of the availability of Definitive Storm Recovery Bonds to the Holders requesting the same. Upon surrender to the Indenture Trustee of the Global Storm Recovery Bonds by the Clearing Agency accompanied by registration instructions from such Clearing Agency for registration, the Issuer shall execute, and the Indenture Trustee shall authenticate and deliver, Definitive Storm Recovery Bonds in accordance with the instructions of the Clearing Agency. None of the Issuer, the Storm Recovery Bond Registrar, the Paying Agent or the Indenture Trustee shall be liable for any delay in delivery of such instructions and may conclusively rely on, and shall be fully protected in relying on, such instructions. Upon the issuance of Definitive Storm Recovery Bonds, the Indenture Trustee shall recognize the Holders of the Definitive Storm Recovery Bonds as Holders hereunder without need for any consent or acknowledgement from the Holders.

Definitive Storm Recovery Bonds will be transferable and exchangeable at the offices of the Storm Recovery Bond Registrar.

SECTION 2.14. CUSIP Number. The Issuer in issuing any Storm Recovery Bonds may use a “CUSIP” number and, if so used, the Indenture Trustee shall use the CUSIP number provided to it by the Issuer in any notices to the Holders thereof as a convenience to such Holders; provided, that any such notice may state that no representation is made as to the correctness or accuracy of the CUSIP number printed in the notice or on the Storm Recovery Bonds and that reliance may be placed only on the other identification numbers printed on the Storm Recovery Bonds. The Issuer shall promptly notify the Indenture Trustee in writing of any change in the CUSIP number with respect to any Storm Recovery Bond.

SECTION 2.15. Letter of Representations. The Issuer shall comply with the terms of each Letter of Representations applicable to the Issuer.

SECTION 2.16. Tax Treatment. The Issuer and the Indenture Trustee, by entering into this Indenture, and the Holders and any Persons holding a beneficial interest in any Storm Recovery Bond, by acquiring any Storm Recovery Bond or interest therein, (a) express their intention that, solely for the purposes of U.S. federal taxes and, to the extent consistent with

applicable state, local and other tax law, solely for the purposes of state, local and other taxes, the Storm Recovery Bonds qualify under applicable tax law as indebtedness of the Member secured by the respective Series Collateral and (b) solely for the purposes of U.S. federal taxes and, to the extent consistent with applicable state, local and other tax law, solely for purposes of state, local and other taxes, so long as any of the Storm Recovery Bonds are outstanding, agree to treat the Storm Recovery Bonds as indebtedness of the Member secured by the respective Series Collateral unless otherwise required by appropriate taxing authorities.

SECTION 2.17. State Pledge. Under the laws of the State of North Carolina in effect on the date hereof, pursuant to N.C. Gen. Stat. § 62-172(k), the State of North Carolina has pledged to agree and work with the Holders, the Indenture Trustee, other Financing Parties that the State of North Carolina will not (a) alter the provisions of N.C. Gen. Stat. § 62-172(k)(1)a. which make the Charges imposed by the Financing Order or Subsequent Financing Order, as applicable, irrevocable, binding, and nonbypassable charges; (b) take or permit any action that impairs or would impair the value of the Storm Recovery Property or the security for the Storm Recovery Bonds or revises the Storm Recovery Costs for which recovery is authorized; (c) in any way impair the rights and remedies of the Holders, assignees, and other financing parties or (d) or except as authorized under the Storm Recovery Law, reduce, alter, or impair Charges that are to be imposed, collected, and remitted for the benefit of the Holders, the Indenture Trustee and other Financing Parties until any and all principal, interest, premium, Financing Costs and other fees, expenses, or charges incurred, and any contracts to be performed, in connection with the Storm Recovery Bonds have been paid and performed in full and that the SRB Trustee, in its own name and as trustee of a [grantor] trust, as Holder of the Storm Recovery Bonds shall be, to the extent permitted by state and federal law, entitled to enforce such sections of the Storm Recovery Law.

The Issuer hereby acknowledges that the purchase of any Storm Recovery Bond by a Holder or the purchase of any beneficial interest in a Storm Recovery Bond by any Person and the Indenture Trustee's obligations to perform hereunder are made in reliance on such agreement and pledge by the State of North Carolina.

SECTION 2.18. Security Interests. The Issuer hereby makes the following representations and warranties. Other than the security interests granted to the Indenture Trustee pursuant to this Indenture in the applicable Series Supplement, the Issuer has not pledged, granted, sold, conveyed or otherwise assigned any interests or security interests in the Collateral and no security agreement, financing statement or equivalent security or Lien instrument listing the Issuer as debtor covering all or any part of the Collateral is on file or of record in any jurisdiction, except such as may have been filed, recorded or made by the Issuer in favor of the Indenture Trustee on behalf of the Secured Parties in connection with this Indenture. This Indenture and the applicable Series Supplement constitute a valid and continuing lien on, and first priority perfected security interest in, the Series Collateral in favor of the Indenture Trustee on behalf of the Secured Parties, which lien and security interest is prior to all other Liens and is enforceable as such as against creditors of and purchasers from the Issuer in accordance with its terms, except as such enforceability may be limited by bankruptcy, insolvency, fraudulent conveyance, reorganization, moratorium and other similar laws affecting creditors' rights generally or by general equitable principles, whether considered in a proceeding at law or in equity and by an implied covenant of good faith and fair dealing. With respect to all Series

Collateral, this Indenture, together with the related Series Supplement, creates a valid and continuing first priority perfected security interest (as defined in the UCC) in such related Series Collateral, which security interest is prior to all other Liens and is enforceable as such as against creditors of and purchasers from the Issuer in accordance with its terms, except as such enforceability may be limited by bankruptcy, insolvency, fraudulent conveyance, reorganization, moratorium and other similar laws affecting creditors' rights generally or by general equitable principles, whether considered in a proceeding at law or in equity and by an implied covenant of good faith and fair dealing. The Issuer has good and marketable title to the Collateral free and clear of any Lien of any Person other than Permitted Liens. All of the Collateral constitutes Property or accounts, deposit accounts, investment property or general intangibles (as each such term is defined in the UCC), except that proceeds of the Collateral may also take the form of instruments. The Issuer has taken, or caused the Servicer to take, all action necessary to perfect the security interest in the Series Collateral granted to the Indenture Trustee, for the benefit of the Secured Parties. The Issuer has filed (or has caused the Servicer to file) all appropriate financing statements in the proper filing offices in the appropriate jurisdictions under applicable law in order to perfect the security interest in the Series Collateral granted to the Indenture Trustee for each related Series. The Issuer has not authorized the filing of and is not aware, after due inquiry, of any financing statements against the Issuer that include a description of the Collateral other than those filed in favor of the Indenture Trustee. The Issuer is not aware of any judgment or tax lien filings against the Issuer. The Collection Account for each Series (including all subaccounts thereof) constitutes a "securities account" within the meaning of the UCC. The Issuer has taken all steps necessary to cause the Securities Intermediary of each such securities account to identify in its records the Indenture Trustee as the Person having a security entitlement against the Securities Intermediary in such securities account, no Collection Account is in the name of any Person other than the Indenture Trustee, and the Issuer has not consented to the Securities Intermediary of the Collection Account for each Series to comply with entitlement orders of any Person other than the Indenture Trustee. All of the Collateral constituting investment property has been and will have been credited to the Collection Account for each Series or a subaccount thereof, and the Securities Intermediary for the Collection Account for each Series has agreed to treat all assets credited to the Collection Account for each Series as "financial assets" within the meaning of the UCC. Accordingly, the Indenture Trustee has a first priority perfected security interest in the Collection Account for each Series, all funds and financial assets on deposit therein, and all securities entitlements relating thereto. The representations and warranties set forth in this Section 2.18 shall survive the execution and delivery of this Indenture and the issuance of any Storm Recovery Bonds, shall be deemed re-made on each date on which any funds in the Collection Account for each Series are distributed to the Issuer as provided in Section 8.04 or otherwise released from the Lien of the Indenture and may not be waived by any party hereto except pursuant to a supplemental indenture executed in accordance with Article IX and as to which the Rating Agency Condition has been satisfied.

ARTICLE III

COVENANTS

SECTION 3.01. Payment of Principal, Premium, if any, and Interest. The principal of and premium, if any, and interest on the Storm Recovery Bonds shall be duly and punctually paid by the Issuer, or the Servicer on behalf of the Issuer, in accordance with the

terms of the Storm Recovery Bonds and this Indenture and the applicable Series Supplement; provided, that, except on a Final Maturity Date of a Series or tranche or upon the acceleration of a Series of Storm Recovery Bonds following the occurrence of an Event of Default, the Issuer shall only be obligated to pay the principal of such Storm Recovery Bonds on each Payment Date therefor to the extent moneys are available for such payment pursuant to Section 8.02. Amounts properly withheld under the Code, the Treasury regulations promulgated thereunder or other tax laws by any Person from a payment to any Holder of interest or principal or premium, if any, shall be considered as having been paid by the Issuer to such Holder for all purposes of this Indenture.

SECTION 3.02. Maintenance of Office or Agency. The Issuer shall initially maintain in [Charlotte/Raleigh], North Carolina an office or agency where Storm Recovery Bonds may be surrendered for registration of transfer or exchange. The Issuer shall give prompt written notice to the Indenture Trustee of the location, and of any change in the location, of any such office or agency. The Issuer hereby initially appoints the Indenture Trustee to serve as its agent for the foregoing purposes, and the Corporate Trust Office of the Indenture Trustee shall serve as the offices provided above in this Section 3.02. If at any time the Issuer shall fail to maintain any such office or agency or shall fail to furnish the Indenture Trustee with the address thereof, such surrenders may be made at the office of the Indenture Trustee located at the Corporate Trust Office, and the Issuer hereby appoints the Indenture Trustee as its agent to receive all such surrenders.

SECTION 3.03. Money for Payments To Be Held in Trust. As provided in Section 8.02(a), all payments of amounts due and payable with respect to any Storm Recovery Bonds that are to be made from amounts withdrawn from the Collection Account pursuant to Section 8.02(d) shall be made on behalf of the Issuer by the Indenture Trustee or by another Paying Agent, and no amounts so withdrawn from the Collection Account for payments with respect to any Storm Recovery Bonds shall be paid over to the Issuer except as provided in this Section 3.03 and Section 8.02.

Each Paying Agent shall meet the eligibility criteria set forth for any Indenture Trustee under Section 6.11. The Issuer will cause each Paying Agent other than the Indenture Trustee to execute and deliver to the Indenture Trustee and the SRB Trustee an instrument in which such Paying Agent shall agree with the Indenture Trustee (and if the Indenture Trustee acts as Paying Agent, it hereby so agrees), subject to the provisions of this Section 3.03, that such Paying Agent will:

(a) hold all sums held by it for the payment of amounts due with respect to the Storm Recovery Bonds in trust for the benefit of the Persons entitled thereto until such sums shall be paid to such Persons or otherwise disposed of as herein provided and pay such sums to such Persons as herein provided;

(b) give the Indenture Trustee unless the Indenture Trustee is the Paying Agent, the Commission, the SRB Trustee and the Rating Agencies written notice of any Default by the Issuer of which it has actual knowledge in the making of any payment required to be made with respect to the Storm Recovery Bonds;

(c) at any time during the continuance of any such Default, upon the written request of the Indenture Trustee, forthwith pay to the Indenture Trustee all sums so held in trust by such Paying Agent;

(d) immediately, with notice to the Rating Agencies and the SRB Trustee, resign as a Paying Agent and forthwith pay to the Indenture Trustee all sums held by it in trust for the payment of Storm Recovery Bonds if at any time the Paying Agent determines that it has ceased to meet the standards required to be met by a Paying Agent at the time of such determination; and

(e) comply with all requirements of the Code, the Treasury regulations promulgated thereunder and other tax laws with respect to the withholding from any payments made by it on any Storm Recovery Bonds of any applicable withholding taxes imposed thereon and with respect to any applicable reporting requirements in connection therewith.

The Issuer may at any time, for the purpose of obtaining the satisfaction and discharge of this Indenture or for any other purpose, by Issuer Order direct any Paying Agent to pay to the Indenture Trustee all sums held in trust by such Paying Agent, such sums to be held by the Indenture Trustee upon the same trusts as those upon which the sums were held by such Paying Agent; and, upon such payment by any Paying Agent to the Indenture Trustee, such Paying Agent shall be released from all further liability with respect to such money.

Subject to applicable laws with respect to escheatment of funds, any money held by the Indenture Trustee or any Paying Agent in trust for the payment of any amount due with respect to any Storm Recovery Bond and remaining unclaimed for two years after such amount has become due and payable shall be discharged from such trust and be paid to the Issuer upon receipt of an Issuer Request; and, subject to Section 10.14, the Holder of such Storm Recovery Bond shall thereafter, as an unsecured general creditor, look only to the Issuer for payment thereof (but only to the extent of the amounts so paid to the Issuer), and all liability of the Indenture Trustee or such Paying Agent with respect to such trust money shall thereupon cease; provided, however, that the Indenture Trustee or such Paying Agent, before being required to make any such repayment, may at the expense of the Issuer, cause to be published once, in a newspaper published in the English language, customarily published on each Business Day and of general circulation in The City of New York, notice that such money remains unclaimed and that, after a date specified therein, which shall not be less than 30 days from the date of such publication, any unclaimed balance of such money then remaining will be repaid to the Issuer. The Indenture Trustee may also adopt and employ, at the expense of the Issuer, any other reasonable means of notification of such repayment (including mailing notice of such repayment to Holders whose right to or interest in moneys due and payable but not claimed is determinable from the records of the Indenture Trustee or of any Paying Agent, at the last address of record for each such Holder).

SECTION 3.04. Existence. The Issuer shall keep in full effect its existence, rights and franchises as a limited liability company under the laws of the State of Delaware (unless it becomes, or any successor Issuer hereunder is or becomes, organized under the laws of any other State or of the United States of America, in which case the Issuer will keep in full effect its existence, rights and franchises under the laws of such other jurisdiction) and will

obtain and preserve its qualification to do business in each jurisdiction in which such qualification is or shall be necessary to protect the validity and enforceability of this Indenture, the other Basic Documents, the Storm Recovery Bonds, the Collateral and each other instrument or agreement referenced herein or therein.

SECTION 3.05. Protection of Collateral. The Issuer shall from time to time execute and deliver all such supplements and amendments hereto and all filings with the Commission, the Secretary of State of the State of Delaware or the Secretary of State of the State of North Carolina pursuant to the Financing Order and any Subsequent Financing Order, as applicable, or to the Storm Recovery Law and all financing statements, continuation statements, instruments of further assurance and other instruments, and shall take such other action necessary or advisable, to:

- (a) maintain or preserve the Lien (and the priority thereof) of this Indenture and each Series Supplement or carry out more effectively the purposes hereof;
- (b) perfect, publish notice of or protect the validity of any Grant made or to be made by this Indenture;
- (c) enforce any of the Collateral;
- (d) preserve and defend title to the Collateral and the rights of the Indenture Trustee and the Holders in such Collateral against the Claims of all Persons, including a challenge by any party to the validity or enforceability of the Financing Order or any Subsequent Financing Order, the Series Property or any proceeding relating thereto and institute any action or proceeding necessary to compel performance by the Commission or the State of North Carolina of any of its obligations or duties under the Storm Recovery Law, the State Pledge, or the Financing Order or any Subsequent Financing Order; and
- (e) pay any and all taxes levied or assessed upon all or any part of the Collateral.

The Indenture Trustee is specifically permitted and authorized, but not required to file financing statements covering the Collateral, including financing statements that describe the Collateral as “all assets” or “all personal property” of the Issuer.

SECTION 3.06. Opinions as to Collateral.

- (a) Within 90 days after the beginning of each calendar year beginning with the calendar year beginning [January 1, 2022], the Issuer shall furnish to the Indenture Trustee an Opinion of Counsel of the Issuer either stating that, in the opinion of such counsel, such action has been taken with respect to the recording, filing, re-recording and refiling of this Indenture, any indentures supplemental hereto and any other requisite documents, and with respect to the execution and filing of any filings with the Commission, the Secretary of State of the State of Delaware or the Secretary of State of the State of North Carolina pursuant to the Storm Recovery Law and the Financing Order and any Subsequent Financing Order, financing statements and continuation statements, as are necessary to maintain the Lien and the perfected security interest created by this Indenture and the Series Supplements and reciting the details of such action, or

stating that, in the opinion of such counsel, no such action is necessary to maintain such Lien. Such Opinion of Counsel shall also describe the recording, filing, re-recording and re-filing of this Indenture, any indentures supplemental hereto and any other requisite documents and the execution and filing of any filings with the Commission, the Secretary of State of the State of Delaware or the Secretary of State of the State of North Carolina, financing statements and continuation statements that will, in the opinion of such counsel, be required within the 12-month period following the date of such opinion to maintain the Lien and the perfected security interest created by this Indenture and all Series Supplements.

(b) Prior to the effectiveness of any amendment to the applicable Sale Agreement or the applicable Servicing Agreement, the Issuer shall furnish to the Indenture Trustee an Opinion of Counsel of external counsel of the Issuer either (i) stating that, in the opinion of such counsel, all filings, including UCC financing statements and other filings with the Commission, the Secretary of State of the State of Delaware or the Secretary of State of the State of North Carolina pursuant to the Storm Recovery Law or the applicable Financing Order have been executed and filed that are necessary fully to preserve and protect the Lien of the Issuer and the Indenture Trustee in the Series Property and the Series Collateral, respectively, and the proceeds thereof, and reciting the details of such filings or referring to prior Opinions of Counsel in which such details are given, or (ii) stating that, in the opinion of such counsel, no such action shall be necessary to preserve and protect such Lien.

SECTION 3.07. Performance of Obligations; Servicing; SEC Filings.

(a) The Issuer (i) shall diligently pursue any and all actions to enforce its rights under each instrument or agreement included in the Collateral and (ii) shall not take any action and shall use its best efforts not to permit any action to be taken by others that would release any Person from any of such Person's covenants or obligations under any such instrument or agreement or that would result in the amendment, hypothecation, subordination, termination or discharge of, or impair the validity or effectiveness of, any such instrument or agreement, except, in each case, as expressly provided in this Indenture, the applicable Series Supplement, the applicable Sale Agreement, the applicable Servicing Agreement, the applicable Intercreditor Agreement or such other instrument or agreement.

(b) The Issuer may contract with other Persons selected with due care to assist it in performing its duties under this Indenture, and any performance of such duties by a Person identified to the Indenture Trustee herein or in an Officer's Certificate shall be deemed to be action taken by the Issuer. Initially, the Issuer has contracted with the Servicer to assist the Issuer in performing its duties under this Indenture.

(c) The Issuer shall punctually perform and observe all of its obligations and agreements contained in this Indenture, the applicable Series Supplement, the other Basic Documents and the instruments and agreements included in the Collateral, including filing or causing to be filed all filings with the Commission, the Secretary of State of the State of Delaware or the Secretary of State of the State of North Carolina pursuant to the Storm Recovery Law or the applicable Financing Order, all UCC financing statements and all continuation statements required to be filed by it by the terms of this Indenture, the applicable Series

Supplement, the applicable Sale Agreement and the applicable Servicing Agreement in accordance with and within the time periods provided for herein and therein.

(d) If the Issuer shall have knowledge of the occurrence of a Servicer Default under the Servicing Agreement for such Series, the Issuer shall promptly give written notice thereof to the Indenture Trustee, the SRB Trustee, the Commission and the Rating Agencies and shall specify in such notice the response or action, if any, the Issuer has taken or is taking with respect to such Servicer Default. If a Servicer Default shall arise from the failure of the Servicer to perform any of its duties or obligations under the Servicing Agreement with respect to the Series Property, the Series Collateral or the Series Charges, the Issuer shall take all reasonable steps available to it to remedy such failure.

(e) As promptly as possible after the giving of notice of termination to the Servicer, the SRB Trustee and the Rating Agencies of the Servicer's rights and powers pursuant to Section 7.01 of the applicable Servicing Agreement, the Indenture Trustee may and shall, at the written direction either (a) of the Holders evidencing a majority of the Outstanding Amount of the Storm Recovery Bonds of such Series, or (b) of the Commission, appoint a successor Servicer (the "Successor Servicer"), and such Successor Servicer shall accept its appointment by a written assumption in a form acceptable to the Issuer. A Person shall qualify as a Successor Servicer only if such Person satisfies the requirements of the applicable Servicing Agreement and the applicable Intercreditor Agreement. If, within 30 days after the delivery of the notice referred to above, a new Servicer shall not have been appointed, the Indenture Trustee may petition the Commission or a court of competent jurisdiction to appoint a Successor Servicer. In connection with any such appointment, Duke Energy [Carolinas/Progress] may make such arrangements for the compensation of such Successor Servicer as it and such successor shall agree, subject to the limitations set forth in Section 8.02 and in the Servicing Agreement.

(f) Upon any termination of the Servicer's rights and powers pursuant to the Servicing Agreement for such Series, the Indenture Trustee shall promptly notify the Issuer, the Holders, the SRB Issuer, the SRB Trustee, the SRB Noteholders and the Rating Agencies. As soon as a Successor Servicer is appointed, the Indenture Trustee shall notify the Issuer, the Holders, the SRB Issuer, the SRB Trustee, the SRB Noteholders and the Rating Agencies of such appointment, specifying in such notice the name and address of such Successor Servicer.

(g) The Issuer shall (or shall cause the Sponsor to) post on its website (which for this purpose may be the website of any direct or indirect parent company of the Issuer) and, to the extent consistent with the Issuer's and the Sponsor's obligations under applicable law, file with or furnish to the SEC in periodic reports and other reports as are required from time to time under Section 13 or Section 15(d) of the Exchange Act, the following information (other than any such information filed with the SEC and publicly available to investors unless the Issuer specifically requests such items to be posted) with respect to each Series of the Outstanding Storm Recovery Bonds, in each case to the extent such information is reasonably available to the Issuer:

(i) statements of any remittances of Charges made to the Indenture Trustee (to be included in a Form 10-D or Form 10-K, or successor forms thereto);

- (ii) a statement reporting the balances in the Collection Account for such Series and in each subaccount of the Collection Account for such Series as of all Payment Dates (to be included on the next Form 10-D filed) and as of the end of each year (to be included on the next Form 10-K filed);
- (iii) the Semi-Annual Servicer's Certificate as required to be submitted pursuant to the Servicing Agreement (to be filed with a Form 10-D, Form 10-K or Form 8-K, or successor forms thereto);
- (iv) the Monthly Servicer's Certificate as required to be submitted pursuant to the Servicing Agreement;
- (v) the text (or a link to the website where a reader can find the text) of each filing of a True-Up Adjustment and the results of each such filing;
- (vi) any change in the long-term or short-term credit ratings of the Servicer assigned by the Rating Agencies;
- (vii) material legislative or regulatory developments directly relevant to the Outstanding Storm Recovery Bonds (to be filed or furnished in a Form 8-K); and
- (viii) any reports and other information that the Issuer is required to file with the SEC under the Exchange Act, including but not limited to periodic and current reports related to a Series of Storm Recovery Bonds consistent with the disclosure and reporting regime established in Regulation AB.

Notwithstanding the foregoing, nothing herein shall preclude the Issuer from voluntarily suspending or terminating its filing obligations as Issuer with the SEC to the extent permitted by applicable law. Any such reports or information delivered to the Indenture Trustee for purposes of this Section 3.07(g) is for informational purposes only, and the Indenture Trustee's receipt of such reports or information shall not constitute constructive notice of any information contained therein or determinable from information contained therein, including the Issuer's compliance with any of its covenants hereunder (as to which the Indenture Trustee is entitled to conclusively rely on an Officer's Certificate).

(h) The Issuer shall direct the Indenture Trustee to post on the Indenture Trustee's website for investors (based solely on information set forth in the Annual Servicer's Certificate) with respect to each Series of the Outstanding Storm Recovery Bonds, to the extent such information is set forth in the Annual Servicer's Certificate, a statement showing the balance of each Series of Outstanding Storm Recovery Bonds that reflects the actual payments made on the Storm Recovery Bonds during the applicable period.

The address of the Indenture Trustee's website for investors is [<https://gctinvestorreporting.bnymellon.com>]. The Indenture Trustee shall immediately notify the Issuer, the Holders and the Rating Agencies of any change to the address of the website for investors.

(i) The Issuer shall make all filings required under the Storm Recovery Law relating to the transfer of the ownership or security interest in the Storm Recovery Property other than those required to be made by the Seller or the Servicer pursuant to the Basic Documents.

SECTION 3.08. Certain Negative Covenants. So long as any Storm Recovery Bonds are Outstanding, the Issuer shall not:

(a) except as expressly permitted by this Indenture and the other Basic Documents, or in connection with the issuance of Additional Series, sell, transfer, convey, exchange or otherwise dispose of any of the properties or assets of the Issuer, including those included in the Collateral, unless in accordance with Article V;

(b) claim any credit on, or make any deduction from the principal or premium, if any, or interest payable in respect of, the Storm Recovery Bonds (other than amounts properly withheld from such payments under the Code, the Treasury regulations promulgated thereunder or other tax laws) or assert any claim against any present or former Holder by reason of the payment of the taxes levied or assessed upon any part of the Collateral;

(c) terminate its existence or dissolve or liquidate in whole or in part, except in a transaction permitted by Section 3.10;

(d) (i) permit the validity or effectiveness of this Indenture or the other Basic Documents to be impaired, or permit the Lien of this Indenture and the Series Supplements to be amended, hypothecated, subordinated, terminated or discharged, or permit any Person to be released from any covenants or obligations with respect to the Storm Recovery Bonds under this Indenture except as may be expressly permitted hereby, (ii) permit any Lien (other than the Lien of this Indenture or the Series Supplements) to be created on or extend to or otherwise arise upon or burden the Collateral or any part thereof or any interest therein or the proceeds thereof (other than tax liens arising by operation of law with respect to amounts not yet due) or (iii) permit the Lien of any Series Supplement not to constitute a valid first priority perfected security interest in the related Series Collateral;

(e) elect to be classified as an association taxable as a corporation for U.S. federal income tax purposes or otherwise take any action, file any tax return or make any election inconsistent with the treatment of the Issuer, for U.S. federal income tax purposes and, to the extent consistent with applicable state tax law, state income and franchise tax purposes, as a disregarded entity that is not separate from the sole owner of the Issuer;

(f) change its name, identity or structure or the location of its chief executive office, unless at least ten Business Days prior to the effective date of any such change the Issuer delivers to the Indenture Trustee (with copies to the Rating Agencies) such documents, instruments or agreements, executed by the Issuer, as are necessary to reflect such change and to continue the perfection of the security interest of this Indenture and the Series Supplements;

(g) take any action that is subject to a Rating Agency Condition without satisfying the Rating Agency Condition;

(h) except to the extent permitted by applicable law, voluntarily suspend or terminate its filing obligations with the SEC as described in Section 3.07(g); or

(i) issue any debt obligations other than the Storm Recovery Bonds permitted by this Indenture.

SECTION 3.09. Annual Statement as to Compliance. The Issuer will deliver to the Indenture Trustee, the SRB Trustee, the Commission and the Rating Agencies not later than March 31 of each year (commencing with March 31, [2022]), an Officer's Certificate stating, as to the Responsible Officer signing such Officer's Certificate, that:

(a) a review of the activities of the Issuer during the preceding 12 months ended December 31 (or, in the case of the first such Officer's Certificate, since the date hereof) and of performance under this Indenture has been made; and

(b) to the best of such Responsible Officer's knowledge, based on such review, the Issuer has in all material respects complied with all conditions and covenants under this Indenture throughout such 12-month period (or such shorter period in the case of the first such Officer's Certificate), or, if there has been a default in the compliance of any such condition or covenant, specifying each such default known to such Responsible Officer and the nature and status thereof.

SECTION 3.10. Issuer May Consolidate, etc., Only on Certain Terms.

(a) The Issuer shall not consolidate or merge with or into any other Person, unless:

(i) the Person (if other than the Issuer) formed by or surviving such consolidation or merger shall (A) be a Person organized and existing under the laws of the United States of America or any State, (B) expressly assume, by an indenture supplemental hereto, executed and delivered to the Indenture Trustee, in form and substance satisfactory to the Indenture Trustee, the performance or observance of every agreement and covenant of this Indenture and the Series Supplements on the part of the Issuer to be performed or observed, all as provided herein and in the Series Supplements, and (C) assume all obligations and succeed to all rights of the Issuer under each Sale Agreement, Servicing Agreement and each other Basic Document to which the Issuer is a party;

(ii) immediately after giving effect to such merger or consolidation, no Default, Event of Default or Servicer Default shall have occurred and be continuing;

(iii) the Rating Agency Condition shall have been satisfied with respect to such merger or consolidation;

(iv) the Issuer shall have delivered to Duke Energy [Carolinas/Progress], the Indenture Trustee, SRB Trustee and the Rating Agencies an opinion or opinions of outside tax counsel (as selected by the Issuer, in form and substance reasonably satisfactory to Duke Energy [Carolinas/Progress] and the Indenture Trustee, and which

may be based on a ruling from the Internal Revenue Service (unless the Internal Revenue Service has announced that it will not rule on the issues described in this paragraph)) to the effect that the consolidation or merger will not result in a material adverse U.S. federal or state income tax consequence to the Issuer, Duke Energy [Carolinas/Progress], the Indenture Trustee or the then-existing Holders;

(v) any action as is necessary to maintain the Lien and the perfected security interest in the Collateral created by this Indenture and the Series Supplements shall have been taken as evidenced by an Opinion of Counsel of external counsel of the Issuer delivered to the Indenture Trustee; and

(vi) the Issuer shall have delivered to the Indenture Trustee and the SRB Trustee an Officer's Certificate and an Opinion of Counsel of external counsel of the Issuer each stating that such consolidation or merger and such supplemental indenture comply with this Indenture and the Series Supplements and that all conditions precedent herein provided for in this Section 3.10(a) with respect to such transaction have been complied with (including any filing required by the Exchange Act).

(b) Except as specifically provided herein, the Issuer shall not sell, convey, exchange, transfer or otherwise dispose of any of its properties or assets included in the Collateral, to any Person, unless:

(i) the Person that acquires the properties and assets of the Issuer, the conveyance or transfer of which is hereby restricted, (A) shall be a United States citizen or a Person organized and existing under the laws of the United States of America or any State, (B) expressly assumes, by an indenture supplemental hereto, executed and delivered to the Indenture Trustee, in form and substance satisfactory to the Indenture Trustee, the performance or observance of every agreement and covenant of this Indenture on the part of the Issuer to be performed or observed, all as provided herein and in the Series Supplements, (C) expressly agrees by means of such supplemental indenture that all right, title and interest so sold, conveyed, exchanged, transferred or otherwise disposed of shall be subject and subordinate to the rights of Holders, (D) unless otherwise provided in the supplemental indenture referred to in Section 3.10(b)(i)(B), expressly agrees to indemnify, defend and hold harmless the Issuer and the Indenture Trustee against and from any loss, liability or expense arising under or related to this Indenture, the Series Supplements and the Storm Recovery Bonds, (E) expressly agrees by means of such supplemental indenture that such Person (or if a group of Persons, then one specified Person) shall make all filings with the SEC (and any other appropriate Person) required by the Exchange Act in connection with the Collateral and the Storm Recovery Bonds and (F) if such sale, conveyance, exchange, transfer or disposal relates to the Issuer's rights and obligations under the Sale Agreement for such Series or the Servicing Agreement for such Series, assumes all obligations and succeeds to all rights of the Issuer under the Sale Agreement for such Series and the Servicing Agreement for such Series, as applicable;

(ii) immediately after giving effect to such transaction, no Default, Event of Default or Servicer Default shall have occurred and be continuing;

(iii) the Rating Agency Condition shall have been satisfied with respect to such transaction;

(iv) the Issuer shall have delivered to Duke Energy [Carolinas/Progress], the Indenture Trustee, SRB Trustee and the Rating Agencies an opinion or opinions of outside tax counsel (as selected by the Issuer, in form and substance reasonably satisfactory to Duke Energy [Carolinas/Progress], and which may be based on a ruling from the Internal Revenue Service) to the effect that the disposition will not result in a material adverse U.S. federal or state income tax consequence to the Issuer, Duke Energy [Carolinas/Progress], the Indenture Trustee or the then-existing Holders;

(v) any action as is necessary to maintain the Lien and the perfected security interest in the Collateral created by this Indenture and the Series Supplements shall have been taken as evidenced by an Opinion of Counsel of external counsel of the Issuer delivered to the Indenture Trustee; and

(vi) the Issuer shall have delivered to the Indenture Trustee and the SRB Trustee an Officer's Certificate and an Opinion of Counsel of external counsel of the Issuer each stating that such sale, conveyance, exchange, transfer or other disposition and such supplemental indenture comply with this Indenture and the Series Supplements and that all conditions precedent herein provided for in this Section 3.10(b) with respect to such transaction have been complied with (including any filing required by the Exchange Act).

SECTION 3.11. Successor or Transferee.

(a) Upon any consolidation or merger of the Issuer in accordance with Section 3.10(a), the Person formed by or surviving such consolidation or merger (if other than the Issuer) shall succeed to, and be substituted for, and may exercise every right and power of, the Issuer under this Indenture with the same effect as if such Person had been named as the Issuer herein.

(b) Except as set forth in Section 6.07, upon a sale, conveyance, exchange, transfer or other disposition of all the assets and properties of the Issuer in accordance with Section 3.10(b), the Issuer will be released from every covenant and agreement of this Indenture and the other Basic Documents to be observed or performed on the part of the Issuer with respect to the Storm Recovery Bonds and the Property immediately following the consummation of such acquisition upon the delivery of written notice to the Indenture Trustee from the Person acquiring such assets and properties stating that the Issuer is to be so released.

SECTION 3.12. No Other Business. The Issuer shall not engage in any business other than financing, purchasing, owning, administering, managing and servicing the Property and the other Collateral and the issuance of the Storm Recovery Bonds in the manner contemplated by the Financing Order and any Subsequent Financing Order and this Indenture and the other Basic Documents and activities incidental thereto.

SECTION 3.13. No Borrowing. The Issuer shall not issue, incur, assume, guarantee or otherwise become liable, directly or indirectly, for any indebtedness except for the

Storm Recovery Bonds and any other indebtedness expressly permitted by or arising under the Basic Documents.

SECTION 3.14. Servicer's Obligations. The Issuer shall enforce the Servicer's compliance with and performance of all of the Servicer's material obligations under the Servicing Agreement.

SECTION 3.15. Guarantees, Loans, Advances and Other Liabilities. Except as otherwise contemplated by the Sale Agreement, the Servicing Agreement or this Indenture, the Issuer shall not make any loan or advance or credit to, or guarantee (directly or indirectly or by an instrument having the effect of assuring another's payment or performance on any obligation or capability of so doing or otherwise), endorse or otherwise become contingently liable, directly or indirectly, in connection with the obligations, stocks or dividends of, or own, purchase, repurchase or acquire (or agree contingently to do so) any stock, obligations, assets or securities of, or any other interest in, or make any capital contribution to, any other Person.

SECTION 3.16. Capital Expenditures. Other than the purchase of Series Property from the Seller on a Series Closing Date, the Issuer shall not make any expenditure (by long-term or operating lease or otherwise) for capital assets (either realty or personalty).

SECTION 3.17. Restricted Payments. Except as provided in Section 8.04(c), the Issuer shall not, directly or indirectly, (a) pay any dividend or make any distribution (by reduction of capital or otherwise), whether in cash, property, securities or a combination thereof, to any owner of an interest in the Issuer or otherwise with respect to any ownership or equity interest or similar security in or of the Issuer, (b) redeem, purchase, retire or otherwise acquire for value any such ownership or equity interest or similar security or (c) set aside or otherwise segregate any amounts for any such purpose; provided, however, that, if no Event of Default shall have occurred and be continuing or would be caused thereby, the Issuer may make, or cause to be made, any such distributions to any owner of an interest in the Issuer or otherwise with respect to any ownership or equity interest or similar security in or of the Issuer using funds distributed to the Issuer pursuant to Section 8.02(e)(xi) to the extent that such distributions would not cause the balance of the Capital Subaccount to decline below the Required Capital Level. The Issuer will not, directly or indirectly, make payments to or distributions from the Collection Account except in accordance with this Indenture and the other Basic Documents.

SECTION 3.18. Notice of Events of Default. The Issuer agrees to give the Indenture Trustee, SRB Trustee, the Commission and the Rating Agencies prompt written notice of each Default or Event of Default hereunder as provided in Section 5.01, and each default on the part of the Seller or the Servicer of its obligations under the Sale Agreement or the Servicing Agreement, respectively.

SECTION 3.19. Further Instruments and Acts. Upon request of the Indenture Trustee, the Issuer shall execute and deliver such further instruments and do such further acts as may be reasonably necessary or proper to carry out more effectively the purpose of this Indenture and to maintain the first priority perfected security interest of the Indenture Trustee in the Collateral.

SECTION 3.20. Inspection. The Issuer agrees that, on reasonable prior notice, it will permit any representative of the Indenture Trustee and any representative of the Commission, during the Issuer's normal business hours, to examine all the books of account, records, reports and other papers of the Issuer, to make copies and extracts therefrom, to cause such books to be audited annually by Independent registered public accountants, and to discuss the Issuer's affairs, finances and accounts with the Issuer's officers, employees and Independent registered public accountants, all at such reasonable times and as often as may be reasonably requested. The Indenture Trustee and the Commission shall and shall cause its representatives to hold in confidence all such information except to the extent disclosure may be required by law (and all reasonable applications for confidential treatment are unavailing) and except to the extent that the Indenture Trustee may reasonably determine that such disclosure is consistent with its obligations hereunder. Notwithstanding anything herein to the contrary, the preceding sentence shall not be construed to prohibit (a) disclosure of any and all information that is or becomes publicly known, or information obtained by the Indenture Trustee from sources other than the Issuer, provided such parties are rightfully in possession of such information, (b) disclosure of any and all information (i) if required to do so by any applicable statute, law, rule or regulation, (ii) pursuant to any subpoena, civil investigative demand or similar demand or request of any court or regulatory authority exercising its proper jurisdiction, (iii) in any preliminary or final prospectus, registration statement or other document a copy of which has been filed with the SEC, (iv) to any affiliate, independent or internal auditor, agent, employee or attorney of the Indenture Trustee having a need to know the same, provided that such parties agree to be bound by the confidentiality provisions contained in this Section 3.20, or (v) to any Rating Agency or (c) any other disclosure authorized by the Issuer.

SECTION 3.21. Additional Series.

(a) On the basis of the Financing Order or any Subsequent Financing Order, the Issuer may, in its sole discretion, acquire additional and separate Series Collateral and issue one or more Additional Series that are backed by such separate additional Series Collateral. Any Additional Series may include terms and provisions unique to that Additional Series.

(b) The Issuer shall not issue additional Storm Recovery Bonds if the Additional Series would result in the then-current ratings on any Outstanding Series of Storm Recovery Bonds being reduced or withdrawn.

(c) In addition to all applicable requirements of Section 2.10 hereof, the following conditions must be satisfied in connection with any Additional Series:

(i) the Rating Agency Condition for the [Series A] Storm Recovery Bonds and SRB Notes shall have been satisfied and such new Series of Storm Recovery Bonds shall be rated "AAA" by [Moody's, S&P and Fitch];

(ii) each Additional Series shall have recourse only to the assets pledged in connection with such Additional Series, shall be nonrecourse to any of the Issuer's other assets and shall not constitute a claim against the Issuer if cash flow from the pledged assets is insufficient to pay such Additional Series in full;

(iii) the Issuer has delivered to the Indenture Trustee, the SRB Trustee and each Rating Agency then rating any series of Outstanding Storm Recovery Bonds an Opinion of Counsel of a nationally recognized firm experienced in such matters to the effect that after such issuance, in the opinion of such counsel, if the Seller were to become a debtor in a case under the United States Bankruptcy Code (Title 11, U.S.C.), a federal court exercising bankruptcy jurisdiction and exercising reasonable judgment after full consideration of all relevant factors would not order substantive consolidation of the assets and liabilities of the Issuer with those of the bankruptcy estate of the Seller and that there has been a true sale of the Series Property with respect to such Additional Series, subject to the customary exceptions, qualifications and assumptions contained therein;

(iv) the Issuer has delivered to the Indenture Trustee and SRB Trustee an Officer's Certificate from the Issuer certifying that the Additional Series shall have the benefit of a True-Up Adjustment;

(v) the transaction documentation for such Additional Series provides that holders of the Storm Recovery Bonds of such Additional Series will not file or join in the filing of any bankruptcy petition against the Issuer;

(vi) if the holders of the Storm Recovery Bonds of any Additional Series are deemed to have any interest in any of the Series Collateral pledged under a Series Supplement (other than the Series Supplement related to such Additional Series, if any), the Holders of such Storm Recovery Bonds must agree that any such interest is subordinate to the claims and rights of the holders of such other related Series of Storm Recovery Bonds;

(vii) the Additional Series shall have its Collection Account; and

(viii) the Additional Series shall bear its own trustee fees and servicer fees and a pro rata portion of fees due under the Administration Agreement.

SECTION 3.22. Sale Agreement, Servicing Agreement, Intercreditor Agreement and Administration Agreement Covenants.

(a) The Issuer agrees to take all such lawful actions to enforce its rights under the Sale Agreement for such Series, the Servicing Agreement for such Series, the Intercreditor Agreement for such Series, the Administration Agreement and the other Basic Documents, and to compel or secure the performance and observance by the Seller, the Servicer, the Administrator and Duke Energy [Carolinas/Progress] of each of their respective obligations to the Issuer under or in connection with the Sale Agreement for such Series, the Servicing Agreement, for such Series the Intercreditor Agreement for such Series, the Administration Agreement and the other Basic Documents in accordance with the terms thereof. So long as no Event of Default occurs and is continuing, but subject to Section 3.22(f), the Issuer may exercise any and all rights, remedies, powers and privileges lawfully available to the Issuer under or in connection with the Sale Agreement, the Servicing Agreement, the Intercreditor Agreement and the Administration Agreement; provided, that such action shall not adversely affect the interests of the Holders in any material respect.

(b) If an Event of Default occurs and is continuing, the Indenture Trustee may, and at the direction (which direction shall be in writing) of the Holders of a majority of the Outstanding Amount of the Storm Recovery Bonds of all tranches affected thereby or the Commission, shall, exercise all rights, remedies, powers, privileges and claims of the Issuer against the Seller, Duke Energy [Carolinas/Progress], the Administrator and the Servicer, as the case may be, under or in connection with the Sale Agreement for such Series, the Servicing Agreement for such Series, the Intercreditor Agreement for such Series and the Administration Agreement, including the right or power to take any action to compel or secure performance or observance by the Seller, Duke Energy [Carolinas/Progress], the Administrator or the Servicer of each of their obligations to the Issuer thereunder and to give any consent, request, notice, direction, approval, extension or waiver under the Sale Agreement for such Series, the Servicing Agreement for such Series, the Intercreditor Agreement for such Series and the Administration Agreement, and any right of the Issuer to take such action shall be suspended.

(c) Except as set forth in Section 3.22(d), the Administration Agreement, the Sale Agreement for such Series, the Servicing Agreement for such Series and the Intercreditor Agreement for such Series may be amended in accordance with the provisions thereof, so long as the Rating Agency Condition is satisfied in connection therewith, at any time and from time to time, without the consent of the Holders of the Storm Recovery Bonds, but with the acknowledgement of the Indenture Trustee; provided, that the Indenture Trustee shall provide such consent upon receipt of an Officer's Certificate of the Issuer evidencing satisfaction of such Rating Agency Condition, an Opinion of Counsel of external counsel of the Issuer evidencing that such amendment is in accordance with the provisions of such Basic Document and satisfaction of the Commission Condition (as described in Section 9.03 hereof, or alternatively, if applicable, Section 13(b) of the Administration Agreement, Section 6.01(b) of the Sale Agreement or Section 8.01(b) of the Servicing Agreement).

(d) Except as set forth in Section 3.22(e), if the Issuer, the Seller, Duke Energy [Carolinas/Progress], the Administrator, the Servicer or any other party to the respective agreement proposes to amend, modify, waive, supplement, terminate or surrender, or agree to any amendment, modification, waiver, supplement, termination or surrender of, the terms of the Sale Agreement, the Administration Agreement, the Servicing Agreement or the Intercreditor Agreement, or waive timely performance or observance by the Seller, Duke Energy [Carolinas/Progress], the Administrator, the Servicer or any other party under the Sale Agreement, the Administration Agreement, the Servicing Agreement or the Intercreditor Agreement, in each case in such a way as would materially and adversely affect the interests of any Holder of Storm Recovery Bonds, the Issuer shall first notify the Rating Agencies of the proposed amendment, modification, waiver, supplement, termination or surrender and shall promptly notify the Indenture Trustee, the Commission and the Holders of the Storm Recovery Bonds in writing of the proposed amendment, modification, waiver, supplement, termination or surrender and whether the Rating Agency Condition has been satisfied with respect thereto (or, pursuant to an Issuer Request, the Indenture Trustee shall so notify the Holders of the Storm Recovery Bonds on the Issuer's behalf). The Indenture Trustee shall consent to such proposed amendment, modification, waiver, supplement, termination or surrender only if the Rating Agency Condition is satisfied and only with the (i) prior written consent of the Holders of a majority of the Outstanding Amount of Storm Recovery Bonds of each Series or tranche materially and adversely affected thereby and (ii) satisfaction of the Commission Condition (as

described in Section 9.03 hereof, or alternatively, if applicable, Section 13(b) of the Administration Agreement, Section 6.01(b) of the Sale Agreement or Section 8.01(b) of the Servicing Agreement). If any such amendment, modification, waiver, supplement, termination or surrender shall be so consented to by the Indenture Trustee or such Holders, the Issuer agrees to execute and deliver, in its own name and at its own expense, such agreements, instruments, consents and other documents as shall be necessary or appropriate in the circumstances.

(e) If the Issuer or the Servicer proposes to amend, modify, waive, supplement, terminate or surrender, or to agree to any amendment, modification, supplement, termination, waiver or surrender of, the process for True-Up Adjustments, the Issuer shall notify the Indenture Trustee and the Holders of the Storm Recovery Bonds and, when required, the Commission in writing of such proposal (or, pursuant to an Issuer Request, the Indenture Trustee shall so notify the Holders of the Storm Recovery Bonds on the Issuer's behalf) and the Indenture Trustee shall consent thereto only with the prior written consent of the Holders of a majority of the Outstanding Amount of Storm Recovery Bonds of each Series or tranche affected thereby and only if the Rating Agency Condition and Commission Condition have been satisfied with respect thereto.

(f) Promptly following a default by the Seller under the Sale Agreement for such Series, by the Administrator under the Administration Agreement or by any party under the Intercreditor Agreement for such Series, or the occurrence of a Servicer Default under the Servicing Agreement for such Series, and at the Issuer's expense, the Issuer agrees to take all such lawful actions as the Indenture Trustee may request to compel or secure the performance and observance by each of the Seller, the Administrator or the Servicer, and by such party to the Intercreditor Agreement, of their obligations under and in accordance with the Sale Agreement for such Series, the Servicing Agreement for such Series, the Administration Agreement and the Intercreditor Agreement for such Series, as the case may be, in accordance with the terms thereof, and to exercise any and all rights, remedies, powers and privileges lawfully available to the Issuer under or in connection with such agreements to the extent and in the manner directed by the Indenture Trustee, including the transmission of notices of any default by the Seller, the Administrator or the Servicer, respectively, thereunder and the institution of legal or administrative actions or Proceedings to compel or secure performance of their obligations under the Sale Agreement for such Series, the Servicing Agreement for such Series, the Administration Agreement or the Intercreditor Agreement for such Series, as applicable.

SECTION 3.23. Taxes. So long as any of the Storm Recovery Bonds are Outstanding, the Issuer shall pay all taxes, assessments and governmental charges imposed upon it or any of its properties or assets or with respect to any of its franchises, business, income or property before any penalty accrues thereon if the failure to pay any such taxes, assessments and governmental charges would, after any applicable grace periods, notices or other similar requirements, result in a Lien on the Collateral; provided, that no such tax need be paid if the Issuer is contesting the same in good faith by appropriate proceedings promptly instituted and diligently conducted and if the Issuer has established appropriate reserves as shall be required in conformity with generally accepted accounting principles.

SECTION 3.24. Notices from Holders. The Issuer shall promptly transmit any notice received by it from the Holders to the Indenture Trustee.

SECTION 3.25. Volcker Rule. The Issuer is structured so as not to be a “covered fund” under the regulations adopted to implement Section 619 of the Dodd-Frank Wall Street Reform and Consumer Protection Act, commonly known as the “Volcker Rule.”

ARTICLE IV

SATISFACTION AND DISCHARGE; DEFEASANCE

SECTION 4.01. Satisfaction and Discharge of Indenture; Defeasance.

(a) This Indenture shall cease to be of further effect with respect to the Storm Recovery Bonds of any Series, and the Indenture Trustee, on reasonable written demand of and at the expense of the Issuer, shall execute proper instruments acknowledging satisfaction and discharge of this Indenture with respect to the Storm Recovery Bonds of such Series, when:

(i) Either:

(A) all Storm Recovery Bonds of such Series theretofore authenticated and delivered (other than (1) Storm Recovery Bonds that have been destroyed, lost or stolen and that have been replaced or paid as provided in Section 2.06 and (2) Storm Recovery Bonds for whose payment money has theretofore been deposited in trust or segregated and held in trust by the Issuer and thereafter repaid to the Issuer or discharged from such trust, as provided in the last paragraph of Section 3.03) have been delivered to the Indenture Trustee for cancellation; or

(B) either (1) the Scheduled Final Payment Date has occurred with respect to all Storm Recovery Bonds of such Series not theretofore delivered to the Indenture Trustee for cancellation or (2) the Storm Recovery Bonds of such Series will be due and payable on their respective Scheduled Final Payment Dates within one year, and, in any such case, the Issuer has irrevocably deposited or caused to be irrevocably deposited in trust with the Indenture Trustee (i) cash and/or (ii) U.S. Government Obligations that through the scheduled payments of principal and interest in respect thereof in accordance with their terms are in an amount sufficient to pay principal, interest and premium, if any, on the Storm Recovery Bonds of such Series not theretofore delivered to the Indenture Trustee for cancellation, Ongoing Financing Costs and all other sums payable hereunder by the Issuer with respect to the Storm Recovery Bonds of such Series when scheduled to be paid and to discharge the entire indebtedness on the Storm Recovery Bonds of such Series when due;

(ii) the Issuer has paid or caused to be paid all other sums payable hereunder by the Issuer with respect to such Series; and

(iii) the Issuer has delivered to the Indenture Trustee and the Commission an Officer's Certificate, an Opinion of Counsel of external counsel of the Issuer and (if required by the Trust Indenture Act or the Indenture Trustee) an Independent Certificate from a firm of registered public accountants, each meeting the applicable requirements of Section 10.01(a) and each stating that all conditions precedent herein provided for relating to the satisfaction and discharge of this Indenture with respect to the Storm Recovery Bonds of such Series have been complied with.

(b) Subject to Section 4.01(c) and Section 4.02, the Issuer at any time may terminate (i) all its obligations under this Indenture with respect to the Storm Recovery Bonds of any Series ("Legal Defeasance Option") or (ii) its obligations under Section 3.04, Section 3.05, Section 3.06, Section 3.07, Section 3.08, Section 3.09, Section 3.10, Section 3.12, Section 3.13, Section 3.14, Section 3.15, Section 3.16, Section 3.17, Section 3.18 and Section 3.19 and the operation of Section 5.01(c) with respect to the Storm Recovery Bonds of any Series ("Covenant Defeasance Option"). The Issuer may exercise the Legal Defeasance Option with respect to any Series of the Storm Recovery Bonds notwithstanding its prior exercise of the Covenant Defeasance Option with respect to such Series.

If the Issuer exercises the Legal Defeasance Option with respect to any Series, the maturity of the Storm Recovery Bonds of such Series may not be accelerated because of an Event of Default. If the Issuer exercises the Covenant Defeasance Option with respect to any Series, the maturity of the Storm Recovery Bonds of such Series may not be accelerated because of an Event of Default specified in Section 5.01(c).

Upon satisfaction of the conditions set forth herein to the exercise of the Legal Defeasance Option or the Covenant Defeasance Option with respect to any Series of the Storm Recovery Bonds, the Indenture Trustee, on reasonable written demand of and at the expense of the Issuer, shall execute proper instruments acknowledging satisfaction and discharge of the obligations that are terminated pursuant to such exercise.

(c) Notwithstanding Section 4.01(a) and Section 4.01(b), (i) rights of registration of transfer and exchange, (ii) substitution of mutilated, destroyed, lost or stolen Storm Recovery Bonds, (iii) rights of Holders to receive payments of principal, premium, if any, and interest, (iv) Section 4.03 and Section 4.04, (v) the rights, obligations and immunities of the Indenture Trustee hereunder (including the rights of the Indenture Trustee under Section 6.07 and the obligations of the Indenture Trustee under Section 4.03) and (vi) the rights of Holders as beneficiaries hereof with respect to the property deposited with the Indenture Trustee payable to all or any of them, each shall survive until the Storm Recovery Bonds of the Series as to which this Indenture or certain obligations hereunder have been satisfied and discharged pursuant to Section 4.01(a) or Section 4.01(b). Thereafter the obligations in Section 6.07 and Section 4.04 with respect to such Series shall survive.

SECTION 4.02. Conditions to Defeasance. The Issuer may exercise the Legal Defeasance Option or the Covenant Defeasance Option with respect to any Series of the Storm Recovery Bonds only if:

(a) the Issuer has irrevocably deposited or caused to be irrevocably deposited in trust with the Indenture Trustee (i) cash and/or (ii) U.S. Government Obligations that through the scheduled payments of principal and interest in respect thereof in accordance with their terms are in an amount sufficient to pay principal, interest and premium, if any, on the Storm Recovery Bonds of such Series not therefore delivered to the Indenture Trustee for cancellation and Ongoing Financing Costs and all other sums payable hereunder by the Issuer with respect to the Storm Recovery Bonds of such Series when scheduled to be paid and to discharge the entire indebtedness on the Storm Recovery Bonds of such Series when due;

(b) the Issuer delivers to the Indenture Trustee a certificate from a nationally recognized firm of Independent registered public accountants expressing its opinion that the payments of principal of and interest on the deposited U.S. Government Obligations when due and without reinvestment plus any deposited cash will provide cash at such times and in such amounts (but, in the case of the Legal Defeasance Option only, not more than such amounts) as will be sufficient to pay in respect of the Storm Recovery Bonds of such Series (i) principal in accordance with the Expected Sinking Fund Schedule therefor, (ii) interest when due and (iii) Ongoing Financing Costs and all other sums payable hereunder by the Issuer with respect to the Storm Recovery Bonds of such Series;

(c) in the case of the Legal Defeasance Option, 95 days after the deposit is made and during the 95-day period no Default specified in Section 5.01(e) or Section 5.01(f) occurs that is continuing at the end of the period;

(d) no Default has occurred and is continuing on the day of such deposit and after giving effect thereto;

(e) in the case of an exercise of the Legal Defeasance Option, the Issuer shall have delivered to the Indenture Trustee an Opinion of Counsel of external counsel of the Issuer stating that (i) the Issuer has received from, or there has been published by, the Internal Revenue Service a ruling or (ii) since the date of execution of this Indenture, there has been a change in the applicable U.S. federal income tax law, in either case to the effect that, and based thereon such opinion shall confirm that, the Holders of the Storm Recovery Bonds of such Series will not recognize income, gain or loss for U.S. federal income tax purposes as a result of such legal defeasance and will be subject to U.S. federal income tax on the same amounts, in the same manner and at the same times as would have been the case if such legal defeasance had not occurred;

(f) in the case of an exercise of the Covenant Defeasance Option, the Issuer shall have delivered to the Indenture Trustee an Opinion of Counsel of external counsel of the Issuer to the effect that the Holders of the Storm Recovery Bonds of such Series will not recognize income, gain or loss for U.S. federal income tax purposes as a result of such covenant defeasance and will be subject to U.S. federal income tax on the same amounts, in the same manner and at the same times as would have been the case if such covenant defeasance had not occurred;

(g) the Issuer delivers to the Indenture Trustee an Officer's Certificate and an Opinion of Counsel, each stating that all conditions precedent to the Legal Defeasance Option or

the Covenant Defeasance Option, as applicable, have been complied with as required by this Article IV;

(h) the Issuer delivers to the Indenture Trustee, the SRB Trustee an Opinion of Counsel of external counsel of the Issuer to the effect that: (i) in a case under the Bankruptcy Code in which Duke Energy [Carolinas/Progress] (or any of its Affiliates, other than the Issuer) is the debtor, the court would hold that the deposited moneys or U.S. Government Obligations would not be in the bankruptcy estate of Duke Energy [Carolinas/Progress] (or any of its Affiliates, other than the Issuer, that deposited the moneys or U.S. Government Obligations); and (ii) in the event Duke Energy [Carolinas/Progress] (or any of its Affiliates, other than the Issuer, that deposited the moneys or U.S. Government Obligations) were to be a debtor in a case under the Bankruptcy Code, the court would not disregard the separate legal existence of Duke Energy [Carolinas/Progress] (or any of its Affiliates, other than the Issuer, that deposited the moneys or U.S. Government Obligations) and the Issuer so as to order substantive consolidation under the Bankruptcy Code of the Issuer's assets and liabilities with the assets and liabilities of Duke Energy [Carolinas/Progress] or such other Affiliate; and

(i) the Rating Agency Condition shall have been satisfied with respect to the exercise of any Legal Defeasance Option or Covenant Defeasance Option.

Notwithstanding any other provision of this Section 4.02, no delivery of moneys or U.S. Government Obligations to the Indenture Trustee shall terminate any obligation of the Issuer to the Indenture Trustee under this Indenture or the applicable Series Supplement or any obligation of the Issuer to apply such moneys or U.S. Government Obligations under Section 4.03 until principal of and premium, if any, and interest on the Storm Recovery Bonds of such Series shall have been paid in accordance with the provisions of this Indenture and the Series Supplement.

SECTION 4.03. Application of Trust Money. All moneys or U.S. Government Obligations deposited with the Indenture Trustee pursuant to Section 4.01 or Section 4.02 shall be held in trust and applied by it, in accordance with the provisions of the Storm Recovery Bonds and this Indenture, to the payment, either directly or through any Paying Agent, as the Indenture Trustee may determine, to the Holders of the particular Storm Recovery Bonds for the payment of which such moneys have been deposited with the Indenture Trustee, of all sums due and to become due thereon for principal, premium, if any, and interest; but such moneys need not be segregated from other funds except to the extent required herein or in the Servicing Agreement or required by law. Notwithstanding anything to the contrary in this Article IV, the Indenture Trustee shall deliver or pay to the Issuer from time to time upon Issuer Request any moneys or U.S. Government Obligations held by it pursuant to Section 4.02 that, in the opinion of a nationally recognized firm of Independent registered public accountants expressed in a written certification thereof delivered to the Indenture Trustee (and not at the cost or expense of the Indenture Trustee), are in excess of the amount thereof that would be required to be deposited for the purpose for which such moneys or U.S. Government Obligations were deposited; provided, that any such payment shall be subject to the satisfaction of the Rating Agency Condition.

SECTION 4.04. Repayment of Moneys Held by Paying Agent. In connection with the satisfaction and discharge of this Indenture or the Covenant Defeasance Option or Legal Defeasance Option with respect to any Series of Storm Recovery Bonds, all moneys with respect

to such Series then held by any Paying Agent other than the Indenture Trustee under the provisions of this Indenture shall, upon demand of the Issuer, be paid to the Indenture Trustee to be held and applied according to Section 3.03 and thereupon such Paying Agent shall be released from all further liability with respect to such moneys.

ARTICLE V

REMEDIES

SECTION 5.01. Events of Default. “Event of Default” with respect to any Series means any one or more of the following events (whatever the reason for such Event of Default and whether it shall be voluntary or involuntary or be effected by operation of law or pursuant to any judgment, decree or order of any court or any order, rule or regulation of any administrative or governmental body):

(a) default in the payment of any interest on any Storm Recovery Bond when the same becomes due and payable (whether such failure to pay interest is caused by a shortfall in Charges received or otherwise), and such default shall continue for a period of five Business Days;

(b) default in the payment of the then unpaid principal of any Storm Recovery Bond of any Series on the Final Maturity Date for such Series, or, if applicable, any tranche on the Final Maturity Date for such tranche;

(c) default in the observance or performance of any covenant or agreement of the Issuer made in this Indenture (other than defaults specified in Section 5.01(a) or Section 5.01(b)), and such default shall continue or not be cured, for a period of 30 days after the earlier of (i) the date that there shall have been given, by registered or certified mail, to the Issuer by the Indenture Trustee or to the Issuer and the Indenture Trustee by the Holders of at least 25 percent of the Outstanding Amount of the Storm Recovery Bonds of a Series, a written notice specifying such default and requiring it to be remedied and stating that such notice is a “Notice of Default” hereunder or (ii) the date that the Issuer has actual knowledge of the default;

(d) any representation or warranty of the Issuer made in this Indenture, a Series Supplement or in any certificate or other writing delivered pursuant hereto or a Series Supplement or in connection herewith proving to have been incorrect in any material respect as of the time when the same shall have been made, and the circumstance or condition in respect of which such representation or warranty was incorrect shall not have been eliminated or otherwise cured, within 30 days after the earlier of (i) the date that there shall have been given, by registered or certified mail, to the Issuer by the Indenture Trustee or to the Issuer and the Indenture Trustee by the Holders of at least twenty-five (25) percent of the Outstanding Amount of the Storm Recovery Bonds, a written notice specifying such incorrect representation or warranty and requiring it to be remedied and stating that such notice is a “Notice of Default” hereunder or (ii) the date the Issuer has actual knowledge of the default;

(e) the filing of a decree or order for relief by a court having jurisdiction in the premises in respect of the Issuer or any substantial part of the Collateral in an involuntary

case or proceeding under any applicable U.S. federal or state bankruptcy, insolvency or other similar law now or hereafter in effect, or appointing a receiver, liquidator, assignee, custodian, trustee, sequestrator or similar official of the Issuer or for any substantial part of the Collateral, or ordering the winding-up or liquidation of the Issuer's affairs, and such decree or order shall remain unstayed and in effect for a period of 90 consecutive days;

(f) the commencement by the Issuer of a voluntary case under any applicable U.S. federal or state bankruptcy, insolvency or other similar law now or hereafter in effect, or the consent by the Issuer to the entry of an order for relief in an involuntary case or proceeding under any such law, or the consent by the Issuer to the appointment or taking possession by a receiver, liquidator, assignee, custodian, trustee, sequestrator or similar official of the Issuer or for any substantial part of the Collateral, or the making by the Issuer of any general assignment for the benefit of creditors, or the failure by the Issuer generally to pay its debts as such debts become due, or the taking of action by the Issuer in furtherance of any of the foregoing;

(g) any act or failure to act by the State of North Carolina or any of its agencies (including the Commission), officers or employees that violates the State Pledge or is not in accordance with the State Pledge; or

(h) any other event designated as such in a Series Supplement.

The Issuer shall deliver to a Responsible Officer of the Indenture Trustee and to the Rating Agencies, within five days after a Responsible Officer of the Issuer has knowledge of the occurrence thereof, written notice in the form of an Officer's Certificate of any event (i) that is an Event of Default under Section 5.01(a), Section 5.01(b), Section 5.01(f), Section 5.01(g) or Section 5.01(h) or (ii) that with the giving of notice, the lapse of time, or both, would become an Event of Default under Section 5.01(c), Section 5.01(d) or Section 5.01(e), including, in each case, the status of such Default or Event of Default and what action the Issuer is taking or proposes to take with respect thereto. An Event of Default with respect to one Series of Storm Recovery Bonds will not trigger an Event of Default with respect to any other Outstanding Series of Storm Recovery Bonds.

SECTION 5.02. Acceleration of Maturity; Rescission and Annulment. If an Event of Default (other than an Event of Default under Section 5.01(g)) should occur and be continuing with respect to any Series, then and in every such case the Indenture Trustee or the Holders representing a majority of the Outstanding Amount of the Storm Recovery Bonds of such Series may declare the Storm Recovery Bonds of such Series to be immediately due and payable, by a notice in writing to the Issuer (and to the Indenture Trustee and the Commission if given by Holders), and upon any such declaration the unpaid principal amount of the Storm Recovery Bonds of such Series, together with accrued and unpaid interest thereon through the date of acceleration, shall become immediately due and payable.

At any time after such declaration of acceleration of maturity has been made and before a judgment or decree for payment of the money due has been obtained by the Indenture Trustee as hereinafter in this Article V provided, the Holders representing a majority of the Outstanding Amount of the Storm Recovery Bonds of such Series, by written notice to the

Issuer, the Commission and the Indenture Trustee, may rescind and annul such declaration and its consequences if:

- (a) the Issuer has paid or deposited with the Indenture Trustee a sum sufficient to pay:
 - (i) all payments of principal of and premium, if any, and interest on all Storm Recovery Bonds of all Series due and owing at such time as if such Event of Default had not occurred and was not continuing and all other amounts that would then be due hereunder or upon the Storm Recovery Bonds if the Event of Default giving rise to such acceleration had not occurred; and
 - (ii) all sums paid or advanced by the Indenture Trustee hereunder and the reasonable compensation, expenses; provided, that, the Indenture Trustee shall not be obligated to pay or advance any sums hereunder from its own funds after an Event of Default, disbursements and advances of the Indenture Trustee and its agents and counsel; and
- (b) all Events of Default with respect to such Series, other than the nonpayment of the principal of the Storm Recovery Bonds of such Series that has become due solely by such acceleration, have been cured or waived as provided in Section 5.12.

No such rescission shall affect any subsequent default or impair any right consequent thereto.

SECTION 5.03. Collection of Indebtedness and Suits for Enforcement by Indenture Trustee.

(a) If an Event of Default under Section 5.01(a) or Section 5.01(b) has occurred and is continuing, subject to Section 10.16, the Indenture Trustee, in its own name and as trustee of an express trust, may institute a Proceeding for the collection of the sums so due and unpaid, and may prosecute such Proceeding to judgment or final decree, and, subject to the limitations on recourse set forth herein, may enforce the same against the Issuer or other obligor upon the Storm Recovery Bonds of such Series and collect in the manner provided by law out of the property of the Issuer or other obligor upon the Storm Recovery Bonds of such Series wherever situated the moneys payable, or the Series Collateral and the proceeds thereof, the whole amount then due and payable on the Storm Recovery Bonds of such Series for principal, premium, if any, and interest, with interest upon the overdue principal and premium, if any, and, to the extent payment at such rate of interest shall be legally enforceable, upon overdue installments of interest, at the respective rate borne by the Storm Recovery Bonds of such Series or the applicable tranche of such Series and in addition thereto such further amount as shall be sufficient to cover the costs and expenses of collection, including the reasonable compensation, expenses, disbursements and advances of the Indenture Trustee and its agents and counsel.

(b) If an Event of Default (other than Event of Default under Section 5.01(g)) occurs and is continuing, the Indenture Trustee shall, as more particularly provided in Section 5.04, proceed to protect and enforce its rights and the rights of the Holders, by such appropriate Proceedings as the Indenture Trustee shall deem most effective to protect and enforce any such rights, whether for the specific enforcement of any covenant or agreement in

this Indenture or in aid of the exercise of any power granted herein, or to enforce any other proper remedy or legal or equitable right vested in the Indenture Trustee by this Indenture and each Series Supplement or by law, including foreclosing or otherwise enforcing the Lien of the Collateral securing the Storm Recovery Bonds or applying to the Commission or a court of competent jurisdiction for sequestration of revenues arising with respect to the Property.

(c) If an Event of Default under Section 5.01(e) or Section 5.01(f) has occurred and is continuing, the Indenture Trustee, irrespective of whether the principal of any Storm Recovery Bonds shall then be due and payable as therein expressed or by declaration or otherwise and irrespective of whether the Indenture Trustee shall have made any demand pursuant to the provisions of this Section 5.03, shall be entitled and empowered, by intervention in any Proceedings related to such Event of Default or otherwise:

(i) to file and prove a claim or claims for the whole amount of principal, premium, if any, and interest owing and unpaid in respect of the Storm Recovery Bonds and to file such other papers or documents as may be necessary or advisable in order to have the claims of the Indenture Trustee (including any claim for reasonable compensation to the Indenture Trustee and each predecessor Indenture Trustee, and their respective agents, attorneys and counsel, and for reimbursement of all expenses and liabilities incurred, and all advances made, by the Indenture Trustee and each predecessor Indenture Trustee, except as a result of negligence or bad faith) and of the Holders allowed in such Proceedings;

(ii) unless prohibited by applicable law and regulations, to vote on behalf of the Holders in any election of a trustee in bankruptcy, a standby trustee or Person performing similar functions in any such Proceedings;

(iii) to collect and receive any moneys or other property payable or deliverable on any such claims and to distribute all amounts received with respect to the claims of the Holders and of the Indenture Trustee on their behalf; and

(iv) to file such proofs of claim and other papers and documents as may be necessary or advisable in order to have the claims of the Indenture Trustee or the Holders allowed in any judicial proceeding relative to the Issuer, its creditors and its property;

and any trustee, receiver, liquidator, custodian or other similar official in any such Proceeding is hereby authorized by each of such Holders to make payments to the Indenture Trustee, and, in the event that the Indenture Trustee shall consent to the making of payments directly to such Holders, to pay to the Indenture Trustee such amounts as shall be sufficient to cover reasonable compensation to the Indenture Trustee, each predecessor Indenture Trustee and their respective agents, attorneys and counsel, and all other expenses and liabilities incurred, and all advances made, by the Indenture Trustee and each predecessor Indenture Trustee except as a result of negligence or bad faith.

(d) Nothing herein contained shall be deemed to authorize the Indenture Trustee to authorize or consent to or vote for or accept or adopt on behalf of any Holder any plan of reorganization, arrangement, adjustment or composition affecting the Storm Recovery Bonds

or the rights of any Holder thereof or to authorize the Indenture Trustee to vote in respect of the claim of any Holder in any such proceeding except, as aforesaid, to vote for the election of a trustee in bankruptcy or similar Person.

(e) All rights of action and of asserting claims under this Indenture, or under any of the Storm Recovery Bonds of any Series, may be enforced by the Indenture Trustee without the possession of any of the Storm Recovery Bonds of any Series or the production thereof in any trial or other Proceedings relative thereto, and any such action or proceedings instituted by the Indenture Trustee shall be brought in its own name as trustee of an express trust, and any recovery of judgment, subject to the payment of the expenses, disbursements and compensation of the Indenture Trustee, each predecessor Indenture Trustee and their respective agents and attorneys, shall be for the ratable benefit of the Holders of the Storm Recovery Bonds of such Series.

SECTION 5.04. Remedies; Priorities.

(a) If an Event of Default (other than an Event of Default under Section 5.01(g)) shall have occurred and be continuing with respect to a Series, the Indenture Trustee may do one or more of the following (subject to Section 5.05):

(i) institute Proceedings in its own name and as trustee of an express trust for the collection of all amounts then payable on the Storm Recovery Bonds of such Series or under this Indenture with respect thereto, whether by declaration of acceleration or otherwise, and, subject to the limitations on recovery set forth herein, enforce any judgment obtained, and collect from the Issuer or any other obligor moneys adjudged due, upon the Storm Recovery Bonds;

(ii) institute Proceedings from time to time for the complete or partial foreclosure of this Indenture with respect to the Series Collateral;

(iii) exercise any remedies of a secured party under the UCC, the Storm Recovery Law or any other applicable law and take any other appropriate action to protect and enforce the rights and remedies of the Indenture Trustee and the Holders of the Storm Recovery Bonds of such Series;

(iv) at the written direction of the Holders of a majority of the Outstanding Amount of the Storm Recovery Bonds of such Series, either sell the Series Collateral or any portion thereof or rights or interest therein, at one or more public or private sales called and conducted in any manner permitted by law, or elect that the Issuer maintain possession of all or a portion of the Series Collateral pursuant to Section 5.05 and continue to apply the Storm Recovery Charge Collection as if there had been no declaration of acceleration; and

(v) exercise all rights, remedies, powers, privileges and claims of the Issuer against the Seller, the Administrator or the Servicer under or in connection with, and pursuant to the terms of, the Sale Agreement, the Administration Agreement or the Servicing Agreement;

provided, however, that the Indenture Trustee may not sell or otherwise liquidate any portion of the Series Collateral following such an Event of Default, other than an Event of Default described in Section 5.01(a) or Section 5.01(b), with respect to a Series unless (A) the Holders of 100 percent of the Outstanding Amount of the Storm Recovery Bonds of such Series consent thereto, (B) the proceeds of such sale or liquidation distributable to the Holders are sufficient to discharge in full all amounts then due and unpaid upon the Storm Recovery Bonds of such Series for principal, premium, if any, and interest after taking into account payment of all amounts due prior thereto pursuant to the priorities set forth in Section 8.02(e) or (C) the Indenture Trustee determines that the Series Collateral will not continue to provide sufficient funds for all payments on the Storm Recovery Bonds of such Series as they would have become due if the Storm Recovery Bonds had not been declared due and payable, and the Indenture Trustee obtains the written consent of Holders of at least two-thirds of the Outstanding Amount of the Storm Recovery Bonds of such Series. In determining such sufficiency or insufficiency with respect to clause (B) above and clause (C) above, the Indenture Trustee may, but need not, obtain and conclusively rely upon an opinion of an Independent investment banking or accounting firm of national reputation as to the feasibility of such proposed action and as to the sufficiency of the Series Collateral for such purpose, at Issuer's expense.

(b) If an Event of Default under Section 5.01(g) shall have occurred and be continuing, the Indenture Trustee, for the benefit of the Secured Parties of the related Series, shall be entitled and empowered, to the extent permitted by applicable law, to institute or participate in Proceedings necessary to compel performance of or to enforce the State Pledge and to collect any monetary damages incurred by the Holders or the Indenture Trustee as a result of any such Event of Default, and may prosecute any such Proceeding to final judgment or decree. Such remedy shall be the only remedy that the Indenture Trustee may exercise if the only Event of Default that has occurred and is continuing is an Event of Default under Section 5.01(g).

(c) If the Indenture Trustee collects any money pursuant to this Article V, it shall pay out such money in accordance with the priorities set forth in Section 8.02(e).

SECTION 5.05. Optional Preservation of the Collateral. If the Storm Recovery Bonds of any Series have been declared to be due and payable under Section 5.02 following an Event of Default and such declaration and its consequences have not been rescinded and annulled, the Indenture Trustee may, but need not, elect to maintain possession of all or a portion of the related Series Collateral. It is the desire of the parties hereto and the Holders that there be at all times sufficient funds for the payment of principal of and premium, if any, and interest on the Storm Recovery Bonds, and the Indenture Trustee shall take such desire into account when determining whether or not to maintain possession of the Series Collateral. In determining whether to maintain possession of the Series Collateral or sell or liquidate the same, the Indenture Trustee may, but need not, obtain and conclusively rely upon an opinion of an Independent investment banking or accounting firm of national reputation as to the feasibility of such proposed action and as to the sufficiency of the Series Collateral for such purpose.

SECTION 5.06. Limitation of Suits. No Holder of any Storm Recovery Bond of any Series shall have any right to institute any Proceeding, judicial or otherwise, to avail itself of any remedies provided in the Storm Recovery Law or to avail itself of the right to foreclose on the Series Collateral or otherwise enforce the Lien and the security interest on the Series

Collateral with respect to this Indenture and the related Series Supplement, or for the appointment of a receiver or trustee, or for any other remedy hereunder, unless:

- (a) such Holder previously has given written notice to the Indenture Trustee of a continuing Event of Default with respect to such Series;
- (b) the Holders of a majority of the Outstanding Amount of the Storm Recovery Bonds of such Series have made written request to the Indenture Trustee to institute such Proceeding in respect of such Event of Default in its own name as Indenture Trustee hereunder;
- (c) such Holder or Holders have offered to the Indenture Trustee indemnity satisfactory to it against the costs, expenses and liabilities to be incurred in complying with such request;
- (d) the Indenture Trustee for 60 days after its receipt of such notice, request and offer of indemnity has failed to institute such Proceedings; and
- (e) no direction inconsistent with such written request has been given to the Indenture Trustee during such 60-day period by the Holders of a majority of the Outstanding Amount of the Storm Recovery Bonds of all Series;

it being understood and intended that no one or more Holders shall have any right in any manner whatever by virtue of, or by availing of, any provision of this Indenture to affect, disturb or prejudice the rights of any other Holders or to obtain or to seek to obtain priority or preference over any other Holders or to enforce any right under this Indenture, except in the manner herein provided.

In the event the Indenture Trustee shall receive conflicting or inconsistent requests and indemnity from two or more groups of Holders, each representing less than a majority of the Outstanding Amount of the Storm Recovery Bonds of all Series, the Indenture Trustee in its sole discretion may file a petition with a court of competent jurisdiction to resolve such conflict or determine what action, if any, shall be taken, notwithstanding any other provisions of this Indenture.

SECTION 5.07. Unconditional Rights of Holders To Receive Principal, Premium, if any, and Interest. Notwithstanding any other provisions in this Indenture, the Holder of any Storm Recovery Bond shall have the right, which is absolute and unconditional, (a) to receive payment of (i) the interest, if any, on such Storm Recovery Bond on the due dates thereof expressed in such Storm Recovery Bond or in this Indenture or (ii) the unpaid principal, if any, of the Storm Recovery Bonds on the Final Maturity Date or Final Maturity Date for such tranche therefor and (b) to institute suit for the enforcement of any such payment, and such right shall not be impaired without the consent of such Holder.

SECTION 5.08. Restoration of Rights and Remedies. If the Indenture Trustee or any Holder has instituted any Proceeding to enforce any right or remedy under this Indenture and such Proceeding has been discontinued or abandoned for any reason or has been determined adversely to the Indenture Trustee or to such Holder, then and in every such case the Issuer, the

Indenture Trustee and the Holders shall, subject to any determination in such Proceeding, be restored severally and respectively to their former positions hereunder, and thereafter all rights and remedies of the Indenture Trustee and the Holders shall continue as though no such Proceeding had been instituted.

SECTION 5.09. Rights and Remedies Cumulative. No right or remedy herein conferred upon or reserved to the Indenture Trustee or to the Holders is intended to be exclusive of any other right or remedy, and every right and remedy shall, to the extent permitted by law, be cumulative and in addition to every other right and remedy given hereunder or now or hereafter existing at law or in equity or otherwise. The assertion or employment of any right or remedy hereunder, or otherwise, shall not prevent the concurrent assertion or employment of any other appropriate right or remedy.

SECTION 5.10. Delay or Omission Not a Waiver. No delay or omission of the Indenture Trustee or any Holder to exercise any right or remedy accruing upon any Default or Event of Default shall impair any such right or remedy or constitute a waiver of any such Default or Event of Default or an acquiescence therein. Every right and remedy given by this Article V or by law to the Indenture Trustee or to the Holders may be exercised from time to time, and as often as may be deemed expedient, by the Indenture Trustee or by the Holders, as the case may be.

SECTION 5.11. Control by Holders. The Holders of a majority of the Outstanding Amount of the Storm Recovery Bonds of all Series (or, if less than all Series or tranches are affected, the affected Series or tranche) shall have the right to direct the time, method and place of conducting any Proceeding for any remedy available to the Indenture Trustee with respect to the Storm Recovery Bonds of such Series or tranche or tranches or exercising any trust or power conferred on the Indenture Trustee with respect to such Series or tranche or tranches; provided, that:

(a) such direction shall not be in conflict with any rule of law or with this Indenture or any Series Supplement and shall not involve the Indenture Trustee in any personal liability or expense;

(b) subject to other conditions specified in Section 5.04, any direction to the Indenture Trustee to sell or liquidate any Series Collateral shall be by the Holders representing 100 percent of the Outstanding Amount of the Storm Recovery Bonds in the affected Series;

(c) if the conditions set forth in Section 5.05 have been satisfied and the Indenture Trustee elects to retain the Series Collateral pursuant to Section 5.05, then any direction to the Indenture Trustee by Holders representing less than 100 percent of the Outstanding Amount of the Storm Recovery Bonds of the affected Series to sell or liquidate the Series Collateral shall be of no force and effect; and

(d) the Indenture Trustee may take any other action deemed proper by the Indenture Trustee that is not inconsistent with such direction;

provided, however, that the Indenture Trustee's duties shall be subject to Section 6.01, and the Indenture Trustee need not take any action that it determines might involve it in liability or might

materially adversely affect the rights of any Holders not consenting to such action. Furthermore and without limiting the foregoing, the Indenture Trustee shall not be required to take any action for which it reasonably believes that it will not be indemnified to its satisfaction against any cost, expense or liabilities.

SECTION 5.12. Waiver of Past Defaults. Prior to the declaration of the acceleration of the maturity of the Storm Recovery Bonds of all Series as provided in Section 5.02, the Holders representing a majority of the Outstanding Amount of the Storm Recovery Bonds of an affected Series, with the written consent of the Commission, may waive any past Default or Event of Default and its consequences except a Default (a) in payment of principal of or premium, if any, or interest on any of the Storm Recovery Bonds or (b) in respect of a covenant or provision hereof that cannot be modified or amended without the consent of the Holder of each Storm Recovery Bond of all Series or tranches affected. In the case of any such waiver, the Issuer, the Indenture Trustee and the Holders shall be restored to their former positions and rights hereunder, respectively, but no such waiver shall extend to any subsequent or other Default or impair any right consequent thereto.

Upon any such waiver, such Default shall cease to exist and be deemed to have been cured and not to have occurred, and any Event of Default arising therefrom shall be deemed to have been cured and not to have occurred, for every purpose of this Indenture, but no such waiver shall extend to any subsequent or other Default or Event of Default or impair any right consequent thereto.

SECTION 5.13. Undertaking for Costs. All parties to this Indenture agree, and each Holder of any Storm Recovery Bond by such Holder's acceptance thereof shall be deemed to have agreed, that any court may in its discretion require, in any suit for the enforcement of any right or remedy under this Indenture, or in any suit against the Indenture Trustee for any action taken, suffered or omitted by it as Indenture Trustee, the filing by any party litigant in such suit of an undertaking to pay the costs of such suit, and that such court may in its discretion assess reasonable costs, including reasonable attorneys' fees, against any party litigant in such suit, having due regard to the merits and good faith of the claims or defenses made by such party litigant; but the provisions of this Section 5.13 shall not apply to (a) any suit instituted by the Indenture Trustee, (b) any suit instituted by any Holder, or group of Holders, in each case holding in the aggregate more than ten percent of the Outstanding Amount of the Storm Recovery Bonds of a Series or (c) any suit instituted by any Holder for the enforcement of the payment of (i) interest on any Storm Recovery Bond on or after the due dates expressed in such Storm Recovery Bond and in this Indenture or (ii) the unpaid principal, if any, of any Storm Recovery Bond on or after the Final Maturity Date or Final Maturity Date for such tranche therefor.

SECTION 5.14. Waiver of Stay or Extension Laws. The Issuer covenants (to the extent that it may lawfully do so) that it will not at any time insist upon or plead or, in any manner whatsoever, claim or take the benefit or advantage of, any stay or extension law wherever enacted, now or at any time hereafter in force, that may affect the covenants or the performance of this Indenture; and the Issuer (to the extent that it may lawfully do so) hereby expressly waives all benefit or advantage of any such law, and covenants that it will not hinder,

delay or impede the execution of any power herein granted to the Indenture Trustee, but will suffer and permit the execution of every such power as though no such law had been enacted.

SECTION 5.15. Action on Storm Recovery Bonds. The Indenture Trustee's right to seek and recover judgment on the Storm Recovery Bonds or under this Indenture shall not be affected by the seeking, obtaining or application of any other relief under or with respect to this Indenture. Neither the Lien of this Indenture nor any rights or remedies of the Indenture Trustee or the Holders shall be impaired by the recovery of any judgment by the Indenture Trustee against the Issuer or by the levy of any execution under such judgment upon any portion of the Collateral or any other assets of the Issuer.

ARTICLE VI

THE INDENTURE TRUSTEE

SECTION 6.01. Duties of Indenture Trustee.

(a) If an Event of Default has occurred and is continuing, the Indenture Trustee shall exercise the rights and powers vested in it by this Indenture and use the same degree of care and skill in their exercise as a prudent person would exercise or use under the circumstances in the conduct of such person's own affairs.

(b) Except during the continuance of an Event of Default:

(i) the Indenture Trustee undertakes to perform such duties and only such duties as are specifically set forth in this Indenture, and no implied covenants or obligations shall be read into this Indenture against the Indenture Trustee; and

(ii) in the absence of bad faith on its part, the Indenture Trustee may conclusively rely, as to the truth of the statements and the correctness of the opinions expressed therein, upon certificates or opinions furnished to the Indenture Trustee and conforming to the requirements of this Indenture (but need not confirm or investigate the accuracy of mathematical calculations or other facts stated therein).

(c) The Indenture Trustee may not be relieved from liability for its own negligent action, its own bad faith, its own negligent failure to act or its own willful misconduct, except that:

(i) this Section 6.01(c) does not limit the effect of Section 6.01(b);

(ii) the Indenture Trustee shall not be liable for any error of judgment made in good faith by a Responsible Officer unless it is proved that the Indenture Trustee was negligent in ascertaining the pertinent facts; and

(iii) the Indenture Trustee shall not be liable with respect to any action it takes or omits to take in good faith in accordance with a direction received by it hereunder.

(d) Every provision of this Indenture that in any way relates to the Indenture Trustee is subject to Section 6.01(a), Section 6.01(b) and Section 6.01(c).

(e) The Indenture Trustee shall not be liable for interest on any money received by it except as the Indenture Trustee may agree in writing with the Issuer.

(f) Money held in trust by the Indenture Trustee need not be segregated from other funds held by the Indenture Trustee except to the extent required by law or the terms of this Indenture, the Sale Agreement, the Servicing Agreement or the Administration Agreement.

(g) No provision of this Indenture shall require the Indenture Trustee to expend or risk its own funds or otherwise incur financial liability in the performance of any of its duties hereunder or in the exercise of any of its rights or powers, if it shall have reasonable grounds to believe that repayments of such funds or indemnity satisfactory to it against such risk or liability is not reasonably assured to it.

(h) Every provision of this Indenture relating to the conduct or affecting the liability of or affording protection to the Indenture Trustee shall be subject to the provisions of this Section 6.01 and to the provisions of the Trust Indenture Act.

(i) In the event that the Indenture Trustee is also acting as Paying Agent or Storm Recovery Bond Registrar hereunder, the protections of this Article VI shall also be afforded to the Indenture Trustee in its capacity as Paying Agent or Storm Recovery Bond Registrar.

(j) Except for the express duties of the Indenture Trustee with respect to the administrative functions set forth in the Basic Documents, the Indenture Trustee shall have no obligation to administer, service or collect Property or to maintain, monitor or otherwise supervise the administration, servicing or collection of the Charges.

(k) Under no circumstance shall the Indenture Trustee be liable for any indebtedness of the Issuer, the Servicer or the Seller evidenced by or arising under the Storm Recovery Bonds or the Basic Documents.

(l) Commencing with March 15, 2022, on or before March 15th of each fiscal year ending December 31, so long as the Issuer is required to file Exchange Act reports, the Indenture Trustee shall (i) deliver to the Issuer a report (in form and substance reasonably satisfactory to the Issuer and addressed to the Issuer and signed by an authorized officer of the Indenture Trustee) regarding the Indenture Trustee's assessment of compliance, during the preceding fiscal year ended December 31, with each of the applicable servicing criteria specified on Exhibit C as required under Rule 13a-18 and Rule 15d-18 under the Exchange Act and Item 1122 of Regulation AB and (ii) deliver to the Issuer a report of an Independent registered public accounting firm reasonably acceptable to the Issuer that attests to and reports on, in accordance with Rule 1-02(a)(3) and Rule 2-02(g) of Regulation S-X under the Securities Act and the Exchange Act, the assessment of compliance made by the Indenture Trustee and delivered pursuant to Section 6.01(l)(i).

SECTION 6.02. Rights of Indenture Trustee.

(a) The Indenture Trustee may conclusively rely and shall be fully protected in relying on any document believed by it to be genuine and to have been signed or presented by the proper person. The Indenture Trustee need not investigate any fact or matter stated in such document.

(b) Before the Indenture Trustee acts or refrains from acting, it may require and shall be entitled to receive an Officer's Certificate or an Opinion of Counsel, which counsel may be an employee of or counsel to the Issuer or the Seller and which shall be reasonably satisfactory to the Indenture Trustee, or, in the Indenture Trustee's sole judgment, external counsel of the Issuer (at no cost or expense to the Indenture Trustee) that such action is required or permitted hereunder. The Indenture Trustee shall not be liable for any action it takes or omits to take in good faith in reliance on such Officer's Certificate or Opinion of Counsel.

(c) The Indenture Trustee may execute any of the trusts or powers hereunder or perform any duties hereunder either directly or by or through agents or attorneys or a custodian or nominee, and the Indenture Trustee shall not be responsible for any misconduct or negligence on the part of, or for the supervision of, any such agent, attorney, custodian or nominee appointed with due care by it hereunder. The Indenture Trustee shall give prompt written notice to the Issuer, in which case the Issuer shall then give prompt written notice to the Rating Agencies, of the appointment of any such agent, custodian or nominee to whom it delegates any of its express duties under this Indenture; provided, that the Indenture Trustee shall not be obligated to give such notice (i) if the Issuer or the Holders have directed the Indenture Trustee to appoint such agent, custodian or nominee (in which event the Issuer shall give prompt notice to the Rating Agencies of any such direction) or (ii) of the appointment of any agents, custodians or nominees made at any time that an Event of Default on account of non-payment of principal or interest on the Storm Recovery Bonds or bankruptcy or insolvency of the Issuer has occurred and is continuing.

(d) The Indenture Trustee shall not be liable for any action it takes or omits to take in good faith that it believes to be authorized or within its rights or powers; provided, however, that the Indenture Trustee's conduct does not constitute willful misconduct, negligence or bad faith.

(e) The Indenture Trustee may consult with counsel, and the advice or opinion of counsel with respect to legal matters relating to this Indenture and the Storm Recovery Bonds shall be full and complete authorization and protection from liability in respect to any action taken, omitted or suffered by it hereunder in good faith and in accordance with the advice or opinion of such counsel.

(f) The Indenture Trustee shall be under no obligation to take any action or exercise any of the rights or powers vested in it by this Indenture or any other Basic Document, or to institute, conduct or defend any litigation hereunder or thereunder or in relation hereto or thereto, at the request, order or direction of any of the Holders pursuant to the provisions of this Indenture and each Series Supplement or otherwise, unless it shall have received security or indemnity satisfactory to it against the costs, expenses and liabilities that may be incurred.

(g) The Indenture Trustee may conclusively rely and shall be protected in acting or refraining from acting upon any resolution, certificate, statement, instrument, opinion, report, notice, request, direction, consent, order, bond, debenture, note, other evidence of indebtedness or other paper or document believed by it to be genuine and to have been signed or presented by the proper party or parties.

(h) Any request or direction of the Issuer mentioned herein shall be sufficiently evidenced by an Issuer Request or an Issuer Order.

(i) Whenever in the administration of this Indenture the Indenture Trustee shall deem it desirable that a matter be proved or established prior to taking, suffering or omitting any action hereunder, the Indenture Trustee (unless other evidence be herein specifically prescribed) may, in the absence of bad faith on its part, conclusively rely upon an Officer's Certificate.

(j) The Indenture Trustee shall not be bound to make any investigation into the facts or matters stated in any resolution, certificate, statement, instrument, opinion, report, notice, request, direction, consent, order, bond, debenture, note, other evidence of indebtedness or other paper or document, but the Indenture Trustee, in its discretion, may make such further inquiry or investigation into such facts or matters as it may see fit, and, if the Indenture Trustee shall determine to make such further inquiry or investigation, it shall be entitled to examine the books, records and premises of the Issuer, personally or by agent or attorney at the sole cost of the Issuer, and shall incur no liability or additional liability of any kind by reason of such inquiry or investigation.

(k) In no event shall the Indenture Trustee be responsible or liable for special, indirect or consequential loss or damage of any kind whatsoever (including loss of profit) irrespective of whether the Indenture Trustee has been advised of the likelihood of such loss or damage and regardless of the form of action.

(l) In no event shall the Indenture Trustee be responsible or liable for any failure or delay in the performance of its obligations hereunder arising out of or caused by, directly or indirectly, forces beyond its control, including strikes, work stoppages, accidents, acts of war or terrorism, civil or military disturbances, nuclear or natural catastrophes or acts of God, and interruptions, loss or malfunctions of utilities, communications or computer (software and hardware) services, it being understood that the Indenture Trustee shall use reasonable efforts that are consistent with accepted practices in the banking industry to resume performance as soon as practicable under the circumstances.

SECTION 6.03. Individual Rights of Indenture Trustee. The Indenture Trustee in its individual or any other capacity may become the owner or pledgee of Storm Recovery Bonds and may otherwise deal with the Issuer or its Affiliates with the same rights it would have if it were not Indenture Trustee. Any Paying Agent, Storm Recovery Bond Registrar, co-registrar or co-paying agent or agent appointed under Section 3.02 may do the same with like rights. However, the Indenture Trustee must comply with Section 6.11 and Section 6.12.

SECTION 6.04. Indenture Trustee's Disclaimer.

(a) The Indenture Trustee shall not be responsible for and makes no representation (other than as set forth in Section 6.13) as to the validity or adequacy of this Indenture or the Storm Recovery Bonds, it shall not be accountable for the Issuer's use of the proceeds from the Storm Recovery Bonds, and it shall not be responsible for any statement of the Issuer in this Indenture or in any document issued in connection with the sale of the Storm Recovery Bonds or in the Storm Recovery Bonds other than the Indenture Trustee's certificate of authentication. The Indenture Trustee shall not be responsible for the form, character, genuineness, sufficiency, value or validity of any of the Collateral (or for the perfection or priority of the Liens thereon), or for or in respect of the Storm Recovery Bonds (other than the certificate of authentication for the Storm Recovery Bonds) or the Basic Documents, and the Indenture Trustee shall in no event assume or incur any liability, duty or obligation to any Holder, other than as expressly provided in this Indenture. The Indenture Trustee shall not be liable for the default or misconduct of the Issuer, the Seller or the Servicer under the Basic Documents or otherwise, and the Indenture Trustee shall have no obligation or liability to perform the obligations of such Persons.

(b) The Indenture Trustee shall not be responsible for (i) the validity of the title of the Issuer to the Collateral, (ii) insuring the Collateral or (iii) the payment of taxes, charges, assessments or Liens upon the Collateral or otherwise as to the maintenance of the Collateral. The Indenture Trustee shall have no duty to ascertain or inquire as to the performance or observance of any of the terms of this Indenture or any of the other Basic Documents. The Indenture Trustee shall not be responsible for filing any financing or continuation statements or recording any documents or instruments in any public office at any time or times or otherwise perfecting or maintaining the perfection of any security interest in the Collateral.

SECTION 6.05. Notice of Defaults. If a Default occurs and is continuing with respect to any Series, the Indenture Trustee shall mail to each Rating Agency, to the SRB Trustee, [to the Commission] and each Holder of Storm Recovery Bonds of all Series notice of the Default within ten Business Days after actual notice of such Default was received by a Responsible Officer of the Indenture Trustee (provided that the Indenture Trustee shall give the Rating Agencies prompt notice of any payment default in respect of the Storm Recovery Bonds). Except in the case of a Default in payment of principal of and premium, if any, or interest on any Storm Recovery Bond, the Indenture Trustee may withhold the notice of the Default if and so long as a committee of its Responsible Officers in good faith determines that withholding such notice is in the interests of Holders and SRB Noteholders. In no event shall the Indenture Trustee be deemed to have knowledge of a Default unless a Responsible Officer of the Indenture Trustee shall have actual knowledge of a Default or shall have received written notice thereof.

SECTION 6.06. Reports by Indenture Trustee to Holders.

(a) So long as Storm Recovery Bonds are Outstanding and the Indenture Trustee is the Storm Recovery Bond Registrar and Paying Agent, upon the written request of any Holder or the Issuer, within the prescribed period of time for tax reporting purposes after the end of each calendar year, the Indenture Trustee shall deliver to each relevant current or former

Holder such information in its possession as may be required to enable such Holder to prepare its U.S. federal income and any applicable local or state tax returns. If the Storm Recovery Bond Registrar and Paying Agent is other than the Indenture Trustee, such Storm Recovery Bond Registrar and Paying Agent, within the prescribed period of time for tax reporting purposes after the end of each calendar year, shall deliver to each relevant current or former Holder such information in its possession as may be required to enable such Holder to prepare its U.S. federal income and any applicable local or state tax returns.

(b) On or prior to each Payment Date or Special Payment Date therefor, the Indenture Trustee will deliver to each Holder of the Storm Recovery Bonds and to the SRB Issuer on such Payment Date or Special Payment Date and the Commission a statement as provided and prepared by the Servicer, which will include (to the extent applicable) the following information (and any other information so specified in the Series Supplement for such Series) as to the Storm Recovery Bonds with respect to such Payment Date or Special Payment Date or the period since the previous Payment Date, as applicable:

- (i) the amount of the payment to Holders allocable to principal, if any;
- (ii) the amount of the payment to Holders allocable to interest;
- (iii) the aggregate Outstanding Amount of the Storm Recovery Bonds, before and after giving effect to any payments allocated to principal reported under Section 6.06(b)(i);
- (iv) the difference, if any, between the amount specified in Section 6.06(b)(iii) and the Outstanding Amount specified in the related Expected Sinking Fund Schedule;
- (v) any other transfers and payments to be made on such Payment Date or Special Payment Date, including amounts paid to the Indenture Trustee, the SRB Trustee, the Delaware Trustee and to the Servicer; and
- (vi) the amounts on deposit in the Capital Subaccount and the Excess Funds Subaccount, after giving effect to the foregoing payments.

(c) The Issuer shall send a copy of each of the Certificate of Compliance delivered to it pursuant to Section 3.03 of the Servicing Agreement and the Annual Accountant's Report delivered to it pursuant to Section 3.04 of the Servicing Agreement to [the Commission], the Rating Agencies, the Indenture Trustee, the SRB Trustee and to the Servicer for posting on the 17g-5 Website in accordance with Rule 17g-5 under the Exchange Act. A copy of such certificate and report may be obtained by any Holder by a request in writing to the Indenture Trustee.

(d) The Indenture Trustee will provide the SRB Trustee the statement required to be sent to SRB Noteholders pursuant to [Section 4.03 of the SRB Indenture], such statement to be prepared by the Servicer and provided to the Indenture Trustee with the statement referenced in 6.06(b) above.

(e) The Indenture Trustee may consult with counsel and the advice or opinion of such counsel with respect to legal matters relating to this Indenture and the Storm Recovery Bonds shall be full and complete authorization and protection from liability with respect to any action taken, omitted or suffered by it hereunder in good faith and in accordance with the advice or opinion of such counsel. Any reasonable legal fees incurred by the Indenture Trustee shall be payable to the Indenture Trustee from amounts hold in the Collection Account in accordance with the provisions set forth in Section 8.02(e).

SECTION 6.07. Compensation and Indemnity. The Issuer shall pay to the Indenture Trustee from time to time reasonable compensation for its services. The Indenture Trustee's compensation shall not, to the extent permitted by law, be limited by any law on compensation of a trustee of an express trust. The Issuer shall reimburse the Indenture Trustee for all reasonable out-of-pocket expenses incurred or made by it, including costs of collection, in addition to the compensation for its services. Such expenses shall include the reasonable compensation and expenses, disbursements and advances of the Indenture Trustee's agents, counsel, accountants and experts. The Issuer shall indemnify and hold harmless the Indenture Trustee and its officers, directors, employees and agents against any and all cost, damage, loss, liability, tax or expense (including reasonable attorneys' fees and expenses) incurred by it in connection with the administration and the enforcement of this Indenture, each Series Supplement and the other Basic Documents and the Indenture Trustee's rights, powers and obligations under this Indenture, each Series Supplement and the other Basic Documents and the performance of its duties hereunder and thereunder and obligations under or pursuant to this Indenture, each Series Supplement and the other Basic Documents other than any such tax on the compensation of the Indenture Trustee for its services as Indenture Trustee. The Indenture Trustee shall notify the Issuer as soon as is reasonably practicable of any claim for which it may seek indemnity. Failure by the Indenture Trustee to so notify the Issuer shall not relieve the Issuer of its obligations hereunder. The Issuer shall defend the claim, the Indenture Trustee may have separate counsel, and the Issuer shall pay the reasonable fees and expenses of such counsel. The Issuer need not reimburse any expense or indemnify against any loss, liability or expense incurred by the Indenture Trustee through the Indenture Trustee's own willful misconduct, negligence or bad faith.

The payment obligations to the Indenture Trustee pursuant to this Section 6.07 shall survive the discharge of this Indenture and Series Supplements or the earlier resignation or removal of the Indenture Trustee. When the Indenture Trustee incurs expenses after the occurrence of a Default specified in Section 5.01(e) or Section 5.01(f) with respect to the Issuer, the expenses are intended to constitute expenses of administration under the Bankruptcy Code or any other applicable U.S. federal or state bankruptcy, insolvency or similar law.

The Issuer acknowledges and agrees that under the SRB Indenture the SRB Trustee shall pay the fees and expenses of, and shall indemnify and hold harmless the Indenture Trustee and the Delaware Trustee, to the extent that payments required to be made by the Issuer to the Indenture Trustee under this Section 6.07 or to the Delaware Trustee under the Fee and Indemnity Agreement, as the case may be, are not made by the Issuer when due.

SECTION 6.08. Replacement of Indenture Trustee and Securities Intermediary.

(a) The Indenture Trustee may resign at any time upon 30 days' prior written notice to the Issuer subject to Section 6.08(c). The Holders of a majority of the Outstanding Amount of the Storm Recovery Bonds may remove the Indenture Trustee by so notifying the Indenture Trustee not less than 31 days prior to the date of removal and may appoint a successor Indenture Trustee. The Issuer shall remove the Indenture Trustee if:

- (i) the Indenture Trustee fails to comply with Section 6.11;
- (ii) the Indenture Trustee is adjudged a bankrupt or insolvent;
- (iii) a receiver or other public officer takes charge of the Indenture Trustee or its property;
- (iv) the Indenture Trustee otherwise becomes incapable of acting; or
- (v) the Indenture Trustee fails to provide to the Issuer any information reasonably requested by the Issuer pertaining to the Indenture Trustee and necessary for the Issuer or the Sponsor to comply with its respective reporting obligations under the Exchange Act and Regulation AB and such failure is not resolved to the Issuer's and the Indenture Trustee's mutual satisfaction within a reasonable period of time.

Any removal or resignation of the Indenture Trustee shall also constitute a removal or resignation of the Securities Intermediary.

(b) If the Indenture Trustee gives notice of resignation or is removed or if a vacancy exists in the office of Indenture Trustee for any reason (the Indenture Trustee in such event being referred to herein as the retiring Indenture Trustee), the Issuer shall promptly appoint a successor Indenture Trustee and Securities Intermediary.

(c) A successor Indenture Trustee shall deliver a written acceptance of its appointment as the Indenture Trustee and as the Securities Intermediary to the retiring Indenture Trustee and to the Issuer. Thereupon the resignation or removal of the retiring Indenture Trustee shall become effective, and the successor Indenture Trustee shall have all the rights, powers and duties of the Indenture Trustee and Securities Intermediary, as applicable, under this Indenture and the other Basic Documents. No resignation or removal of the Indenture Trustee pursuant to this Section 6.08 shall become effective until acceptance of the appointment by a successor Indenture Trustee having the qualifications set forth in Section 6.11. Notice of any such appointment shall be promptly given to each Rating Agency by the successor Indenture Trustee. The successor Indenture Trustee shall mail a notice of its succession to Holders. The retiring Indenture Trustee shall promptly transfer all property held by it as Indenture Trustee to the successor Indenture Trustee.

(d) If a successor Indenture Trustee does not take office within 60 days after the retiring Indenture Trustee resigns or is removed, the retiring Indenture Trustee, the Issuer or the Holders of a majority in Outstanding Amount of the Storm Recovery Bonds may petition any court of competent jurisdiction for the appointment of a successor Indenture Trustee.

(e) If the Indenture Trustee fails to comply with Section 6.11, any Holder may petition any court of competent jurisdiction for the removal of the Indenture Trustee and the appointment of a successor Indenture Trustee.

(f) Notwithstanding the replacement of the Indenture Trustee pursuant to this Section 6.08, the Issuer's obligations under Section 6.07 shall continue for the benefit of the retiring Indenture Trustee.

SECTION 6.09. Successor Indenture Trustee by Merger. If the Indenture Trustee consolidates with, merges or converts into, or transfers all or substantially all its corporate trust business or assets to, another corporation or banking association, the resulting, surviving or transferee corporation or banking association without any further act shall be the successor Indenture Trustee; provided, however, that, if such successor Indenture Trustee is not eligible under Section 6.11, then the successor Indenture Trustee shall be replaced in accordance with Section 6.08. Notice of any such event shall be promptly given to each Rating Agency by the successor Indenture Trustee.

In case at the time such successor or successors by merger, conversion, consolidation or transfer shall succeed to the trusts created by this Indenture any of the Storm Recovery Bonds shall have been authenticated but not delivered, any such successor to the Indenture Trustee may adopt the certificate of authentication of any predecessor trustee and deliver the Storm Recovery Bonds so authenticated; and, in case at that time any of the Storm Recovery Bonds shall not have been authenticated, any successor to the Indenture Trustee may authenticate the Storm Recovery Bonds either in the name of any predecessor hereunder or in the name of the successor to the Indenture Trustee; and in all such cases such certificates shall have the full force that it is anywhere in the Storm Recovery Bonds or in this Indenture provided that the certificate of the Indenture Trustee shall have.

SECTION 6.10. Appointment of Co-Trustee or Separate Trustee.

(a) Notwithstanding any other provisions of this Indenture, at any time, for the purpose of meeting any legal requirement of any jurisdiction in which any part of the trust created by this Indenture or the Collateral may at the time be located, the Indenture Trustee shall have the power and may execute and deliver all instruments to appoint one or more Persons to act as a co-trustee or co-trustees, or separate trustee or separate trustees, of all or any part of the trust created by this Indenture or the Collateral, and to vest in such Person or Persons, in such capacity and for the benefit of the Secured Parties, such title to the Collateral, or any part hereof, and, subject to the other provisions of this Section 6.10, such powers, duties, obligations, rights and trusts as the Indenture Trustee may consider necessary or desirable. No co-trustee or separate trustee hereunder shall be required to meet the terms of eligibility as a successor trustee under Section 6.11 and no notice to Holders of the appointment of any co-trustee or separate trustee shall be required under Section 6.08. Notice of any such appointment shall be promptly given to each Rating Agency, to the SRB Trustee [and to the Commission] by the Indenture Trustee.

(b) Every separate trustee and co-trustee shall, to the extent permitted by law, be appointed and act subject to the following provisions and conditions:

(i) all rights, powers, duties and obligations conferred or imposed upon the Indenture Trustee shall be conferred or imposed upon and exercised or performed by the Indenture Trustee and such separate trustee or co-trustee jointly (it being understood that such separate trustee or co-trustee is not authorized to act separately without the Indenture Trustee joining in such act), except to the extent that under any law of any jurisdiction in which any particular act or acts are to be performed the Indenture Trustee shall be incompetent or unqualified to perform such act or acts, in which event such rights, powers, duties and obligations (including the holding of title to the Collateral or any portion thereof in any such jurisdiction) shall be exercised and performed singly by such separate trustee or co-trustee, but solely at the direction of the Indenture Trustee;

(ii) no trustee hereunder shall be personally liable by reason of any act or omission of any other trustee hereunder; and

(iii) the Indenture Trustee may at any time accept the resignation of or remove any separate trustee or co-trustee.

(c) Any notice, request or other writing given to the Indenture Trustee shall be deemed to have been given to each of the then-separate trustees and co-trustees, as effectively as if given to each of them. Every instrument appointing any separate trustee or co-trustee shall refer to this Indenture and the conditions of this Article VI. Each separate trustee and co-trustee, upon its acceptance of the trusts conferred, shall be vested with the estates or property specified in its instrument of appointment, either jointly with the Indenture Trustee or separately, as may be provided therein, subject to all the provisions of this Indenture, specifically including every provision of this Indenture relating to the conduct of, affecting the liability of, or affording protection to, the Indenture Trustee. Every such instrument shall be filed with the Indenture Trustee.

(d) Any separate trustee or co-trustee may at any time constitute the Indenture Trustee, its agent or its attorney-in-fact with full power and authority, to the extent not prohibited by law, to do any lawful act under or in respect of this Indenture on its behalf and in its name. If any separate trustee or co-trustee shall die, become incapable of acting, resign or be removed, all of its estates, properties, rights, remedies and trusts shall vest in and be exercised by the Indenture Trustee, to the extent permitted by law, without the appointment of a new or successor trustee.

SECTION 6.11. Eligibility; Disqualification. The Indenture Trustee shall at all times satisfy the requirements of Section 310(a)(1) of the Trust Indenture Act, Section 310(a)(5) of the Trust Indenture Act and Rule 3a-7 of the Investment Company Act. The Indenture Trustee shall have a combined capital and surplus of at least \$50,000,000 as set forth in its most recent published annual report of condition and shall have a long-term debt rating from each of S&P and Fitch in one of its generic rating categories that signifies investment grade. The Indenture Trustee shall comply with Section 310(b) of the Trust Indenture Act, including the optional provision permitted by the second sentence of Section 310(b)(9) of the Trust Indenture

Act; provided, however, that there shall be excluded from the operation of Section 310(b)(1) of the Trust Indenture Act any indenture or indentures under which other securities of the Issuer are outstanding if the requirements for such exclusion set forth in Section 310(b)(1) of the Trust Indenture Act are met.

SECTION 6.12. Preferential Collection of Claims Against Issuer. The Indenture Trustee shall comply with Section 311(a) of the Trust Indenture Act, excluding any creditor relationship listed in Section 311(b) of the Trust Indenture Act. An Indenture Trustee who has resigned or been removed shall be subject to Section 311(a) of the Trust Indenture Act to the extent indicated therein.

SECTION 6.13. Representations and Warranties of Indenture Trustee. The Indenture Trustee hereby represents and warrants that:

(a) the Indenture Trustee is a national banking association validly existing and in good standing under the laws of the United States of America; and

(b) the Indenture Trustee has full power, authority and legal right to execute, deliver and perform its obligations under this Indenture and the other Basic Documents to which the Indenture Trustee is a party and has taken all necessary action to authorize the execution, delivery and performance of obligations by it of this Indenture and such other Basic Documents.

SECTION 6.14. Annual Report by Independent Registered Public Accountants. The Indenture Trustee hereby covenants that it will cooperate fully with the firm of Independent registered public accountants performing the procedures required under Section 3.04 of the Servicing Agreement, it being understood and agreed that the Indenture Trustee will so cooperate in conclusive reliance upon the direction of the Issuer, and the Indenture Trustee makes no independent inquiry or investigation to, and shall have no obligation or liability in respect of, the sufficiency, validity or correctness of such procedures.

SECTION 6.15. Custody of Collateral. The Indenture Trustee shall hold such of the Collateral (and any other collateral that may be granted to the Indenture Trustee) as consists of instruments, deposit accounts, negotiable documents, money, goods, letters of credit and advices of credit in the State of New York. The Indenture Trustee shall hold such of the Collateral as constitute investment property through the Securities Intermediary (which, as of the date hereof, is []). The initial Securities Intermediary hereby agrees (and each future Securities Intermediary shall agree) with the Indenture Trustee that (a) such investment property shall at all times be credited to a securities account of the Indenture Trustee, (b) the Securities Intermediary shall treat the Indenture Trustee as entitled to exercise the rights that comprise each financial asset credited to such securities account, (c) all property credited to such securities account shall be treated as a financial asset, (d) the Securities Intermediary shall comply with entitlement orders originated by the Indenture Trustee without the further consent of any other Person, (e) the Securities Intermediary will not agree with any Person other than the Indenture Trustee to comply with entitlement orders originated by such other Person, (f) such securities accounts and the property credited thereto shall not be subject to any Lien or right of set-off in favor of the Securities Intermediary or anyone claiming through it (other than the Indenture Trustee) and (g) such agreement shall be governed by the internal laws of the State of New York. Terms used in

the preceding sentence that are defined in the UCC and not otherwise defined herein shall have the meaning set forth in the UCC. Except as permitted by this Section 6.15 or elsewhere in this Indenture, the Indenture Trustee shall not hold Collateral through an agent or a nominee.

ARTICLE VII

HOLDERS' LISTS AND REPORTS

SECTION 7.01. Issuer To Furnish Indenture Trustee Names and Addresses of Holders. The Issuer will furnish or cause to be furnished to the Indenture Trustee (a) not more than five days after the earlier of (i) each Record Date with respect to each Series and (ii) six months after the last Record Date with respect to each Series, a list, in such form as the Indenture Trustee may reasonably require, of the names and addresses of the Holders of such Series as of such Record Date, and (b) at such other times as the Indenture Trustee may request in writing, within 30 days after receipt by the Issuer of any such request, a list of similar form and content as of a date not more than ten days prior to the time such list is furnished; provided, however, that, so long as the Indenture Trustee is the Storm Recovery Bond Registrar, no such list shall be required to be furnished.

SECTION 7.02. Preservation of Information; Communications to Holders.

(a) The Indenture Trustee shall preserve, in as current a form as is reasonably practicable, the names and addresses of the Holders contained in the most recent list furnished to the Indenture Trustee as provided in Section 7.01 and the names and addresses of Holders received by the Indenture Trustee in its capacity as Storm Recovery Bond Registrar. The Indenture Trustee may destroy any list furnished to it as provided in Section 7.01 upon receipt of a new list so furnished.

(b) Holders may communicate pursuant to Section 312(b) of the Trust Indenture Act with other Holders with respect to their rights under this Indenture or under the Storm Recovery Bonds. In addition, upon the written request of any Holder or group of Holders of any Series or of all Outstanding Series of Storm Recovery Bonds evidencing at least 10 percent of the Outstanding Amount of the Storm Recovery Bonds of that Series or of all Series, as applicable, the Indenture Trustee shall afford the Holder or Holders making such request a copy of a current list of Holders for purposes of communicating with other Holders with respect to their rights hereunder; provided, that the Indenture Trustee gives prior written notice to the Issuer of such request.

(c) The Issuer, the Indenture Trustee and the Storm Recovery Bond Registrar shall have the protection of Section 312(c) of the Trust Indenture Act.

SECTION 7.03. Reports by Issuer.

(a) The Issuer shall:

(i) so long as the Issuer or the Sponsor is required to file such documents with the SEC, provide to the Indenture Trustee and the Commission, within 15 days after the Issuer is required to file the same with the SEC, copies of the annual reports and of the

information, documents and other reports (or copies of such portions of any of the foregoing as the SEC may from time to time by rules and regulations prescribe) that the Issuer or the Sponsor may be required to file with the SEC pursuant to Section 13 or 15(d) of the Exchange Act;

(ii) provide to the Indenture Trustee and the Commission and file with the SEC, in accordance with rules and regulations prescribed from time to time by the SEC, such additional information, documents and reports with respect to compliance by the Issuer with the conditions and covenants of this Indenture as may be required from time to time by such rules and regulations; and

(iii) supply to the Indenture Trustee (and the Indenture Trustee shall transmit by mail to all Holders described in Section 313(c) of the Trust Indenture Act) and the Commission, such summaries of any information, documents and reports required to be filed by the Issuer pursuant to Section 7.03(a)(i) and Section 7.03(a)(ii) as may be required by rules and regulations prescribed from time to time by the SEC.

Except as may be provided by Section 313(c) of the Trust Indenture Act, the Issuer may fulfill its obligation to provide the materials described in this Section 7.03(a) by providing such materials in electronic format.

(b) Unless the Issuer otherwise determines, the fiscal year of the Issuer shall end on December 31 of each year and will promptly notify the Indenture Trustee regarding any change in fiscal year.

SECTION 7.04. Reports by Indenture Trustee. If required by Section 313(a) of the Trust Indenture Act, within 60 days after March 30 of each year, commencing with March 30, [2022], the Indenture Trustee shall mail to each Holder as required by Section 313(c) of the Trust Indenture Act a brief report dated as of such date that complies with Section 313(a) of the Trust Indenture Act. The Indenture Trustee also shall comply with Section 313(b) of the Trust Indenture Act; provided, however, that the initial report if required to be so issued shall be delivered not more than 12 months after the initial issuance of each Series of the Storm Recovery Bonds.

A copy of each report at the time of its mailing to Holders shall be filed by the Servicer with the SEC and each stock exchange, if any, on which the Storm Recovery Bonds are listed. The Issuer shall notify the Indenture Trustee in writing if and when the Storm Recovery Bonds are listed on any stock exchange.

ARTICLE VIII

ACCOUNTS, DISBURSEMENTS AND RELEASES

SECTION 8.01. Collection of Money. Except as otherwise expressly provided herein, the Indenture Trustee may demand payment or delivery of, and shall receive and collect, directly and without intervention or assistance of any fiscal agent or other intermediary, all money and other property payable to or receivable by the Indenture Trustee, the SRB Trustee or the Delaware Trustee pursuant to this Indenture and the other Basic Documents. The Indenture

Trustee shall apply all such money received by it as provided in this Indenture within two (2) Business Days. Except as otherwise expressly provided in this Indenture, if any default occurs in the making of any payment or performance under any agreement or instrument that is part of the Collateral, the Indenture Trustee may take such action as may be appropriate to enforce such payment or performance, subject to Article VI, including the institution and prosecution of appropriate Proceedings. Any such action shall be without prejudice to any right to claim a Default or Event of Default under this Indenture and any right to proceed thereafter as provided in Article V.

SECTION 8.02. Collection Account.

(a) Prior to the Series Closing Date for the first Series issued hereunder, the Issuer shall open or cause to be opened with the Securities Intermediary located at the Indenture Trustee's office, or at another Eligible Institution, one or more segregated trust accounts in the Indenture Trustee's name for the deposit of Storm Recovery Charge Collections for each Series of Bonds and all other amounts received with respect to the Series Collateral servicing such Series of Bonds (each a "Collection Account" and collectively, the "Collection Accounts"). The Indenture Trustee shall hold each Collection Account for the benefit of the related Holders, the Indenture Trustee and the other persons indemnified hereunder. There shall be established by the Indenture Trustee in respect of each Collection Account three subaccounts: a general subaccount (the "General Subaccount"); an excess funds subaccount (the "Excess Funds Subaccount"); a capital subaccount (the "Capital Subaccount") and, together with the General Subaccount and the Excess Funds Subaccount, the "Subaccounts"). For administrative purposes, the Subaccounts may be established by the Securities Intermediary as separate accounts. Such separate accounts will be recognized individually as a Subaccount and collectively as the "Collection Account". Prior to or concurrently with the issuance of each Series of Storm Recovery Bonds, the Member shall deposit into the Capital Subaccount for such Series an amount equal to the Required Capital Level. All amounts in the Collection Account for such Series not allocated to any other subaccount shall be allocated to the General Subaccount for such Series. Prior to the initial Payment Date for each Series, all amounts in the Collection Account for such Series (other than funds deposited into the Capital Subaccount for such Series up to the Required Capital Level) shall be allocated to the General Subaccount for such Series. All references to a Collection Account shall be deemed to include reference to all subaccounts contained therein. Withdrawals from and deposits to each of the foregoing subaccounts of the Collection Account shall be made as set forth in Section 8.02(d) and Section 8.02(e). The Collection Account for such Series shall at all times be maintained in an Eligible Account and will be under the sole dominion and exclusive control of the Indenture Trustee, through the Securities Intermediary, and only the Indenture Trustee shall have access to the applicable Collection Account for the purpose of making deposits in and withdrawals from the applicable Collection Account in accordance with this Indenture. Funds in a Collection Account shall not be commingled with any other moneys. All moneys deposited from time to time in the Collection Account for such Series, all deposits therein pursuant to this Indenture and all investments made in Eligible Investments as directed in writing by the Issuer with such moneys, including all income or other gain from such investments, shall be held by the Securities Intermediary in the Collection Account for such Series as part of the Series Collateral as herein provided. The Securities Intermediary shall have no liability in respect of losses incurred as a result of the liquidation of any Eligible Investment prior to its stated maturity or its date of

redemption or the failure of the Issuer or the Servicer to provide timely written investment direction.

(b) The Securities Intermediary hereby confirms that (i) each Collection Account is, or at inception will be established as, a “securities account” as such term is defined in Section 8-501(a) of the UCC, (ii) it is a “securities intermediary” (as such term is defined in Section 8-102(a)(14) of the UCC) and is acting in such capacity with respect to such accounts, (iii) the Indenture Trustee for the benefit of the Secured Parties is the sole “entitlement holder” (as such term is defined in Section 8-102(a)(7) of the UCC) with respect to such accounts and (iv) no other Person shall have the right to give “entitlement orders” (as such term is defined in Section 8-102(a)(8)) with respect to such accounts. The Securities Intermediary hereby further agrees that each item of property (whether investment property, financial asset, security, instrument or cash) received by it will be credited to the applicable Collection Account and shall be treated by it as a “financial asset” within the meaning of Section 8-102(a)(9) of the UCC. Notwithstanding anything to the contrary, the State of New York shall be deemed to be the jurisdiction of the Securities Intermediary for purposes of Section 8-110 of the UCC, and the Collection Accounts (as well as the securities entitlements related thereto) shall be governed by the laws of the State of New York.

(c) The Indenture Trustee shall have sole dominion and exclusive control over all moneys in the applicable Collection Account through the Securities Intermediary and shall apply such amounts therein as provided in this Section 8.02.

(d) Storm Recovery Charge Collections shall be deposited in the applicable General Subaccount as provided in Section 6.11 of the Servicing Agreement. All deposits to and withdrawals from the Collection Account, all allocations to the subaccounts of the Collection Account and any amounts to be paid to the Servicer under Section 8.02(e) shall be made by the Indenture Trustee in accordance with the written instructions provided by the Servicer in the Monthly Servicer’s Certificate or the Annual Servicer’s Certificate.

(e) On each Payment Date for any Series of Bonds, the Indenture Trustee shall apply all amounts on deposit in the applicable Collection Account, including all Investment Earnings thereon, in accordance with the Annual Servicer’s Certificate, in the following priority:

(i) payment of the Indenture Trustee’s, the SRB Trustee’s and the Delaware Trustee’s fees, expenses and outstanding indemnity amounts shall be paid to the Indenture Trustee, the SRB Trustee and the Delaware Trustee (subject to Section 6.07) in an amount not to exceed the amount set forth in the Series Supplement;

(ii) payment of the Servicing Fee with respect to such Payment Date, plus any unpaid Servicing Fees for prior Payment Dates shall be paid to the Servicer;

(iii) payment of the allocable share of the Administration Fee for such Payment Date shall be paid to the Administrator and the Independent Manager Fee for such Payment Date shall be paid to the Independent Managers, and in each case with any unpaid Administration Fees or Independent Manager Fees from prior Payment Dates;

(iv) payment of all other ordinary periodic Operating Expenses for such Payment Date not described above shall be paid to the parties to which such Operating Expenses are owed;

(v) payment of Periodic Interest for such Payment Date with respect to such Series, including any overdue Periodic Interest (together with, to the extent lawful, interest on such overdue Periodic Interest at the applicable Bond Interest Rate), with respect to the Storm Recovery Bonds shall be paid to the Holders of Storm Recovery Bonds;

(vi) payment of the principal required to be paid on the Storm Recovery Bonds of the Series on the Final Maturity Date for such tranche or as a result of an acceleration upon an Event of Default shall be paid to the Holders of Storm Recovery Bonds;

(vii) payment of Periodic Principal for such Payment Date, including any previously unpaid Periodic Principal, with respect to the Storm Recovery Bonds shall be paid to the Holders of Storm Recovery Bonds, pro rata if there is a deficiency;

(viii) payment of the allocable share of any other unpaid Operating Expenses (including any such amounts owed to the Indenture Trustee, the SRB Trustee and the Delaware Trustee but unpaid due to the limitation in Section 8.02(e)(i)) and any remaining amounts owed pursuant to the Basic Documents shall be paid to the parties to which such Operating Expenses or remaining amounts are owed;

(ix) replenishment of the amount, if any, by which the Required Capital Level exceeds the amount in the Capital Subaccount as of such Payment Date shall be allocated to the Capital Subaccount;

(x) the Return on Invested Capital then due and payable shall be paid to Duke Energy [Carolinas/Progress];

(xi) the balance, if any, shall be allocated to the Excess Funds Subaccount; and

(xii) after the Storm Recovery Bonds have been paid in full and discharged, and all of the other foregoing amounts are paid in full, together with all amounts due and payable to the Indenture Trustee, the SRB Trustee and the Delaware Trustee under Section 6.07 or otherwise, the balance (including all amounts then held in the Capital Subaccount and the Excess Funds Subaccount), if any, shall be paid to the Issuer, free from the Lien of this Indenture and the applicable Series Supplement.

All payments to the Holders of the Storm Recovery Bonds pursuant to Section 8.02(e)(v), Section 8.02(e)(vi) and Section 8.02(e)(vii) shall be made to such Holders pro rata based on the respective amounts of interest and/or principal owed, unless, in the case of a Series of Storm Recovery Bonds comprised of two or more tranches, the Series Supplement provides otherwise. Payments in respect of principal of and premium, if any, and interest on any tranche of Storm Recovery Bonds will be made on a pro rata basis among all the Holders of such tranche. In the case of an Event of Default, then, in accordance with Section 5.04(c), in respect of any application of moneys pursuant to Section 8.02(e)(v) or Section 8.02(e)(vi), moneys will be

applied pursuant to Section 8.02(e)(v) and Section 8.02(e)(vi), as the case may be, in such order, on a pro rata basis, based upon the interest or the principal owed.

(f) If on any Payment Date, or, for any amounts payable under Section 8.02(e)(i), Section 8.02(e)(ii), Section 8.02(e)(iii) and Section 8.02(e)(iv), on any Business Day, funds on deposit in the General Subaccount are insufficient to make the payments contemplated by Section 8.02(e)(i), Section 8.02(e)(ii), Section 8.02(e)(iii), Section 8.02(e)(iv), Section 8.02(e)(v), Section 8.02(e)(vi), Section 8.02(e)(vii), Section 8.02(e)(viii) and Section 8.02(e)(iv), the Indenture Trustee shall (i) first, draw from amounts on deposit in the Excess Funds Subaccount, and (ii) second, draw from amounts on deposit in the Capital Subaccount, in each case, up to the amount of such shortfall in order to make the payments contemplated by Section 8.02(e)(i), Section 8.02(e)(ii), Section 8.02(e)(iii), Section 8.02(e)(iv), Section 8.02(e)(v), Section 8.02(e)(vi), Section 8.02(e)(vii) and Section 8.02(e)(viii). In addition, if on any Payment Date funds on deposit in the General Subaccount are insufficient to make the allocations contemplated by Section 8.02(e)(ix), the Indenture Trustee shall draw any amounts on deposit in the Excess Funds Subaccount to make such allocations to the Capital Subaccount.

(g) On any Business Day upon which the Indenture Trustee receives a written request from the Administrator stating that any Operating Expense payable by the Issuer (but only as described in Section 8.02(e)(i), Section 8.02(e)(ii), Section 8.02(e)(iii) and Section 8.02(e)(iv)) will become due and payable prior to the next Payment Date, and setting forth the amount and nature of such Operating Expense, as well as any supporting documentation that the Indenture Trustee may reasonably request, the Indenture Trustee, upon receipt of such information, will make payment of such Operating Expenses on or before the date such payment is due from amounts on deposit in the General Subaccount, the Excess Funds Subaccount and the Capital Subaccount, in that order and only to the extent required to make such payment.

SECTION 8.03. General Provisions Regarding the Collection Account.

(a) So long as no Default or Event of Default shall have occurred and be continuing, all or a portion of the funds in the Collection Account for each Series shall be invested in Eligible Investments and reinvested by the Indenture Trustee upon Issuer Order; provided, however, that such Eligible Investments shall not mature or be redeemed later than the Business Day prior to the next Payment Date or Special Payment Date for the related Series or tranche, if applicable, for the Storm Recovery Bonds. All income or other gain from investments of moneys deposited in the Collection Account for the relevant Series shall be deposited by the Indenture Trustee in such Collection Account, and any loss resulting from such investments shall be charged to the Collection Account for the relevant Series. The Issuer will not direct the Indenture Trustee to make any investment of any funds or to sell any investment held in any Collection Account unless the security interest Granted and perfected in such account will continue to be perfected in such investment or the proceeds of such sale, in either case without any further action by any Person, and, in connection with any direction to the Indenture Trustee to make any such investment or sale, if requested by the Indenture Trustee, the Issuer shall deliver to the Indenture Trustee an Opinion of Counsel of external counsel of the Issuer (at the Issuer's cost and expense) to such effect. In no event shall the Indenture Trustee be liable for the

selection of Eligible Investments or for investment losses incurred thereon. The Indenture Trustee shall have no liability in respect of losses incurred as a result of the liquidation of any Eligible Investment prior to its stated maturity or its date of redemption or the failure of the Issuer or the Servicer to provide timely written investment direction. The Indenture Trustee shall have no obligation to invest or reinvest any amounts held hereunder in the absence of written investment direction pursuant to an Issuer Order.

(b) Subject to Section 6.01(c), the Indenture Trustee shall not in any way be held liable by reason of any insufficiency in the Collection Account resulting from any loss on any Eligible Investment included therein except for losses attributable to the Indenture Trustee's failure to make payments on such Eligible Investments issued by the Indenture Trustee, in its commercial capacity as principal obligor and not as trustee, in accordance with their terms.

(c) If (i) the Issuer shall have failed to give written investment directions for any funds on deposit in the Collection Account to the Indenture Trustee by 11:00 a.m. New York City time (or such other time as may be agreed by the Issuer and Indenture Trustee) on any Business Day or (ii) a Default or Event of Default shall have occurred and be continuing with respect to the Storm Recovery Bonds but the Storm Recovery Bonds shall not have been declared due and payable pursuant to Section 5.02, then the Indenture Trustee shall, to the fullest extent practicable, invest and reinvest funds in such Collection Account in Eligible Investments specified in the most recent written investment directions delivered by the Issuer to the Indenture Trustee; provided, that if the Issuer has never delivered written investment directions to the Indenture Trustee, the Indenture Trustee shall not invest or reinvest such funds in any investments.

(d) The parties hereto acknowledge that the Servicer may, pursuant to the Servicing Agreement, select Eligible Investments on behalf of the Issuer.

(e) Except as otherwise provided hereunder or agreed in writing among the parties hereto, the Issuer shall retain the authority to institute, participate and join in any plan of reorganization, readjustment, merger or consolidation with respect to the issuer of any Eligible Investments held hereunder, and, in general, to exercise each and every other power or right with respect to each such asset or investment as Persons generally have and enjoy with respect to their own assets and investment, including power to vote upon any Eligible Investments.

SECTION 8.04. Release of Collateral.

(a) So long as the Issuer is not in default hereunder and no Default hereunder would occur as a result of such action, the Issuer, through the Servicer, may collect, sell or otherwise dispose of written-off receivables, at any time and from time to time in the ordinary course of business, without any notice to, or release or consent by, the Indenture Trustee, but only as and to the extent permitted by the Basic Documents; provided, however, that any and all proceeds of such dispositions shall become Collateral and be deposited to the General Subaccount immediately upon receipt thereof by the Issuer or any other Person, including the Servicer. Without limiting the foregoing, the Servicer, may, at any time and from time to time without any notice to, or release or consent by, the Indenture Trustee, sell or otherwise dispose of any Collateral previously written-off as a defaulted or uncollectible account in accordance with

the terms of the Servicing Agreement and the requirements of the proviso in the preceding sentence.

(b) The Indenture Trustee may, and when required by the provisions of this Indenture shall, execute instruments to release property from the Lien of this Indenture, or convey the Indenture Trustee's interest in the same, in a manner and under circumstances that are not inconsistent with the provisions of this Indenture. No party relying upon an instrument executed by the Indenture Trustee as provided in this Article VIII shall be bound to ascertain the Indenture Trustee's authority, inquire into the satisfaction of any conditions precedent or see to the application of any moneys. The Indenture Trustee shall release property from the Lien of this Indenture pursuant to this Section 8.04(b) only upon receipt of an Issuer Request accompanied by an Officer's Certificate, an Opinion of Counsel of external counsel of the Issuer (at the Issuer's cost and expense) and (if required by the Trust Indenture Act) Independent Certificates in accordance with Section 314(c) of the Trust Indenture Act and Section 314(d)(1) of the Trust Indenture Act meeting the applicable requirements of Section 10.01.

(c) The Indenture Trustee shall, at such time as there are no Storm Recovery Bonds Outstanding for the related Series and all sums payable to the Indenture Trustee, the SRB Trustee and the Delaware Trustee pursuant to Section 6.07 or otherwise have been paid, release any remaining portion of the Series Collateral that secured the Storm Recovery Bonds for the related Series from the Lien of this Indenture and release to the Issuer or any other Person entitled thereto any funds or investments then on deposit in or credited to the Collection Account for such Series.

SECTION 8.05. Opinion of Counsel. The Indenture Trustee shall receive at least seven days' notice when requested by the Issuer to take any action pursuant to Section 8.04, accompanied by copies of any instruments involved, and the Indenture Trustee shall also require, as a condition to such action, an Opinion of Counsel of external counsel of the Issuer, in form and substance satisfactory to the Indenture Trustee, stating the legal effect of any such action, outlining the steps required to complete the same, and concluding that all conditions precedent to the taking of such action have been complied with and such action will not materially and adversely impair the security for the Storm Recovery Bonds or the rights of the Holders in contravention of the provisions of this Indenture and any Series Supplement; provided, however, that such Opinion of Counsel shall not be required to express an opinion as to the fair value of the Collateral. Counsel rendering any such opinion may rely, without independent investigation, on the accuracy and validity of any certificate or other instrument delivered to the Indenture Trustee in connection with any such action.

SECTION 8.06. Reports by Independent Registered Public Accountants. As of the date hereof, the Issuer shall appoint a firm of Independent registered public accountants of recognized national reputation for purposes of preparing and delivering the reports or certificates of such accountants required by this Indenture and the Series Supplements. In the event such firm requires the Indenture Trustee to agree to the procedures performed by such firm, the Issuer shall direct the Indenture Trustee in writing to so agree, it being understood and agreed that the Indenture Trustee will deliver such letter of agreement in conclusive reliance upon the direction of the Issuer, and the Indenture Trustee makes no independent inquiry or investigation to, and shall have no obligation or liability in respect of, the sufficiency, validity or correctness of such

procedures. Upon any resignation by, or termination by the Issuer of, such firm, the Issuer shall provide written notice thereof to the Indenture Trustee and shall promptly appoint a successor thereto that shall also be a firm of Independent registered public accountants of recognized national reputation. If the Issuer shall fail to appoint a successor to a firm of Independent registered public accountants that has resigned or been terminated within 15 days after such resignation or termination, the Indenture Trustee shall promptly notify the Issuer of such failure in writing. If the Issuer shall not have appointed a successor within ten days thereafter, the Indenture Trustee shall promptly appoint a successor firm of Independent registered public accountants of recognized national reputation; provided, that the Indenture Trustee shall have no liability with respect to such appointment. The fees of such Independent registered public accountants and its successor shall be payable by the Issuer.

ARTICLE IX

SUPPLEMENTAL INDENTURES

SECTION 9.01. Supplemental Indentures Without Consent of Holders.

(a) Without the consent of the Holders of any Storm Recovery Bonds but with prior notice to the Rating Agencies, the Issuer, the Indenture Trustee and the SRB Trustee when authorized by an Issuer Order, at any time and from time to time, may enter into one or more indentures supplemental hereto (which shall conform to the provisions of the Trust Indenture Act as in force at the date of the execution thereof), in form satisfactory to the Indenture Trustee, for any of the following purposes:

(i) to correct or amplify the description of any property, including the Collateral, at any time subject to the Lien of this Indenture, or better to assure, convey and confirm unto the Indenture Trustee any property subject or required to be subjected to the Lien of this Indenture and the Series Supplements, or to subject to the Lien of this Indenture and the Series Supplements additional property;

(ii) to evidence the succession, in compliance with the applicable provisions hereof, of another Person to the Issuer, and the assumption by any such successor of the covenants of the Issuer herein and in the Storm Recovery Bonds;

(iii) to add to the covenants of the Issuer, for the benefit of the Secured Parties, or to surrender any right or power herein conferred upon the Issuer;

(iv) to convey, transfer, assign, mortgage or pledge any property to or with the Indenture Trustee;

(v) to cure any ambiguity, to correct or supplement any provision herein or in any supplemental indenture, including any Series Supplement, that may be inconsistent with any other provision herein or in any supplemental indenture, including any Series Supplement, or to make any other provisions with respect to matters or questions arising under this Indenture or in any supplemental indenture; provided, that (A) such action shall not, as evidenced by an Opinion of Counsel of external counsel of the Issuer, adversely affect in any material respect the interests of the Holders of the Storm

Recovery Bonds and (B) the Rating Agency Condition shall have been satisfied with respect thereto;

(vi) to evidence and provide for the acceptance of the appointment hereunder by a successor trustee with respect to the Storm Recovery Bonds and to add to or change any of the provisions of this Indenture as shall be necessary to facilitate the administration of the trusts hereunder by more than one trustee, pursuant to the requirements of Article VI;

(vii) to modify, eliminate or add to the provisions of this Indenture to such extent as shall be necessary to effect the qualification of this Indenture under the Trust Indenture Act and to add to this Indenture such other provisions as may be expressly required by the Trust Indenture Act;

(viii) to qualify the Storm Recovery Bonds for registration with a Clearing Agency;

(ix) to satisfy any Rating Agency requirements;

(x) to set forth the terms of any Series that has not theretofore been authorized by a Series Supplement; or

(xi) to authorize the appointment of any fiduciary for any tranche required or advisable with the listing of any tranche on any stock exchange and otherwise amend this Indenture to incorporate changes requested or required by any government authority, stock exchange authority or fiduciary or any tranche in connection with such listing.

The Indenture Trustee is hereby authorized to join in the execution of any such supplemental indenture and to make any further appropriate agreements and stipulations that may be therein contained.

(b) The Issuer and the Indenture Trustee, when authorized by an Issuer Order, may, also without the consent of any of the Holders of the Storm Recovery Bonds, enter into an indenture or indentures supplemental hereto for the purpose of adding any provisions to, or changing in any manner or eliminating any of the provisions of, this Indenture or of modifying in any manner the rights of the Holders of the Storm Recovery Bonds under this Indenture; provided, however, that (i) such action shall not, as evidenced by an Opinion of Counsel of nationally recognized counsel of the Issuer experienced in structured finance transactions, adversely affect in any material respect the interests of the Holders and (ii) the Rating Agency Condition shall have been satisfied with respect thereto.

SECTION 9.02. Supplemental Indentures with Consent of Holders. The Issuer and the Indenture Trustee, when authorized by an Issuer Order, also may, with prior notice to the Rating Agencies and with the consent of the Holders of a majority of the Outstanding Amount of the Storm Recovery Bonds of each Series or tranche to be affected, by Act of such Holders delivered to the Issuer and the Indenture Trustee, enter into an indenture or indentures supplemental hereto for the purpose of adding any provisions to, or changing in any manner or eliminating any of the provisions of, this Indenture or of modifying in any manner the rights of

the Holders of the Storm Recovery Bonds under this Indenture; provided, however, that no such supplemental indenture shall, without the consent of the Holder of each Outstanding Storm Recovery Bond of each Series or tranche affected thereby:

- (i) change the date of payment of any installment of principal of or premium, if any, or interest on any Storm Recovery Bond of such Series or tranche, or reduce the principal amount thereof, the interest rate thereon or premium, if any, with respect thereto;
- (ii) change the provisions of this Indenture and the related applicable Series Supplement relating to the application of collections on, or the proceeds of the sale of, the Collateral to payment of principal of or premium, if any, or interest on the Storm Recovery Bonds of such Series or tranche, or change any place of payment where, or the coin or currency in which, any Storm Recovery Bond of such Series or tranche or the interest thereon is payable;
- (iii) reduce the percentage of the Outstanding Amount of the Storm Recovery Bonds or of a Series or tranche thereof, the consent of the Holders of which is required for any such supplemental indenture, or the consent of the Holders of which is required for any waiver of compliance with certain provisions of this Indenture or certain defaults hereunder and their consequences provided for in this Indenture;
- (iv) reduce the percentage of the Outstanding Amount of the Storm Recovery Bonds required to direct the Indenture Trustee to direct the Issuer to sell or liquidate the Series Collateral pursuant to Section 5.04;
- (v) modify any provision of this Section 9.02 or any provision of the other Basic Documents similarly specifying the rights of the Holders to consent to modification thereof, except to increase any percentage specified herein or to provide that those provisions of this Indenture or the other Basic Documents referenced in this Section 9.02 cannot be modified or waived without the consent of the Holder of each Outstanding Storm Recovery Bond affected thereby;
- (vi) modify any of the provisions of this Indenture in such manner as to affect the calculation of the amount of any payment of interest, principal or premium, if any, due on any Storm Recovery Bond on any Payment Date (including the calculation of any of the individual components of such calculation) or change the Expected Sinking Fund Schedule or Final Maturity Date of Storm Recovery Bonds;
- (vii) decrease the Required Capital Level with respect to any Series;
- (viii) permit the creation of any Lien ranking prior to or on a parity with the Lien of this Indenture with respect to any part of the Collateral or, except as otherwise permitted or contemplated herein, terminate the Lien of this Indenture on any property at any time subject hereto or deprive the Holder of any Storm Recovery Bond of the security provided by the Lien of this Indenture;

(ix) cause any material adverse U.S. federal income tax consequence to the Seller, the Issuer, the Managers, the Indenture Trustee or the then-existing Holders; or

(x) impair the right to institute suit for the enforcement of the provisions of this Indenture regarding payment or application of funds.

It shall not be necessary for any Act of Holders under this Section 9.02 to approve the particular form of any proposed supplemental indenture, but it shall be sufficient if such Act shall approve the substance thereof.

Promptly after the execution by the Issuer and the Indenture Trustee of any supplemental indenture pursuant to this Section 9.02, the Issuer shall mail to the SRB Trustee and the Rating Agencies a copy of such supplemental indenture and to the Holders of the Storm Recovery Bonds to which such supplemental indenture relates either a copy of such supplemental indenture or a notice setting forth in general terms the substance of such supplemental indenture. Any failure of the Issuer to mail such notice, or any defect therein, shall not, however, in any way impair or affect the validity of any such supplemental indenture.

SECTION 9.03. [Commission Condition. Notwithstanding anything to the contrary in this Section 9.01 or 9.02, no indenture or indentures supplemental to this Indenture, nor any waiver required by Section 5.12 hereof, shall be effective except upon satisfaction of the conditions precedent in this Section 9.03.

(a) At least 15 days prior to the effectiveness of any such Supplemental Indenture or other action and after obtaining the other necessary approvals set forth in Section 9.02 (except that the consent of the Indenture Trustee may be subject to the consent of the Holders if such consent is required or sought by the Indenture Trustee in connection with such Supplemental Indenture) or prior to the effectiveness of any waiver of a default approved by the Holders of a majority of the Outstanding Amount of all Series of Storm Recovery Bonds as provided in Section 5.12, the Servicer shall have delivered to the Commission's Staff Director of Accounting & Finance written notification of any proposed amendment, which notification shall contain:

(i) a reference to Docket No. [];

(ii) an Officer's Certificate stating that the proposed Supplemental Indenture has been approved by all parties to this Indenture or alternatively, the waiver of default has been approved by the Holders of a majority of the Outstanding Amount of Storm Recovery Bonds of all Series; and

(iii) a statement identifying the person to whom the Commission is to address any response to the proposed Supplemental Indenture or to request additional time.

(b) If the Commission or an authorized representative of the Commission, within 15 days (subject to extension as provided in Section 9.03(c)) of receiving a notification complying with Section 9.03(a), shall have delivered to the office of the person specified in Section 9.03(a)(iii) a written statement that the Commission might object to the proposed Supplemental Indenture, or to the waiver of default, then, subject to clause (d) below, such

proposed amendment or modification, or the waiver of default, shall not be effective unless and until the Commission subsequently delivers a written statement that it does not object to such proposed Supplemental Indenture.

(c) If the Commission or an authorized representative of the Commission, within 15 days of receiving a notification complying with Section 9.03(a), shall have delivered to the office of the person specified in Section 9.03(a)(iii) a written statement requesting an additional amount of time not to exceed thirty days (or, in the case of a waiver of default, 15 days) in which to consider such proposed Supplemental Indenture, then such proposed Supplemental Indenture shall not be effective if, within such extended period, the Commission shall have delivered to the office of the person specified in clause (d) below a written statement as described in subparagraph (iii), unless and until the Commission subsequently delivers a written statement that it does not object to such proposed Supplemental Indenture.

(d) If (A) the Commission or an authorized representative of the Commission, shall not have delivered written notice that the Commission might object to such proposed Supplemental Indenture, or the waiver of default, within the time periods described in subparagraphs (iii) or (iii), whichever is applicable, or (B) the Commission or authorized representative of the Commission, has delivered such written notice but does not within 60 days of the delivery of the notification in (a) above, provide subsequent written notice confirming that it does in fact object and the reasons therefore or advise that it has initiated a proceeding to determine what action it might take with respect to the matter, then the Commission shall be conclusively deemed not to have any objection to the proposed amendment or modification or waiver of default, as the case may be, and such amendment or modification or waiver of default, as the case may be, may subsequently become effective upon satisfaction of the other conditions specified in Section 9.01 or 9.02.

(e) Following the delivery of a statement from the Commission or an authorized representative of the Commission to the Servicer under subparagraph (iii), the Servicer and the Issuer shall have the right at any time to withdraw from the Commission further consideration of any proposed Supplemental Indenture, modification or waiver of default.

(f) For the purpose of this Section 9.03, an “authorized representative of the Commission” means any person authorized to act on behalf of the Commission, as evidenced by an Opinion of Counsel (which may be the general counsel) to the Commission.

(g) For the avoidance of doubt, this Section shall not apply to Series Supplements prepared in accordance with Section 9.01(a)(x).]

SECTION 9.04. Execution of Supplemental Indentures. In executing any supplemental indenture permitted by this Article IX or the modifications thereby of the trust created by this Indenture, the Indenture Trustee shall be fully protected in relying upon an Opinion of Counsel stating that the execution of such supplemental indenture is authorized and permitted by this Indenture and all conditions precedent, if any, provided for in this Indenture relating to such supplemental indenture or modification have been satisfied. The Indenture Trustee may, but shall not be obligated to, enter into any such supplemental indenture that affects the Indenture Trustee’s own rights, duties, liabilities or immunities under this Indenture or

otherwise. All fees and expenses in connection with any such supplemental indenture shall be paid by the requesting party.

SECTION 9.05. Effect of Supplemental Indenture. Upon the execution of any supplemental indenture pursuant to the provisions hereof, this Indenture shall be and be deemed to be modified and amended in accordance therewith with respect to each Series or tranche of Storm Recovery Bonds affected thereby, and the respective rights, limitations of rights, obligations, duties, liabilities and immunities under this Indenture of the Indenture Trustee, the Issuer and the Holders shall thereafter be determined, exercised and enforced hereunder subject in all respects to such modifications and amendments, and all the terms and conditions of any such supplemental indenture shall be and be deemed to be part of the terms and conditions of this Indenture for any and all purposes.

SECTION 9.06. Conformity with Trust Indenture Act. Every amendment of this Indenture and every supplemental indenture executed pursuant to this Article IX shall conform to the requirements of the Trust Indenture Act as then in effect so long as this Indenture shall then be qualified under the Trust Indenture Act.

SECTION 9.07. Reference in Storm Recovery Bonds to Supplemental Indentures. Storm Recovery Bonds authenticated and delivered after the execution of any supplemental indenture pursuant to this Article IX may, and if required by the Indenture Trustee shall, bear a notation in form approved by the Indenture Trustee as to any matter provided for in such supplemental indenture. If the Issuer or the Indenture Trustee shall so determine, new Storm Recovery Bonds so modified as to conform, in the opinion of the Indenture Trustee and the Issuer, to any such supplemental indenture may be prepared and executed by the Issuer and authenticated and delivered by the Indenture Trustee in exchange for Outstanding Storm Recovery Bonds.

ARTICLE X

MISCELLANEOUS

SECTION 10.01. Compliance Certificates and Opinions, etc.

(a) Upon any application or request by the Issuer to the Indenture Trustee to take any action under any provision of this Indenture, the Issuer shall furnish to the Indenture Trustee (i) an Officer's Certificate stating that all conditions precedent, if any, provided for in this Indenture relating to the proposed action have been complied with, (ii) an Opinion of Counsel stating that in the opinion of such counsel the amendment is authorized and permitted and all such conditions precedent, if any, have been complied with and (iii) (if required by the Trust Indenture Act) an Independent Certificate from a firm of registered public accountants meeting the applicable requirements of this Section 10.01, except that, in the case of any such application or request as to which the furnishing of such documents is specifically required by any provision of this Indenture, no additional certificate or opinion need be furnished.

Every certificate or opinion with respect to compliance with a condition or covenant provided for in this Indenture shall include:

- (i) a statement that each signatory of such certificate or opinion has read or has caused to be read such covenant or condition and the definitions herein relating thereto;
 - (ii) a brief statement as to the nature and scope of the examination or investigation upon which the statements or opinions contained in such certificate or opinion are based;
 - (iii) a statement that, in the opinion of each such signatory, such signatory has made such examination or investigation as is necessary to enable such signatory to express an informed opinion as to whether or not such covenant or condition has been complied with; and
 - (iv) a statement as to whether, in the opinion of each such signatory, such condition or covenant has been complied with.
- (b) Prior to the deposit of any Collateral or other property or securities with the Indenture Trustee that is to be made the basis for the release of any property or securities subject to the Lien of this Indenture, the Issuer shall, in addition to any obligation imposed in Section 10.01(a) or elsewhere in this Indenture, furnish to the Indenture Trustee an Officer's Certificate certifying or stating the opinion of each person signing such certificate as to the fair value (within 90 days of such deposit) to the Issuer of the Collateral or other property or securities to be so deposited.
- (c) Whenever the Issuer is required to furnish to the Indenture Trustee an Officer's Certificate certifying or stating the opinion of any signer thereof as to the matters described in Section 10.01(b), the Issuer shall also deliver to the Indenture Trustee an Independent Certificate as to the same matters, if the fair value to the Issuer of the securities to be so deposited and of all other such securities made the basis of any such withdrawal or release since the commencement of the then-current fiscal year of the Issuer, as set forth in the certificates delivered pursuant to Section 10.01(b) and this Section 10.01(c), is ten percent or more of the Outstanding Amount of the Storm Recovery Bonds, but such a certificate need not be furnished with respect to any securities so deposited, if the fair value thereof to the Issuer as set forth in the related Officer's Certificate is less than the lesser of (A) \$25,000 or (B) one percent of the Outstanding Amount of the Storm Recovery Bonds.
- (d) Whenever any property or securities are to be released from the Lien of this Indenture other than pursuant to Section 8.02(e), the Issuer shall also furnish to the Indenture Trustee an Officer's Certificate certifying or stating the opinion of each person signing such certificate as to the fair value (within 90 days of such release) of the property or securities proposed to be released and stating that in the opinion of such person the proposed release will not impair the security under this Indenture in contravention of the provisions hereof.
- (e) Whenever the Issuer is required to furnish to the Indenture Trustee an Officer's Certificate certifying or stating the opinion of any signatory thereof as to the matters

described in Section 10.01(d), the Issuer shall also furnish to the Indenture Trustee an Independent Certificate as to the same matters if the fair value of the property or securities with respect thereto, or securities released from the Lien of this Indenture (other than pursuant to Section 8.02(e)) since the commencement of the then-current calendar year, as set forth in the certificates required by Section 10.01(d) and this Section 10.01(e), equals 10 percent or more of the Outstanding Amount of the Storm Recovery Bonds, but such certificate need not be furnished in the case of any release of property or securities if the fair value thereof as set forth in the related Officer's Certificate is less than the lesser of (A) \$25,000 or (B) one percent of the then Outstanding Amount of the Storm Recovery Bonds.

(f) Notwithstanding any other provision of this Section 10.01, the Indenture Trustee may (A) collect, liquidate, sell or otherwise dispose of the Storm Recovery Property and the other Collateral as and to the extent permitted or required by the Basic Documents and (B) make cash payments out of the Collection Account as and to the extent permitted or required by the Basic Documents.

SECTION 10.02. Form of Documents Delivered to Indenture Trustee. In any case where several matters are required to be certified by, or covered by an opinion of, any specified Person, it is not necessary that all such matters be certified by, or covered by the opinion of, only one such Person, or that they be so certified or covered by only one document, but one such Person may certify or give an opinion with respect to some matters and one or more other such Persons as to other matters, and any such Person may certify or give an opinion as to such matters in one or several documents.

Any certificate or opinion of a Responsible Officer of the Issuer may be based, insofar as it relates to legal matters, upon a certificate or opinion of, or representations by, counsel, unless such officer knows, or in the exercise of reasonable care should know, that the certificate or opinion or representations with respect to the matters upon which his or her certificate or opinion is based are erroneous. Any such certificate of a Responsible Officer or Opinion of Counsel may be based, insofar as it relates to factual matters, upon a certificate or opinion of, or representations by, an officer or officers of the Servicer or the Issuer stating that the information with respect to such factual matters is in the possession of the Servicer or the Issuer, unless such counsel knows, or in the exercise of reasonable care should know, that the certificate or opinion or representations with respect to such matters are erroneous.

Whenever in this Indenture, in connection with any application or certificate or report to the Indenture Trustee, it is provided that the Issuer shall deliver any document as a condition of the granting of such application, or as evidence of the Issuer's compliance with any term hereof, it is intended that the truth and accuracy, at the time of the granting of such application or at the effective date of such certificate or report (as the case may be), of the facts and opinions stated in such document shall in such case be conditions precedent to the right of the Issuer to have such application granted or to the sufficiency of such certificate or report. The foregoing shall not, however, be construed to affect the Indenture Trustee's right to rely conclusively upon the truth and accuracy of any statement or opinion contained in any such document as provided in Article VI.

Where any Person is required to make, give or execute two or more applications, requests, consents, certificates, statements, opinions or other instruments under this Indenture, they may, but need not, be consolidated and form one instrument.

SECTION 10.03. Acts of Holders.

(a) Any request, demand, authorization, direction, notice, consent, waiver or other action provided by this Indenture to be given or taken by Holders may be embodied in and evidenced by one or more instruments of substantially similar tenor signed by such Holders in person or by agents duly appointed in writing, and except as herein otherwise expressly provided such action shall become effective when such instrument or instruments are delivered to the Indenture Trustee and, where it is hereby expressly required, to the Issuer. Such instrument or instruments (and the action embodied therein and evidenced thereby) are herein sometimes referred to as the “Act” of the Holders signing such instrument or instruments. Proof of execution of any such instrument or of a writing appointing any such agent shall be sufficient for any purpose of this Indenture and (subject to Section 6.01) conclusive in favor of the Indenture Trustee and the Issuer, if made in the manner provided in this Section 10.03.

(b) The fact and date of the execution by any Person of any such instrument or writing may be proved in any manner that the Indenture Trustee deems sufficient.

(c) The ownership of Storm Recovery Bonds shall be proved by the Storm Recovery Bond Register.

(d) Any request, demand, authorization, direction, notice, consent, waiver or other action by the Holder of any Storm Recovery Bonds shall bind the Holder of every Storm Recovery Bond issued upon the registration thereof or in exchange therefor or in lieu thereof, in respect of anything done, omitted or suffered to be done by the Indenture Trustee or the Issuer in reliance thereon, whether or not notation of such action is made upon such Storm Recovery Bond.

SECTION 10.04. Notices, etc., to Indenture Trustee, Issuer and Rating Agencies.

Any notice, report or other communication given hereunder shall be in writing and shall be effective (i) upon receipt when sent through the mails, registered or certified mail, return receipt requested, postage prepaid, with such receipt to be effective the date of delivery indicated on the return receipt, (ii) upon receipt when sent by an overnight courier, (iii) on the date personally delivered to an authorized officer of the party to which sent or (iv) on the date transmitted by facsimile or other electronic transmission with a confirmation of receipt in all cases, addressed as follows:

(a) in the case of the Issuer, to [Duke Energy [Carolinas/Progress] Storm Recovery Funding], LLC at [ADDRESS], Attention: Managers, Telephone: [];

(b) in the case of the Indenture Trustee, to the Corporate Trust Office;

(c) in the case of SRB Issuer, to [];

(d) in the case of SRB Trustee, to [];

(e) in the case of Fitch, to Fitch Ratings, 33 Whitehall Street, New York, New York 10004, Attention: ABS Surveillance, Telephone: (212) 908-0500, Facsimile: (212) 908-0355;

(f) in the case of S&P, to Standard & Poor's Ratings Services, a Standard & Poor's Financial Services LLC business, Structured Credit Surveillance, 55 Water Street, New York, New York 10041, Telephone: (212) 438-8991, Email: servicer_reports@standardandpoors.com (all such notices to be delivered to S&P in writing by email); and

(g) in the case of the Commission, North Carolina Utilities Commission, [4325 Mail Service Center, Raleigh, NC 27699-4300], Attention: [Staff Director of Accounting & Finance.]

Each party hereto may, by notice given in accordance herewith to the other party or parties hereto, designate any further or different address to which subsequent notices, reports and other communications shall be sent.

SECTION 10.05. Notices to Holders; Waiver. Where this Indenture provides for notice to Holders of any event, such notice shall be sufficiently given (unless otherwise herein expressly provided) if in writing and mailed, first-class, postage prepaid to each Holder affected by such event, at such Holder's address as it appears on the Storm Recovery Bond Register, not later than the latest date, and not earlier than the earliest date, prescribed for the giving of such notice. In any case where notice to Holders is given by mail, neither the failure to mail such notice nor any defect in any notice so mailed to any particular Holder shall affect the sufficiency of such notice with respect to other Holders, and any notice that is mailed in the manner herein provided shall conclusively be presumed to have been duly given.

Where this Indenture provides for notice in any manner, such notice may be waived in writing by any Person entitled to receive such notice, either before or after the event, and such waiver shall be the equivalent of such notice. Waivers of notice by Holders shall be filed with the Indenture Trustee, but such filing shall not be a condition precedent to the validity of any action taken in reliance upon such a waiver.

In case, by reason of the suspension of regular mail service as a result of a strike, work stoppage or similar activity, it shall be impractical to mail notice of any event of Holders when such notice is required to be given pursuant to any provision of this Indenture, then any manner of giving such notice as shall be satisfactory to the Indenture Trustee shall be deemed to be a sufficient giving of such notice.

Where this Indenture provides for notice to the Rating Agencies, failure to give such notice shall not affect any other rights or obligations created hereunder and shall not under any circumstance constitute a Default or Event of Default.

SECTION 10.06. Conflict with Trust Indenture Act. If any provision hereof limits, qualifies or conflicts with another provision hereof that is required to be included in this Indenture by any of the provisions of the Trust Indenture Act, such required provision shall control.

The provisions of Sections 310 through 317 of the Trust Indenture Act that impose duties on any Person (including the provisions automatically deemed included herein unless expressly excluded by this Indenture) are a part of and govern this Indenture, whether or not physically contained herein.

SECTION 10.07. Successors and Assigns. All covenants and agreements in this Indenture and the Storm Recovery Bonds by the Issuer shall bind its successors and assigns, whether so expressed or not. All agreements of the Indenture Trustee in this Indenture shall bind its successors.

SECTION 10.08. Severability. Any provision in this Indenture or in the Storm Recovery Bonds that is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remainder of such provision (if any) or the remaining provisions hereof (unless such construction shall be unreasonable), and any such prohibition or unenforceability in any jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction.

SECTION 10.09. Benefits of Indenture. Nothing in this Indenture or in the Storm Recovery Bonds, express or implied, shall give to any Person, other than the parties hereto and their successors hereunder, and the Holders, and any other party secured hereunder, and any other Person with an ownership interest in any part of the Collateral, any benefit or any legal or equitable right, remedy or claim under this Indenture.

SECTION 10.10. Legal Holidays. In any case where the date on which any payment is due shall not be a Business Day, then (notwithstanding any other provision of the Storm Recovery Bonds or this Indenture) payment need not be made on such date, but may be made on the next Business Day with the same force and effect as if made on the date on which nominally due, and no interest shall accrue for the period from and after any such nominal date.

SECTION 10.11. GOVERNING LAW. **This Indenture shall be governed by and construed in accordance with the laws of the State of New York, without reference to its conflict of law provisions (other than Section 5-1401 of the New York General Obligations Law and Sections 9-301 through 9-306 of the NY UCC), and the obligations, rights and remedies of the parties hereunder shall be determined in accordance with such laws; provided, that the creation, attachment and perfection of any Liens created hereunder in Property, and all rights and remedies of the Indenture Trustee and the Holders with respect to the Property, shall be governed by the laws of the State of North Carolina.**

SECTION 10.12. Counterparts. This Indenture may be executed in any number of counterparts, each of which so executed shall be deemed to be an original, but all such counterparts shall together constitute but one and the same instrument.

SECTION 10.13. Recording of Indenture. If this Indenture is subject to recording in any appropriate public recording offices, such recording is to be effected by the Issuer and at its expense accompanied by an Opinion of Counsel at the Issuer's cost and expense (which may be counsel to the Indenture Trustee or any other counsel reasonably acceptable to

the Indenture Trustee or, if requested by the Indenture Trustee, external counsel of the Issuer) to the effect that such recording is necessary either for the protection of the Holders or any other Person secured hereunder or for the enforcement of any right or remedy granted to the Indenture Trustee under this Indenture.

SECTION 10.14. No Recourse to Issuer. No recourse may be taken, directly or indirectly, with respect to the obligations of the Issuer or the Indenture Trustee on the Storm Recovery Bonds or under this Indenture or any certificate or other writing delivered in connection herewith or therewith, against (a) the Issuer, other than from the Series Collateral, (b) any owner of a membership interest in the Issuer (including Duke Energy [Carolinas/Progress]) or (c) any shareholder, partner, owner, beneficiary, agent, officer or employee of the Indenture Trustee, the Managers or any owner of a membership interest in the Issuer (including Duke Energy [Carolinas/Progress]) in its respective individual capacity, or of any successor or assign of any of them in their respective individual or corporate capacities, except as any such Person may have expressly agreed in writing. Notwithstanding any provision of this Indenture or any Series Supplement to the contrary, Holders shall look only to the Series Collateral with respect to any amounts due to the Holders hereunder and under the Storm Recovery Bonds and, in the event such Series Collateral is insufficient to pay in full the amounts owed on the Storm Recovery Bonds, shall have no recourse against the Issuer in respect of such insufficiency. Each Holder by accepting a Storm Recovery Bond specifically confirms the nonrecourse nature of these obligations and waives and releases all such liability. The waiver and release are part of the consideration for issuance of the Storm Recovery Bonds.

SECTION 10.15. Basic Documents. The Indenture Trustee is hereby authorized to execute and deliver the Servicing Agreement and to execute and deliver any other Basic Document that it is requested to acknowledge, including, upon receipt of an Issuer Request, the Intercreditor Agreement, so long as the Intercreditor Agreement is substantially in the form of the Intercreditor Agreement dated as of [], 2021 and does not materially and adversely affect any Holder's rights in and to any Collateral or otherwise hereunder. Such request shall be accompanied by an Opinion of Counsel of external counsel of the Issuer, upon which the Indenture Trustee may rely conclusively with no duty of independent investigation or inquiry, to the effect that all conditions precedent for the execution of the Intercreditor Agreement have been satisfied. The Intercreditor Agreement shall be binding on the Holders.

SECTION 10.16. No Petition. The Indenture Trustee, by entering into this Indenture, and each Holder, by accepting a Storm Recovery Bond (or interest therein) issued hereunder, hereby covenant and agree that they shall not, prior to the date that is one year and one day after the termination of this Indenture, acquiesce, petition or otherwise invoke or cause the Issuer or any Manager to invoke the process of any court or government authority for the purpose of commencing or sustaining a case against the Issuer under any bankruptcy or insolvency law or appointing a receiver, liquidator, assignee, trustee, custodian, sequestrator or other similar official of the Issuer or any substantial part of its property, or ordering the dissolution, winding up or liquidation of the affairs of the Issuer. Nothing in this Section 10.16 shall preclude, or be deemed to estop, such Holder or the Indenture Trustee (a) from taking or omitting to take any action prior to such date in (i) any case or proceeding voluntarily filed or commenced by or on behalf of the Issuer under or pursuant to any such law or (ii) any involuntary case or proceeding pertaining to the Issuer that is filed or commenced by or on

behalf of a Person other than such Holder and is not joined in by such Holder (or any Person to which such Holder shall have assigned, transferred or otherwise conveyed any part of the obligations of the Issuer hereunder) under or pursuant to any such law or (b) from commencing or prosecuting any legal action that is not an involuntary case or proceeding under or pursuant to any such law against the Issuer or any of its properties.

SECTION 10.17. Securities Intermediary. The Securities Intermediary, in acting under this Indenture, is entitled to all rights, benefits, protections, immunities and indemnities accorded to [], in its capacity as Indenture Trustee under this Indenture.

SECTION 10.18. Trustee Capacities; Affiliated Parties. Each of the Holders by accepting the Storm Recovery Bonds shall be deemed to acknowledge and consent to [] acting in the capacity of Delaware Trustee and [] acting in the capacities of Indenture Trustee and SRB Trustee.

SECTION 10.19. Rule 17g-5 Compliance.

(a) The Indenture Trustee agrees that any notice, report, request for satisfaction of the Rating Agency Condition, document or other information provided by the Indenture Trustee to any Rating Agency under this Indenture or any other Basic Document to which it is a party for the purpose of determining or confirming the credit rating of the Storm Recovery Bonds or undertaking credit rating surveillance of the Storm Recovery Bonds shall be provided, substantially concurrently, to the Servicer for posting on a password-protected website (the "17g-5 Website"). The Servicer shall be responsible for posting all of the information on the 17g-5 Website.

(b) The Indenture Trustee will not be responsible for creating or maintaining the 17g-5 Website, posting any information to the 17g-5 Website or assuring that the 17g-5 Website complies with the requirements of this Indenture, Rule 17g-5 under the Exchange Act or any other law or regulation. In no event shall the Indenture Trustee be deemed to make any representation in respect of the content of the 17g-5 Website or compliance by the 17g-5 Website with this Indenture, Rule 17g-5 under the Exchange Act or any other law or regulation. The Indenture Trustee shall have no obligation to engage in or respond to any oral communications with respect to the transactions contemplated hereby, any transaction documents relating hereto or in any way relating to the Storm Recovery Bonds or for the purposes of determining the initial credit rating of the Storm Recovery Bonds or undertaking credit rating surveillance of the Storm Recovery Bonds with any Rating Agency or any of its respective officers, directors or employees. The Indenture Trustee shall not be responsible or liable for the dissemination of any identification numbers or passwords for the 17g-5 Website, including by the Servicer, the Rating Agencies, a nationally recognized statistical rating organization ("NRSRO"), any of their respective agents or any other party. Additionally, the Indenture Trustee shall not be liable for the use of the information posted on the 17g-5 Website, whether by the Servicer, the Rating Agencies, an NRSRO or any other third party that may gain access to the 17g-5 Website or the information posted thereon.

SECTION 10.20. Submission to Non-Exclusive Jurisdiction; Waiver of Jury Trial. **Each of the Issuer and the Indenture Trustee hereby irrevocably submits to the non-**

exclusive jurisdiction of any New York State court sitting in The Borough of Manhattan in The City of New York or any U.S. federal court sitting in The Borough of Manhattan in The City of New York in respect of any suit, action or proceeding arising out of or relating to this Indenture and the Storm Recovery Bonds and irrevocably accepts for itself and in respect of its respective property, generally and unconditionally, jurisdiction of the aforesaid courts. Each of the Issuer and the Indenture Trustee irrevocably waives, to the fullest extent that it may effectively do so under applicable law, trial by jury.

SECTION 10.21. Certain Tax Laws. In order to comply with applicable tax laws, rules and regulations (inclusive of directives, guidelines and interpretations promulgated by competent authorities) in effect from time to time to which a foreign financial institution, issuer, trustee, paying agent, holder or other institution is or has agreed to be subject related to the Basic Documents, the Issuer agrees (a) to provide to the Indenture Trustee sufficient information about Holders or other applicable parties and/or transactions (including any modification to the terms of such transactions) so as to enable the Indenture Trustee to determine whether it has tax-related obligations under such applicable tax laws, rules and regulations (inclusive of directives, guidelines and interpretations promulgated by competent authorities) and (b) that the Indenture Trustee shall be entitled to make any withholding or deduction from payments under the Basic Documents to the extent necessary to comply with such applicable tax laws, rules and regulations (inclusive of directives, guidelines and interpretations promulgated by competent authorities) for which the Indenture Trustee shall not have any liability.

{SIGNATURE PAGE FOLLOWS}

IN WITNESS WHEREOF, the Issuer, the Indenture Trustee and the Securities Intermediary have caused this Indenture to be duly executed by their respective officers thereunto duly authorized and duly attested, all as of the day and year first above written.

[DUKE ENERGY [CAROLINAS/PROGRESS] STORM
RECOVERY FUNDING], LLC,
as Issuer

By: _____
Name: []
Title: President, Chief Financial Officer and
Treasurer

[],
as Indenture Trustee and as Securities Intermediary

By: _____
Name:
Title:

STATE OF NORTH CAROLINA)

COUNTY OF MECKLENBURG)

The foregoing instrument was acknowledged before me this ____ day of [], 2021, by [Stephen G. De May], President, Chief Financial Officer and Treasurer of [Duke Energy [Carolinas/Progress] Storm Recovery Funding], LLC, a Delaware limited liability company, on behalf of the company.

{Seal}

_____, Notary Public
State of North Carolina, County of Mecklenburg
My Commission Expires: _____
Acting in the County of Mecklenburg

The foregoing instrument was acknowledged before me this ____ day of [], 2021, by _____, _____ of [], as Indenture Trustee and Securities Intermediary, on behalf of the bank.

_____, Notary Public,
State of New York
No. _____
Qualified in New York County
Certificate Filed in New York County
Commission Expires _____

EXHIBIT A

FORM OF STORM RECOVERY BOND

See attached.

UNLESS AND UNTIL IT IS EXCHANGED IN WHOLE OR IN PART FOR SECURITIES IN DEFINITIVE REGISTERED FORM, THIS SECURITY MAY NOT BE TRANSFERRED EXCEPT AS A WHOLE BY THE DEPOSITARY TO THE NOMINEE OF THE DEPOSITARY OR BY A NOMINEE OF THE DEPOSITARY TO THE DEPOSITARY OR ANOTHER NOMINEE OF THE DEPOSITARY OR BY THE DEPOSITARY OR ANY SUCH NOMINEE TO A SUCCESSOR DEPOSITARY OR A NOMINEE OF SUCH SUCCESSOR DEPOSITARY. UNLESS THIS SECURITY IS PRESENTED BY AN AUTHORIZED REPRESENTATIVE OF THE DEPOSITARY TRUST COMPANY, A NEW YORK CORPORATION, TO THE ISSUER OR ITS AGENT FOR REGISTRATION OF TRANSFER, EXCHANGE OR PAYMENT, AND ANY SECURITY ISSUED IS REGISTERED IN THE NAME OF CEDE & CO. OR IN SUCH OTHER NAME AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF THE DEPOSITARY TRUST COMPANY (AND ANY PAYMENT HEREON IS MADE TO CEDE & CO. OR TO SUCH OTHER ENTITY AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF THE DEPOSITARY TRUST COMPANY), ANY TRANSFER, PLEDGE OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON OR ENTITY IS WRONGFUL INASMUCH AS THE REGISTERED OWNER HEREOF, CEDE & CO., HAS AN INTEREST HEREIN.

No. {____}
tranche Designation {__}

\$ {____}
CUSIP No.: {_____}

THE PRINCIPAL OF THIS SERIES {__}, tranche {__} SENIOR SECURED STORM RECOVERY BOND, (THIS “STORM RECOVERY BOND”) WILL BE PAID IN INSTALLMENTS AS SET FORTH HEREIN. ACCORDINGLY, THE OUTSTANDING PRINCIPAL AMOUNT OF THIS STORM RECOVERY BOND AT ANY TIME MAY BE LESS THAN THE AMOUNT SHOWN ABOVE. THE HOLDER OF THIS STORM RECOVERY BOND HAS NO RECOURSE TO THE ISSUER HEREOF AND AGREES TO LOOK ONLY TO THE SERIES COLLATERAL, AS DESCRIBED IN THE INDENTURE, FOR PAYMENT OF ANY AMOUNTS DUE HEREUNDER. ALL OBLIGATIONS OF THE ISSUER OF THIS STORM RECOVERY BOND UNDER THE TERMS OF THE INDENTURE WILL BE RELEASED AND DISCHARGED UPON PAYMENT IN FULL HEREOF OR AS OTHERWISE PROVIDED IN SECTION 3.10(b) OR ARTICLE IV OF THE INDENTURE. THE HOLDER OF THIS STORM RECOVERY BOND HEREBY COVENANTS AND AGREES THAT PRIOR TO THE DATE THAT IS ONE YEAR AND ONE DAY AFTER THE PAYMENT IN FULL OF THIS STORM RECOVERY BOND, IT WILL NOT INSTITUTE AGAINST, OR JOIN ANY OTHER PERSON IN INSTITUTING AGAINST, THE ISSUER ANY BANKRUPTCY, REORGANIZATION, ARRANGEMENT, INSOLVENCY OR LIQUIDATION PROCEEDINGS OR OTHER SIMILAR PROCEEDING UNDER THE LAWS OF THE UNITED STATES OR ANY STATE OF THE UNITED STATES. NOTHING IN THIS PARAGRAPH SHALL PRECLUDE, OR BE DEEMED TO ESTOP, SUCH HOLDER (A) FROM TAKING OR OMITTING TO TAKE ANY ACTION PRIOR TO SUCH DATE IN (I) ANY CASE OR PROCEEDING VOLUNTARILY FILED OR COMMENCED BY OR ON BEHALF OF THE ISSUER UNDER OR PURSUANT TO ANY SUCH LAW OR (II) ANY INVOLUNTARY CASE OR PROCEEDING PERTAINING TO THE ISSUER THAT IS FILED OR COMMENCED BY OR ON BEHALF OF A PERSON OTHER THAN SUCH HOLDER AND IS NOT JOINED IN BY SUCH HOLDER (OR ANY PERSON TO WHICH SUCH HOLDER SHALL HAVE ASSIGNED, TRANSFERRED OR

OTHERWISE CONVEYED ANY PART OF THE OBLIGATIONS OF THE ISSUER HEREUNDER) UNDER OR PURSUANT TO ANY SUCH LAW OR (B) FROM COMMENCING OR PROSECUTING ANY LEGAL ACTION THAT IS NOT AN INVOLUNTARY CASE OR PROCEEDING UNDER OR PURSUANT TO ANY SUCH LAW AGAINST THE ISSUER OR ANY OF ITS PROPERTIES.

NEITHER THE FULL FAITH AND CREDIT NOR THE TAXING POWER OF THE STATE OF FLORIDA IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF, OR INTEREST ON, THIS STORM RECOVERY BOND.

[DUKE ENERGY [CAROLINAS/PROGRESS] STORM RECOVERY FUNDING], LLC
SERIES { } SENIOR SECURED STORM RECOVERY BONDS, tranche { }

<u>BOND INTEREST RATE</u>	<u>ORIGINAL PRINCIPAL AMOUNT</u>	<u>SCHEDULED FINAL PAYMENT DATE</u>	<u>FINAL MATURITY DATE</u>
{ }%	#{ }	{ }, 20{ }	{ }, 20{ }

[Duke Energy [Carolinas/Progress] Storm Recovery Funding], LLC, a limited liability company created under the laws of the State of Delaware (herein referred to as the “Issuer”), for value received, hereby promises to pay to { }, or registered assigns, the Original Principal Amount shown above in annual installments on the Payment Dates and in the amounts specified below or, if less, the amounts determined pursuant to Section 8.02 of the Indenture, in each year, commencing on the date determined as provided below and ending on or before the Final Maturity Date shown above and to pay interest, at the Bond Interest Rate shown above, on each { } and { } or, if any such day is not a Business Day, the next Business Day, commencing on { }, 20{ } and continuing until the earlier of the payment in full of the principal hereof and the Final Maturity Date (each, a “Payment Date”), on the principal amount of this Storm Recovery Bond. Interest on this Storm Recovery Bond will accrue for each Payment Date from the most recent Payment Date on which interest has been paid to but excluding such Payment Date or, if no interest has yet been paid, from the date of issuance. Interest will be computed on the basis of { }. Such principal of and interest on this Storm Recovery Bond shall be paid in the manner specified below.

The principal of and interest on this Storm Recovery Bond are payable in such coin or currency of the United States of America as at the time of payment is legal tender for payment of public and private debts. All payments made by the Issuer with respect to this Storm Recovery Bond shall be applied first to interest due and payable on this Storm Recovery Bond as provided above and then to the unpaid principal of and premium, if any, on this Storm Recovery Bond, all in the manner set forth in the Indenture.

Unless the certificate of authentication hereon has been executed by the Indenture Trustee whose name appears below by manual signature, this Storm Recovery Bond shall not be entitled to any benefit under the Indenture referred to below or be valid or obligatory for any purpose.

IN WITNESS WHEREOF, the Issuer has caused this instrument to be signed,
manually or in facsimile, by its Responsible Officer.

Date: {_____}, 20{__}

[DUKE ENERGY [CAROLINAS/PROGRESS]
STORM RECOVERY FUNDING], LLC,
as Issuer

By: _____
Name: []
Title: []

INDENTURE TRUSTEE'S
CERTIFICATE OF AUTHENTICATION

Dated: {____}, 20{__}

This is one of the Series {__}, tranche {__} Senior Secured Storm Recovery Bonds, designated above and referred to in the within-mentioned Indenture.

[],
as Indenture Trustee

By: _____
Name: []
Title: []

This Senior Secured Storm Recovery Bond, Series { }, tranche { } is one of a duly authorized issue of Series { } Senior Secured Storm Recovery Bonds of the Issuer (herein called the “Series { } Bonds”), which Bonds are issuable in one or more Series, which Series are issuable in one or more tranches. The Series { } Bonds consist of { } tranches, including the tranche { } Series { } Senior Secured Storm Recovery Bonds, which include this Senior Secured Storm Recovery Bond (herein called the “tranche { } Storm Recovery Bonds”), all issued and to be issued under that certain Indenture dated as of [], 2021 (as supplemented by the Series Supplement (as defined below), the “Indenture”), between the Issuer and [], in its capacity as indenture trustee (the “Indenture Trustee”, which term includes any successor indenture trustee under the Indenture) and in its separate capacity as a securities intermediary (the “Securities Intermediary”, which term includes any successor securities intermediary under the Indenture), to which Indenture and all indentures supplemental thereto reference is hereby made for a statement of the respective rights and obligations thereunder of the Issuer, the Indenture Trustee and the Holders of the Bonds. For purposes herein, “Series Supplement” means that certain Series Supplement dated as of { }, 20{ } between the Issuer and the Indenture Trustee. All terms used in this tranche { } Storm Recovery Bond that are defined in the Indenture, as amended, restated, supplemented or otherwise modified from time to time, shall have the meanings assigned to such terms in the Indenture.

All tranches of Series { } Bonds are and will be equally and ratably secured by the Series Collateral pledged as security therefor as provided in the Indenture.

The principal of this tranche { } Storm Recovery Bond shall be payable on each Payment Date only to the extent that amounts in the Collection Account for the Series { } Bonds are available therefor, and only until the outstanding principal balance thereof on the preceding Payment Date (after giving effect to all payments of principal, if any, made on the preceding Payment Date) has been reduced to the principal balance specified in the Expected Sinking Fund Schedule that is attached to the Series Supplement as Schedule A, unless payable earlier because an Event of Default shall have occurred and be continuing and the Indenture Trustee or the Holders representing a majority of the Outstanding Amount of the Bonds of this Series have declared the Series { } Bonds to be immediately due and payable in accordance with Section 5.02 of the Indenture (unless such declaration shall have been rescinded and annulled in accordance with Section 5.02 of the Indenture). However, actual principal payments may be made in lesser than expected amounts and at later than expected times as determined pursuant to Section 8.02 of the Indenture. The entire unpaid principal amount of this tranche { } Storm Recovery Bond shall be due and payable on the Final Maturity Date hereof. Notwithstanding the foregoing, the entire unpaid principal amount of the Bonds shall be due and payable, if not then previously paid, on the date on which an Event of Default shall have occurred and be continuing and the Indenture Trustee or the Holders of the Bonds representing a majority of the Outstanding Amount of the Bonds of this Series have declared the Storm Recovery Bonds to be immediately due and payable in the manner provided in Section 5.02 of the Indenture (unless such declaration shall have been rescinded and annulled in accordance with Section 5.02 of the Indenture). All principal payments on the tranche { } Storm Recovery Bonds shall be made pro rata to the Holders of the tranche { } Storm Recovery Bonds entitled thereto based on the respective principal amounts of the tranche { } Storm Recovery Bonds held by them.

Payments of interest on this tranche { } Storm Recovery Bond due and payable on each Payment Date, together with the installment of principal or premium, if any, shall be made by check mailed first-class, postage prepaid, to the Person whose name appears as the Registered Holder of this tranche { } Storm Recovery Bond (or one or more Predecessor Storm Recovery Bonds) on the Storm Recovery Bond Register as of the close of business on the Record Date or in such other manner as may be provided in the Indenture or the Series Supplement, except that (a) upon application to the Indenture Trustee by any Holder owning a Global Storm Recovery Bond evidencing this tranche { } Storm Recovery Bond not later than the applicable Record Date, payment will be made by wire transfer to an account maintained by such Holder, and (b) if this tranche { } Storm Recovery Bond is held in Book-Entry Form, payments will be made by wire transfer in immediately available funds to the account designated by the Holder of the applicable Global Storm Recovery Bond evidencing this tranche { } Storm Recovery Bond unless and until such Global Storm Recovery Bond is exchanged for Definitive Storm Recovery Bonds (in which event payments shall be made as provided above) and except for the final installment of principal and premium, if any, payable with respect to this tranche { } Storm Recovery Bond on a Payment Date, which shall be payable as provided below. Such checks shall be mailed to the Person entitled thereto at the address of such Person as it appears on the Storm Recovery Bond Register as of the applicable Record Date without requiring that this tranche { } Storm Recovery Bond be submitted for notation of payment. Any reduction in the principal amount of this tranche { } Storm Recovery Bond (or any one or more Predecessor Storm Recovery Bonds) effected by any payments made on any Payment Date shall be binding upon all future Holders of this tranche { } Storm Recovery Bond and of any Storm Recovery Bond issued upon the registration of transfer hereof or in exchange hereof or in lieu hereof, whether or not noted hereon. If funds are expected to be available, as provided in the Indenture, for payment in full of the then-remaining unpaid principal amount of this tranche { } Storm Recovery Bond on a Payment Date, then the Indenture Trustee, in the name of and on behalf of the Issuer, will notify the Person who was the Registered Holder hereof as of the Record Date preceding such Payment Date by notice mailed no later than five days prior to such final Payment Date and shall specify that such final installment will be payable only upon presentation and surrender of this tranche { } Storm Recovery Bond and shall specify the place where this tranche { } Storm Recovery Bond may be presented and surrendered for payment of such installment.

The Issuer shall pay interest on overdue installments of interest at the Bond Interest Rate to the extent lawful.

This tranche { } Storm Recovery Bond is a “storm recovery bond” as such term is defined in the Storm Recovery Law. Principal and interest due and payable on this tranche { } Storm Recovery Bond are payable from and secured primarily by Series Property created and established by the Financing Order obtained from the North Carolina Public Service Commission pursuant to the Storm Recovery Law. Series Property consists of the rights and interests of the Seller in the Financing Order, including the right to impose, bill, collect and receive Series Charges, the right to obtain True-Up Adjustments and all revenue, collections, claims, rights to payments, payments, moneys and proceeds arising out of the rights and interests created under the Financing Order.

Under the laws of the State of North Carolina in effect on the date hereof, pursuant to N.C. Gen. Stat. § 62-172(k), the State of North Carolina has pledged to agree and work with the Holders, the Indenture Trustee, other Financing Parties that the State of North Carolina will not (a) alter the provisions of N.C. Gen. Stat. § 62-172(k) which make the Charges imposed by the Financing Order or Subsequent Financing Order irrevocable, binding, and nonbypassable charges; (b) take or permit any action that impairs or would impair the value of Property or revises the Storm Recovery Costs for which recovery is authorized; (c) in any way impair the rights and remedies of the bondholders, assignees and other financing parties; (d) or except as authorized under the Storm Recovery Law, reduce, alter, or impair Charges that are to be imposed, billed, charged, collected, and remitted for the benefit of the bondholders, any assignee, the Indenture Trustee and any other Financing Parties until any and all principal, interest, premium, financing costs and other fees, expenses, or charges incurred, and any contracts to be performed, in connection with the related Storm Recovery Bonds have been paid and performed in full.

The Issuer and Duke Energy [Carolinas/ Progress] hereby acknowledge that the purchase of this Storm Recovery Bond by the Holder hereof or the purchase of any beneficial interest herein by any Person are made in reliance on the foregoing pledge.

As provided in the Indenture and subject to certain limitations set forth therein, the transfer of this tranche { } Storm Recovery Bond may be registered on the Storm Recovery Bond Register upon surrender of this tranche { } Storm Recovery Bond for registration of transfer at the office or agency designated by the Issuer pursuant to the Indenture, duly endorsed by, or accompanied by, (a) a written instrument of transfer in form satisfactory to the Indenture Trustee duly executed by the Holder hereof or such Holder's attorney duly authorized in writing, with such signature guaranteed by: (i) The Securities Transfer Agent Medallion Program (STAMP); (ii) The New York Stock Exchange Medallion Program (MSP); (iii) The Stock Exchange Medallion Program (SEMP); or (iv) such other signature guaranty program acceptable to the Indenture Trustee, and (b) such other documents as the Indenture Trustee may require, and thereupon one or more new Storm Recovery Bonds of Authorized Denominations and in the same aggregate principal amount will be issued to the designated transferee or transferees. No service charge will be charged for any registration of transfer or exchange of this tranche { } Storm Recovery Bond, but the transferor may be required to pay a sum sufficient to cover any tax or other governmental charge that may be imposed in connection with any such registration of transfer or exchange, other than exchanges pursuant to Section 2.04 or Section 2.06 of the Indenture not involving any transfer.

Each Holder, by acceptance of a tranche { } Storm Recovery Bond, covenants and agrees that no recourse may be taken, directly or indirectly, with respect to the obligations of the Issuer or the Indenture Trustee on the tranche { } Storm Recovery Bonds or under the Indenture or any certificate or other writing delivered in connection therewith, against (a) any owner of a membership interest in the Issuer (including Duke Energy [Carolinas/ Progress]) or (b) any shareholder, partner, owner, beneficiary, agent, officer or employee of the Indenture Trustee, the Managers or any owner of a membership interest in the Issuer (including Duke Energy [Carolinas/ Progress]) in its respective individual or corporate capacities, or of any successor or assign of any of them in their individual or corporate capacities, except as any such Person may have expressly agreed in writing. Each Holder by accepting a tranche { } Storm

Recovery Bond specifically confirms the nonrecourse nature of these obligations and waives and releases all such liability. The waiver and release are part of the consideration for issuance of the tranche { } Storm Recovery Bonds.

Prior to the due presentment for registration of transfer of this tranche { } Storm Recovery Bond, the Issuer, the Indenture Trustee and any agent of the Issuer or the Indenture Trustee may treat the Person in whose name this tranche { } Storm Recovery Bond is registered (as of the day of determination) as the owner hereof for the purpose of receiving payments of principal of and premium, if any, and interest on this tranche { } Storm Recovery Bond and for all other purposes whatsoever, whether or not this tranche { } Storm Recovery Bond be overdue, and none of the Issuer, the Indenture Trustee or any such agent shall be affected by notice to the contrary.

The Indenture permits, with certain exceptions as therein provided, the amendment thereof and the modification of the rights and obligations of the Issuer and the rights of the Holders of the Storm Recovery Bonds under the Indenture at any time by the Issuer with the consent of the Holders representing a majority of the Outstanding Amount of all Storm Recovery Bonds at the time outstanding of each Series or tranche to be affected and upon the satisfaction of the Rating Agency Condition and Commission Condition. The Indenture also contains provisions permitting the Holders representing specified percentages of the Outstanding Amount of the Storm Recovery Bonds of all Series, on behalf of the Holders of all the Storm Recovery Bonds, with the consent of the Commission, to waive compliance by the Issuer with certain provisions of the Indenture and certain past defaults under the Indenture and their consequences. Any such consent or waiver by the Holder of this tranche { } Storm Recovery Bond (or any one of more Predecessor Storm Recovery Bonds) shall be conclusive and binding upon such Holder and upon all future Holders of this tranche { } Storm Recovery Bond and of any tranche { } Storm Recovery Bond issued upon the registration of transfer hereof or in exchange hereof or in lieu hereof whether or not notation of such consent or waiver is made upon this tranche { } Storm Recovery Bond. The Indenture also permits the Indenture Trustee to amend or waive certain terms and conditions set forth in the Indenture without the consent of Holders of the Storm Recovery Bonds issued thereunder, but with the satisfaction of the Commission Condition.

The Indenture contains provisions for defeasance at any time of (a) the entire indebtedness of the Issuer on a Storm Recovery Bond of a Series and (b) certain restrictive covenants and the related Events of Default of a Series, upon compliance by the Issuer with certain conditions set forth in the Indenture, which provisions apply to this tranche { } Storm Recovery Bond.

The term "Issuer" as used in this tranche { } Storm Recovery Bond includes any successor to the Issuer under the Indenture.

The Issuer is permitted by the Indenture, under certain circumstances, to merge or consolidate, subject to the rights of the Indenture Trustee and the Holders under the Indenture.

The tranche { } Storm Recovery Bonds are issuable only in registered form in denominations as provided in the Indenture and the Series Supplement subject to certain limitations therein set forth.

This tranche { } Storm Recovery Bond, the Indenture and the Series Supplement shall be construed in accordance with the laws of the State of New York, without reference to its conflict of law provisions (other than Section 5-1401 of the New York General Obligations Law and Sections 9-301 through 9-306 of the NY UCC), and the obligations, rights and remedies of the parties hereunder and thereunder shall be determined in accordance with such laws; provided, that the creation, attachment and perfection of any Liens created under the Indenture in Property, and all rights and remedies of the Indenture Trustee and the Holders with respect to the Property, shall be governed by the laws of the State of North Carolina.

No reference herein to the Indenture and no provision of this tranche { } Storm Recovery Bond or of the Indenture shall alter or impair the obligation, which is absolute and unconditional, to pay the principal of and interest on this tranche { } Storm Recovery Bond at the times, place and rate and in the coin or currency herein prescribed.

The Issuer and the Indenture Trustee, by entering into the Indenture, and the Holders and any Persons holding a beneficial interest in any tranche { } Storm Recovery Bond, by acquiring any tranche { } Storm Recovery Bond or interest therein, (a) express their intention that, solely for the purpose of U.S. federal taxes and, to the extent consistent with applicable state, local and other tax law, solely for the purpose of state, local and other taxes, the tranche { } Storm Recovery Bonds qualify under applicable tax law as indebtedness of the sole owner of the Issuer secured by the Series Collateral and (b) solely for purposes of U.S. federal taxes and, to the extent consistent with applicable state, local and other tax law, solely for purposes of state, local and other taxes, so long as any of the tranche { } Storm Recovery Bonds are outstanding, agree to treat the tranche { } Storm Recovery Bonds as indebtedness of the sole owner of the Issuer secured by the Series Collateral unless otherwise required by appropriate taxing authorities.

The following abbreviations, when used above on this Storm Recovery Bond, shall be construed as though they were written out in full according to applicable laws or regulations.

UNIF GIFT MIN ACT

Custodian _____
 (Custodian) (minor)

Under Uniform Gifts to Minor Act (_____)
 (State)

Additional abbreviations may also be used though not in the above list.

ASSIGNMENT

Social Security or taxpayer I.D. or other identifying number of assignee _____

FOR VALUE RECEIVED, the undersigned hereby sells, assigns and transfers unto

(name and address of assignee)

the within tranche {__} Storm Recovery Bond and all rights thereunder, and hereby irrevocably constitutes and appoints _____, attorney, to transfer said tranche {__} Storm Recovery Bond on the books kept for registration thereof, with full power of substitution in the premises.

Dated: _____

Signature Guaranteed:

The signature to this assignment must correspond with the name of the registered owner as it appears on the within tranche {__} Storm Recovery Bond in every particular, without alteration, enlargement or any change whatsoever.

NOTE: Signature(s) must be guaranteed by an institution that is a member of: (i) The Securities Transfer Agent Medallion Program (STAMP); (ii) The New York Stock Exchange Medallion Program (MSP); (iii) the Stock Exchange Medallion Program (SEMP); or (iv) such other signature guaranty program acceptable to the Indenture Trustee.

EXHIBIT B

FORM OF SERIES SUPPLEMENT

See attached.

This SERIES SUPPLEMENT, dated as of { }, 20 } (this “Supplement”), is by and between [DUKE ENERGY [CAROLINAS/PROGRESS] STORM RECOVERY FUNDING], LLC, a limited liability company created under the laws of the State of Delaware (the “Issuer”), and [] (“Bank”), in its capacity as indenture trustee (the “Indenture Trustee”) for the benefit of the Secured Parties under the Indenture dated as of [], 2021, by and between the Issuer and [], in its capacity as Indenture Trustee and in its separate capacity as a securities intermediary (the “Indenture”).

PRELIMINARY STATEMENT

Section 9.01 of the Indenture provides, among other things, that the Issuer and the Indenture Trustee may at any time enter into an indenture supplemental to the Indenture for the purposes of authorizing the issuance by the Issuer of a Series of the Storm Recovery Bonds and specifying the terms thereof. The Issuer has duly authorized the creation of a Series of the Storm Recovery Bonds with an initial aggregate principal amount of \$ { } to be known as Series { } Senior Secured Storm Recovery Bonds (the “Series { } Storm Recovery Bonds”), and the Issuer and the Indenture Trustee are executing and delivering this Supplement in order to provide for the Series { } Storm Recovery Bonds.

All terms used in this Supplement that are defined in the Indenture, either directly or by reference therein, have the meanings assigned to them therein, except to the extent such terms are defined or modified in this Supplement or the context clearly requires otherwise. In the event that any term or provision contained herein shall conflict with or be inconsistent with any term or provision contained in the Indenture, the terms and provisions of this Supplement shall govern.

GRANTING CLAUSE

With respect to the Series { } Storm Recovery Bonds, the Issuer hereby Grants to the Indenture Trustee, as Indenture Trustee for the benefit of the Secured Parties of the Series { } Storm Recovery Bonds, all of the Issuer’s right, title and interest (whether now owned or hereafter acquired or arising) in and to (a) the Series Property created under and pursuant to the Financing Order and the Storm Recovery Law, and transferred by the Seller to the Issuer on the date hereof pursuant to the Sale Agreement (including, to the fullest extent permitted by law, the right to impose, bill, collect and receive the Series Charges, the right to obtain periodic adjustments to the Series Charges, and all revenue, collections, claims, rights to payments, payments, money and proceeds arising out of the rights and interests created under the Financing Order), (b) all Series Charges related to the Series Property, (c) the Sale Agreement and the Bill of Sale executed in connection therewith and all property and interests in property transferred under the Sale Agreement and the Bill of Sale with respect to the Series Property and the Series { } Storm Recovery Bonds, (d) the Servicing Agreement, the Administration Agreement, the Intercreditor Agreement and any subservicing, agency, administration or collection agreements executed in connection therewith, to the extent related to the foregoing Series Property and the Series { } Storm Recovery Bonds, (e) the Collection Account for the Series { } Storm Recovery Bonds, all subaccounts thereof and all amounts of cash, instruments, investment property or other assets on deposit therein or credited thereto from time to time and all financial assets and securities entitlements carried therein or credited thereto, (f) all rights to compel the

Servicer to file for and obtain periodic adjustments to the Series Charges in accordance with N.C. Gen. Stat. § 62-172(b)(3)b.6. and the Financing Order, (g) all present and future claims, demands, causes and choses in action in respect of any or all of the foregoing, whether such claims, demands, causes and choses in action constitute Series Property, accounts, general intangibles, instruments, contract rights, chattel paper or proceeds of such items or any other form of property, (h) all accounts, chattel paper, deposit accounts, documents, general intangibles, goods, instruments, investment property, letters of credit, letters-of-credit rights, money, commercial tort claims and supporting obligations related to the foregoing, and (i) all payments on or under, and all proceeds in respect of, any or all of the foregoing (the “Series { } Collateral”), **it being understood that the following do not constitute Series { } Collateral:** (x) cash that has been released pursuant to the terms of the Indenture, including Section 8.02(e)(x) of the Indenture and, following retirement of all Outstanding Series { } Storm Recovery Bonds, pursuant to Section 8.02(e)(xii) of the Indenture, (y) amounts deposited with the Issuer on the Series Closing Date, for payment of costs of issuance with respect to the Series { } Storm Recovery Bonds (together with any interest earnings thereon) or (z) proceeds from the sale of the Series { } Storm Recovery Bonds required to pay the purchase price for the Series Property and paid pursuant to the Sale Agreement for such Series and upfront Financing Costs, it being understood that such amounts described in clause (x) and clause (y) above shall not be subject to Section 3.17 of the Indenture. For the avoidance of doubt, any Series Property created with respect to an Additional Series shall not be Series { } Collateral.

The foregoing Grant is made in trust to secure the Secured Obligations equally and ratably without prejudice, priority or distinction, except as expressly provided in the Indenture, to secure compliance with the provisions of the Indenture with respect to the Series { } Storm Recovery Bonds, all as provided in the Indenture and to secure the performance by the Issuer of all of its obligations under the Indenture. The Indenture and this Supplement constitute a security agreement within the meaning of the Storm Recovery Law and under the UCC to the extent that the provisions of the UCC are applicable hereto.

The Indenture Trustee, as indenture trustee on behalf of the Secured Parties of the Series { } Storm Recovery Bonds, acknowledges such Grant and accepts the trusts under this Supplement and the Indenture in accordance with the provisions of this Supplement and the Indenture.

SECTION 1. Designation. The Series { } Storm Recovery Bonds shall be designated generally as the Storm Recovery Bonds { }, and further denominated as tranches { } through { }.

SECTION 2. Initial Principal Amount; Bond Interest Rate; Scheduled Final Payment Date; Final Maturity Date; Required Capital Level. The Series { } Storm Recovery Bonds {of each tranche} shall have the initial principal amount, bear interest at the rates per annum (the “Bond Interest Rate”) and shall have the Scheduled Final Payment Dates and the Final Maturity Dates set forth below:

<u>Weighted Average Life</u>	<u>Initial Principal Amount</u>	<u>Bond Interest Rate</u>	<u>Scheduled Final Payment Date</u>	<u>Final Maturity Date</u>
--------------------------------------	---	-----------------------------------	---	------------------------------------

{ }	\$ { }	{ } %	{ }, 20 { }	{ }, 20 { }
{ }	\$ { }	{ } %	{ }, 20 { }	{ }, 20 { }
{ }	\$ { }	{ } %	{ }, 20 { }	{ }, 20 { }
{ }	\$ { }	{ } %	{ }, 20 { }	{ }, 20 { }

The Bond Interest Rate shall be computed on the basis of a 360-day year of twelve 30-day months.

The Required Capital Level for the Series { } Storm Recovery Bonds shall be equal to { } % of the initial principal amount thereof.

SECTION 3. Authentication Date; Payment Dates; Expected Sinking Fund Schedule for Principal; Periodic Interest; Book-Entry Storm Recovery Bonds; Waterfall Caps.

(a) Authentication Date. The Series { } Storm Recovery Bonds that are authenticated and delivered by the Indenture Trustee to or upon the order of the Issuer on { } (the “Series Closing Date”) shall have as their date of authentication { }.

(b) Payment Dates. The “Payment Dates” for the Series { } Storm Recovery Bonds are { } and { } of each year or, if any such date is not a Business Day, the next Business Day, commencing on { }, 20 { } and continuing until the earlier of repayment of the Series { } Storm Recovery Bonds in full and the Final Maturity Date.

(c) Expected Sinking Fund Schedule for Principal. Unless an Event of Default shall have occurred and be continuing, on each Payment Date, the Indenture Trustee shall distribute to the Holders of record as of the related Record Date amounts payable pursuant to Section 8.02(e) of the Indenture as principal, in the following order and priority: {(1) to the holders of the Series { }, tranche { } Storm Recovery Bonds, until the Outstanding Amount of such Series { }, tranche { } Storm Recovery Bonds thereof has been reduced to zero; (2) to the holders of the Series { }, tranche { } Storm Recovery Bonds, until the Outstanding Amount of such Series { }, WSL { } Storm Recovery Bonds thereof has been reduced to zero; (3) to the holders of the Series { }, tranche { } Storm Recovery Bonds, until the Outstanding Amount of such Series { }, tranche { } of Storm Recovery Bonds thereof has been reduced to zero; and (4) to the holders of the Series { }, tranche { } Storm Recovery Bonds, until the Outstanding Amount of such Series { }, tranche { } of Storm Recovery Bonds thereof has been reduced to zero; provided, however, that in no event shall a principal payment pursuant to this Section 3(c) on any tranche on a Payment Date be greater than the amount necessary to reduce the Outstanding Amount of such tranche of Storm Recovery Bonds to the amount specified in the Expected Sinking Fund Schedule that is attached as Schedule A hereto for such tranche and Payment Date}.

(d) Periodic Interest. “Periodic Interest” will be payable on {each tranche of} the Series { } Storm Recovery Bonds on each Payment Date in an amount equal to one-half of the product of (i) the applicable Bond Interest Rate and (ii) the Outstanding Amount of the {related tranche of} Series { } Storm Recovery Bonds as of the close of business on the preceding Payment Date after giving effect to all payments of principal made to the Holders of

the {related tranche of} Series {__} Storm Recovery Bonds on such preceding Payment Date; provided, however, that, with respect to the initial Payment Date, or if no payment has yet been made, interest on the outstanding principal balance will accrue from and including the Series Closing Date to, but excluding, the following Payment Date.

(e) Book-Entry Storm Recovery Bonds. The Series {__} Storm Recovery Bonds shall be Book-Entry Storm Recovery Bonds, and the applicable provisions of Section 2.11 of the Indenture shall apply to the Series {__} Storm Recovery Bonds.

(f) Waterfall Caps. The amount payable with respect to the Series {__} Storm Recovery Bonds pursuant to Section 8.02(e)(i) of the Indenture shall not exceed \${____} annually.

SECTION 4. Authorized Denominations. The Series {__} Storm Recovery Bonds shall be issuable in denominations of {\$2,000 and integral multiples of \$1,000 in excess thereof, except for one bond, which may be a smaller denomination} (the “Authorized Denominations”).

SECTION 5. Delivery and Payment for the Series {__} Storm Recovery Bonds; Form of the Series {__} Storm Recovery Bonds. The Indenture Trustee shall deliver the Series {__} Storm Recovery Bonds to the Issuer when authenticated in accordance with Section 2.03 of the Indenture. The Series {__} Storm Recovery Bonds {of each tranche} shall be in the form of Exhibit {s} {__} hereto.

SECTION 6. Ratification of Indenture. As supplemented by this Supplement, the Indenture is in all respects ratified and confirmed and the Indenture, as so supplemented by this Supplement, shall be read, taken and construed as one and the same instrument. This Supplement amends, modifies and supplements the Indenture only insofar as it relates to the Series {__} Storm Recovery Bonds.

SECTION 7. Counterparts. This Supplement may be executed in any number of counterparts, each of which so executed shall be deemed to be an original, but all of such counterparts shall together constitute but one and the same instrument.

SECTION 8. Governing Law. **This Supplement shall be governed by and construed in accordance with the laws of the State of New York, without reference to its conflict of law provisions (other than Section 5-1401 of the New York General Obligations Law and Sections 9-301 through 9-306 of the NY UCC), and the obligations, rights and remedies of the parties hereunder shall be determined in accordance with such laws; provided, that, except as set forth in Section 8.02(b) of the Indenture, the creation, attachment and perfection of any Liens created under the Indenture in Property, and all rights and remedies of the Indenture Trustee and the Holders with respect to the Property, shall be governed by the laws of the State of North Carolina.**

SECTION 9. Issuer Obligation. No recourse may be taken directly or indirectly by the Holders with respect to the obligations of the Issuer on the Series {__} Storm Recovery Bonds, under the Indenture or this Supplement or any certificate or other writing delivered in connection herewith or therewith, against (a) any owner of a beneficial interest in the Issuer

(including Duke Energy [Carolinas/ Progress]) or (b) any shareholder, partner, owner, beneficiary, officer, director, employee or agent of the Indenture Trustee, the Managers or any owner of a beneficial interest in the Issuer (including Duke Energy [Carolinas/Progress]) in its individual capacity, or of any successor or assign of any of them in their respective individual or corporate capacities, except as any such Person may have expressly agreed. Each Holder by accepting a Series {__} Storm Recovery Bond specifically confirms the nonrecourse nature of these obligations and waives and releases all such liability. The waiver and release are part of the consideration for issuance of the Series {__} Storm Recovery Bonds.

SECTION 10. Indenture Trustee Disclaimer. The Indenture Trustee is not responsible for the validity or sufficiency of this Supplement or for the recitals contained herein.

SECTION 11. Submission to Non-Exclusive Jurisdiction; Waiver of Jury Trial. **Each of the Issuer and the Indenture Trustee hereby irrevocably submits to the non-exclusive jurisdiction of any New York State court sitting in The Borough of Manhattan in The City of New York or any U.S. federal court sitting in The Borough of Manhattan in The City of New York in respect of any suit, action or proceeding arising out of or relating to this Supplement and the Series {__} Storm Recovery Bonds and irrevocably accepts for itself and in respect of its respective property, generally and unconditionally, jurisdiction of the aforesaid courts. Each of the Issuer and the Indenture Trustee irrevocably waives, to the fullest extent that it may effectively do so under applicable law, trial by jury.**

IN WITNESS WHEREOF, the Issuer and the Indenture Trustee have caused this Supplement to be duly executed by their respective officers thereunto duly authorized as of the day and year first above written.

[DUKE ENERGY [CAROLINAS/PROGRESS] STORM
RECOVERY FUNDING], LLC,
as Issuer

By: _____
Name: []
Title: []

[],
as Indenture Trustee and as Securities Intermediary

By: _____
Name: []
Title: []

SCHEDULE A
TO SERIES SUPPLEMENT

EXPECTED SINKING FUND SCHEDULE

OUTSTANDING PRINCIPAL BALANCE

<u>Date</u>	<u>tranche {__}</u>	<u>tranche {__}</u>	<u>tranche {__}</u>	<u>tranche {__}</u>
Series Closing Date {____},	#{_____}	#{_____}	#{_____}	#{_____}
20{__} {____},	#{_____}	#{_____}	#{_____}	#{_____}
20{__} {____},	#{_____}	#{_____}	#{_____}	#{_____}
20{__}	#{_____}	#{_____}	#{_____}	#{_____}

EXHIBIT {__}
TO SERIES SUPPLEMENT

FORM OF {Series {__} tranche {__} OF} STORM RECOVERY BONDS

{_____}

EXHIBIT C

SERVICING CRITERIA TO BE ADDRESSED BY INDENTURE TRUSTEE IN ASSESSMENT OF COMPLIANCE

Regulation AB Reference	Servicing Criteria	Applicable Indenture Trustee Responsibility
General Servicing Considerations		
1122(d)(1)(i)	Policies and procedures are instituted to monitor any performance or other triggers and events of default in accordance with the transaction agreements.	
1122(d)(1)(ii)	If any material servicing activities are outsourced to third parties, policies and procedures are instituted to monitor the third party's performance and compliance with such servicing activities.	
1122(d)(1)(iii)	Any requirements in the transaction agreements to maintain a back-up servicer for the pool assets are maintained.	
1122(d)(1)(iv)	A fidelity bond and errors and omissions policy is in effect on the party participating in the servicing function throughout the reporting period in the amount of coverage required by and otherwise in accordance with the terms of the transaction agreements.	
1122(d)(1)(v)	Aggregation of information, as applicable, is mathematically accurate and the information conveyed accurately reflects the information.	
Cash Collection and Administration		
1122(d)(2)(i)	Payments on pool assets are deposited into the appropriate custodial bank accounts and related bank clearing accounts no more than two business days following receipt, or such other number of days specified in the transaction agreements.	X
1122(d)(2)(ii)	Disbursements made via wire transfer on behalf of an obligor or to an investor are made only by authorized personnel.	X
1122(d)(2)(iii)	Advances of funds or guarantees regarding collections, cash flows or distributions, and any interest or other fees charged for such advances, are made, reviewed and approved as specified in the transaction agreements.	
1122(d)(2)(iv)	The related accounts for the transaction, such as cash reserve accounts or accounts established as a form of overcollateralization, are separately maintained (e.g., with respect to commingling of cash) as set forth in the transaction agreements.	X
1122(d)(2)(v)	Each custodial account is maintained at a federally insured depository institution as set forth in the transaction agreements. For purposes of this criterion, "federally insured depository institution" with respect to a foreign financial institution means a foreign financial institution that meets the requirements of Rule 13k-1(b)(1) under the Exchange Act.	
1122(d)(2)(vi)	Unissued checks are safeguarded so as to prevent unauthorized access.	
1122(d)(2)(vii)	Reconciliations are prepared on a monthly basis for all asset-backed securities related bank accounts, including custodial accounts and related bank clearing accounts. These reconciliations are: (A) mathematically accurate; (B) prepared within 30 calendar days after the bank statement cutoff date, or such other number of days specified in the transaction agreements; (C) reviewed and approved by someone other than the person who prepared the reconciliation; and (D) contain explanations for reconciling items. These reconciling items are resolved within 90 calendar days of their original identification, or such other number of days specified in the transaction agreements.	
Investor Remittances and Reporting		
1122(d)(3)(i)	Reports to investors, including those to be filed with the SEC, are maintained in accordance with the transaction agreements and applicable SEC requirements. Specifically, such reports: (A) are prepared in accordance with timeframes and other terms set forth in the transaction agreements; (B) provide information calculated in accordance with the terms specified in the transaction agreements; (C) are filed with the SEC as required by its rules and regulations; and (D) agree with investors' or the trustee's records as to the total unpaid principal balance and number of pool assets serviced by the servicer.	
1122(d)(3)(ii)	Amounts due to investors are allocated and remitted in accordance with timeframes, distribution priority and other terms set forth in the transaction agreements.	X
1122(d)(3)(iii)	Disbursements made to an investor are posted within two business days to the servicer's investor records, or such other number of days specified in the transaction agreements.	X

Regulation AB Reference	Servicing Criteria	Applicable Indenture Trustee Responsibility
1122(d)(3)(iv)	Amounts remitted to investors per the investor reports agree with cancelled checks, or other form of payment, or custodial bank statements.	X
	Pool Asset Administration	
1122(d)(4)(i)	Collateral or security on pool assets is maintained as required by the transaction agreements or related pool asset documents.	X
1122(d)(4)(ii)	Pool assets and related documents are safeguarded as required by the transaction agreements.	
1122(d)(4)(iii)	Any additions, removals or substitutions to the asset pool are made, reviewed and approved in accordance with any conditions or requirements in the transaction agreements.	
1122(d)(4)(iv)	Payments on pool assets, including any payoffs, made in accordance with the related pool asset documents are posted to the servicer's obligor records maintained no more than two business days after receipt, or such other number of days specified in the transaction agreements, and allocated to principal, interest or other items (e.g., escrow) in accordance with the related pool asset documents.	
1122(d)(4)(v)	The servicer's records regarding the pool assets agree with the servicer's records with respect to an obligor's unpaid principal balance.	
1122(d)(4)(vi)	Changes with respect to the terms or status of an obligor's pool assets (e.g., loan modifications or re-agings) are made, reviewed and approved by authorized personnel in accordance with the transaction agreements and related pool asset documents.	
1122(d)(4)(vii)	Loss mitigation or recovery actions (e.g., forbearance plans, modifications and deeds in lieu of foreclosure, foreclosures and repossessions, as applicable) are initiated, conducted and concluded in accordance with the timeframes or other requirements established by the transaction agreements.	
1122(d)(4)(viii)	Records documenting collection efforts are maintained during the period a pool asset is delinquent in accordance with the transaction agreements. Such records are maintained on at least a monthly basis, or such other period specified in the transaction agreements, and describe the entity's activities in monitoring delinquent pool assets, including, for example, phone calls, letters and payment rescheduling plans in cases where delinquency is deemed temporary (e.g., illness or unemployment).	
1122(d)(4)(ix)	Adjustments to interest rates or rates of return for pool assets with variable rates are computed based on the related pool asset documents.	
1122(d)(4)(x)	Regarding any funds held in trust for an obligor (such as escrow accounts): (A) such funds are analyzed, in accordance with the obligor's pool asset documents, on at least an annual basis, or such other period specified in the transaction agreements; (B) interest on such funds is paid, or credited, to obligors in accordance with applicable pool asset documents and state laws; and (C) such funds are returned to the obligor within 30 calendar days of full repayment of the related pool assets, or such other number of days specified in the transaction agreements.	
1122(d)(4)(xi)	Payments made on behalf of an obligor (such as tax or insurance payments) are made on or before the related penalty or expiration dates, as indicated on the appropriate bills or notices for such payments, provided that such support has been received by the servicer at least 30 calendar days prior to these dates, or such other number of days specified in the transaction agreements.	
1122(d)(4)(xii)	Any late payment penalties in connection with any payment to be made on behalf of an obligor are paid from the servicer's funds and not charged to the obligor, unless the late payment was due to the obligor's error or omission.	
1122(d)(4)(xiii)	Disbursements made on behalf of an obligor are posted within two business days to the obligor's records maintained by the servicer, or such other number of days specified in the transaction agreements.	
1122(d)(4)(xiv)	Delinquencies, charge-offs and uncollectible accounts are recognized and recorded in accordance with the transaction agreements.	
1122(d)(4)(xv)	Any external enhancement or other support, identified in Item 1114(a)(1) through (3) or Item 1115 of Regulation AB, is maintained as set forth in the transaction agreements.	

APPENDIX A

DEFINITIONS AND RULES OF CONSTRUCTION

A. Defined Terms. The following terms have the following meanings:

“17g-5 Website” is defined in Section 10.18(a) of the Indenture.

“Account Records” is defined in Section 1(a)(i) of the Administration Agreement.

“Act” is defined in Section 10.03(a) of the Indenture.

“Additional Series” means issuance by the Issuer of any series of Storm Recovery Bonds issued after the date hereof, that will be undertaken only if (i) such issuance has been authorized by the Commission, (ii) the Rating Agency Condition has been satisfied and it is a condition of issuance for each Series of Storm Recovery Bonds that the new Series receive a rating or ratings as required by the Financing Order or a Subsequent Financing Order, (iii) the Issuer has delivered to the Indenture Trustee an Opinion of Counsel of a nationally recognized firm experienced in such matters to the effect that after such issuance, in the opinion of such counsel, if either or both of Duke Energy [Carolinas/Progress] or the Seller were to become a debtor in a case under the United States Bankruptcy Code (Title 11, U.S.C.), a federal court exercising bankruptcy jurisdiction and exercising reasonable judgment after full consideration of all relevant factors would not order substantive consolidation of the assets and liabilities of the Issuer with those of the bankruptcy estate of Duke Energy [Carolinas/Progress] or the Seller, subject to the customary exceptions, qualifications and assumptions contained therein.

“Administration Agreement” means the Administration Agreement, dated as of the date hereof, by and between Duke Energy [Carolinas/Progress] and the Issuer.

“Administration Fee” is defined in Section 2 of the Administration Agreement.

“Administrator” means Duke Energy [Carolinas/Progress], as Administrator under the Administration Agreement, or any successor Administrator to the extent permitted under the Administration Agreement.

“Affiliate” means, with respect to any specified Person, any other Person controlling or controlled by or under common control with such specified Person. For the purposes of this definition, “control” when used with respect to any specified Person means the power to direct the management and policies of such specified Person, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise, and the terms “controlling” and “controlled” have meanings correlative to the foregoing.

“Amendatory Schedule” means a revision to service riders or any other notice filing filed with the Commission in respect of the Storm Recovery Rate Schedule pursuant to a True-Up Adjustment.

“Annual Accountant’s Report” is defined in Section 3.04(a) of the Servicing Agreement.

“Authorized Denomination” means, with respect to any Storm Recovery Bond, the authorized denomination therefor specified in the Series Supplement, which shall be at least \$2,000 and, except as otherwise provided in the Series Supplement, integral multiples of \$1,000 in excess thereof, except for one Storm Recovery bond which may be of a smaller denomination.

“Bankruptcy Code” means Title 11 of the United States Code (11 U.S.C. §§ 101 et seq.).

“Basic Documents” means the Indenture, each Series Supplement, the Certificate of Formation, the LLC Agreement, the Declaration of Trust, the SRB Indenture, the Administration Agreement, and, with respect to each Series, the applicable Sale Agreement, Bill of Sale, Servicing Agreement, Intercreditor Agreement, Letter of Representations, Underwriting Agreement and all other documents and certificates delivered in connection therewith.

“Bill of Sale” means a bill of sale substantially in the form of Exhibit A to the Sale Agreement delivered pursuant to Section 2.02(a) of the Sale Agreement.

“Billed Storm Recovery Charges” means the amounts of Storm Recovery Charges billed by the Servicer.

“Billing Period” means the period created by dividing the calendar year into 12 consecutive periods of approximately 21 Servicer Business Days.

“Bills” means each of the regular monthly bills, summary bills, opening bills and closing bills issued to Customers by Duke Energy [Carolinas/Progress] in its capacity as Servicer.

“Bond Interest Rate” means, with respect to any Series or Tranche of Storm Recovery Bonds, the rate at which interest accrues on the Storm Recovery Bonds of such Series or Tranche, as specified in the applicable Series Supplement.

“Book-Entry Form” means, with respect to any Storm Recovery Bond, that such Storm Recovery Bond is not certificated and the ownership and transfers thereof shall be made through book entries by a Clearing Agency as described in Section 2.11 of the Indenture and the Series Supplement pursuant to which such Storm Recovery Bond was issued.

“Book-Entry Storm Recovery Bonds” means any Storm Recovery Bonds issued in Book-Entry Form; provided, however, that, after the occurrence of a condition

whereupon book-entry registration and transfer are no longer permitted and Definitive Storm Recovery Bonds are to be issued to the Holder of such Storm Recovery Bonds, such Storm Recovery Bonds shall no longer be “Book-Entry Storm Recovery Bonds”.

“Business Day” means any day other than a Saturday, a Sunday or a day on which banking institutions in Raleigh, North Carolina, Charlotte, North Carolina or New York, New York are, or DTC or the Corporate Trust Office is, authorized or obligated by law, regulation or executive order to be closed.

“Capital Contribution” means the amount of cash contributed to the Issuer by Duke Energy [Carolinas/Progress] as specified in the LLC Agreement.

“Capital Subaccount” is defined in Section 8.02(a) of the Indenture.

“Certificate of Compliance” means the certificate referred to in Section 3.03 of the Servicing Agreement and substantially in the form of Exhibit E to the Servicing Agreement.

“Certificate of Formation” means the Certificate of Formation filed with the Secretary of State of the State of Delaware on [], 20[21] pursuant to which the Issuer was formed.

“Charge” means any storm-recovery charges as defined in Section 62-172(a)(13) of the Storm Recovery Law that are authorized by the Financing Order or any Subsequent Financing Order.

“Claim” means a “claim” as defined in Section 101(5) of the Bankruptcy Code.

“Clearing Agency” means an organization registered as a “clearing agency” pursuant to Section 17A of the Exchange Act.

“Clearing Agency Participant” means a securities broker, dealer, bank, trust company, clearing corporation or other financial institution or other Person for whom from time to time a Clearing Agency effects book entry transfers and pledges of securities deposited with such Clearing Agency.

“Code” means the Internal Revenue Code of 1986.

“Collateral” is defined in the preamble of the Indenture.

“Collection Account” is defined in Section 8.02(a) of the Indenture for such Series.

“Collection in Full of the Charges” means the day on which the aggregate amounts on deposit in the General Subaccount and the Excess Funds Subaccount are sufficient to pay in full all the Outstanding Storm Recovery Bonds and to replenish any shortfall in the Capital Subaccount.

“Collection Period” means any period commencing on the first Servicer Business Day of any Billing Period and ending on the last Servicer Business Day of such Billing Period.

“Commission” means the North Carolina Utilities Commission.

[“Commission Condition” means the satisfaction of any precondition to any amendment or modification to or action under any Basic Documents through the obtaining of Commission consent or acquiescence, as described in the related Basic Document.]

“Commission Regulations” means any regulations, including temporary regulations, promulgated by the North Carolina Utilities Commission pursuant to North Carolina law.

“Company Minutes” is defined in Section 1(a)(iv) of the Administration Agreement.

“Corporate Trust Office” means the office of the Indenture Trustee at which, at any particular time, its corporate trust business shall be administered, which office as of the date hereof is located at [BNY Mellon Global Corporate Trust, 10161 Centurion Parkway North, Jacksonville, Florida 32256]; Telephone: [904-998-4714]; Facsimile: [904-645-1930], or at such other address as the Indenture Trustee may designate from time to time by notice to the Holders of Storm Recovery Bonds and the Issuer, or the principal corporate trust office of any successor trustee designated by like notice.

“Covenant Defeasance Option” is defined in Section 4.01(b) of the Indenture.

“Customer” means any existing or future customer (including individuals, corporations, other businesses, and federal, state and local governmental entities) receiving transmission or distribution service from Duke Energy [Carolinas/Progress] or its successors or assignees under Commission-approved rate schedules or under special contracts, even if such customer elects to purchase electricity from an AES following a fundamental change in regulation of public utilities in North Carolina.

“Daily Remittance” is defined in Section 6.11(a) of the Servicing Agreement.

“Declaration of Trust” means the Declaration of Trust filed with the Secretary of State of the State of Delaware on []. 20[21] pursuant to which the SRB Trust was formed.

“Default” means any occurrence that is, or with notice or the lapse of time or both would become, an Event of Default.

“Definitive Storm Recovery Bonds” is defined in Section 2.11 of the Indenture.

“Delaware Trustee” means the Person acting as Delaware trustee under the Declaration of Trust.

“Delaware UCC” means the Uniform Commercial Code as in effect on the Series Closing Date in the State of Delaware.

“DTC” means The Depository Trust Company.

[“Duke Energy Carolinas” means Duke Energy Carolinas, LLC, a North Carolina limited liability company.

“Duke Energy Progress” means Duke Energy Progress, LLC, a North Carolina limited liability company.]

“[Duke Energy Carolinas/Progress Storm Recovery Funding], LLC” means the Issuer.

“Eligible Account” means a segregated non-interest-bearing trust account with an Eligible Institution.

“Eligible Institution” means:

(a) the corporate trust department of the Indenture Trustee or a subsidiary thereof, so long as any of the securities of the Indenture Trustee has a credit rating from each Rating Agency in one of its generic rating categories that signifies investment grade; or

(b) a depository institution organized under the laws of the United States of America or any State (or any domestic branch of a foreign bank) (i) that has either (A) a long-term issuer rating of “AA-” or higher by S&P, “A2” or higher by Moody’s and “AA” or higher by Fitch, if rated by Fitch, or (B) a short-term issuer rating of “A-1+” or higher by S&P, “P-1” or higher by Moody’s and “F1” or higher by Fitch, if rated by Fitch, or any other long-term, short-term or certificate of deposit rating acceptable to the Rating Agencies, and (ii) whose deposits are insured by the Federal Deposit Insurance Corporation.

If so qualified under clause (b) of this definition, the Indenture Trustee may be considered an Eligible Institution for the purposes of clause (a) of this definition.

“Eligible Investments” means instruments or investment property that evidence:

(a) direct obligations of, or obligations fully and unconditionally guaranteed as to timely payment by, the United States of America;

(b) demand or time deposits of, unsecured certificates of deposit of, money market deposit accounts of, bank deposit products of or bankers' acceptances issued by, any depository institution (including, but not limited to, bank deposit products of the Indenture Trustee, acting in its commercial capacity) incorporated or organized under the laws of the United States of America or any State thereof and subject to supervision and examination by U.S. federal or state banking authorities, so long as the commercial paper or other short-term debt obligations of such depository institution are, at the time of deposit, rated at least "A-1" and "P-1" or their equivalents by each of S&P and Moody's and, if Fitch provides ratings thereon by Fitch, or such lower rating as will not result in the downgrading or withdrawal of the ratings of the Storm Recovery Bonds;

(c) commercial paper (including commercial paper of the Indenture Trustee, acting in its commercial capacity, and other than commercial paper of Duke Energy [Carolinas/Progress] or any of its Affiliates), which at the time of purchase is rated at least "A-1" and "P-1" or their equivalents by each of S&P and Moody's or such lower rating as will not result in the downgrading or withdrawal of the ratings of the Storm Recovery Bonds;

(d) investments in money market funds having a rating in the highest investment category granted thereby (including funds for which the Indenture Trustee or any of its Affiliates is investment manager or advisor) from Moody's, S&P and Fitch, if rated by Fitch;

(e) repurchase obligations with respect to any security that is a direct obligation of, or fully guaranteed by, the United States of America or its agencies or instrumentalities, entered into with Eligible Institutions;

(f) repurchase obligations with respect to any security or whole loan entered into with an Eligible Institution or with a registered broker/dealer acting as principal and that meets the ratings criteria set forth below:

(i) a broker/dealer (acting as principal) registered as a broker or dealer under Section 15 of the Exchange Act (any such broker/dealer being referred to in this definition as a "broker/dealer"), the unsecured short-term debt obligations of which are rated at least "P-1" by Moody's, "A-1+" by S&P and, if Fitch provides a rating thereon, "F-1+" by Fitch at the time of entering into such repurchase obligation; or

(ii) an unrated broker/dealer, acting as principal, that is a wholly-owned subsidiary of a non-bank or bank holding company the unsecured short-term debt obligations of which are rated at least "P-1" by Moody's, "A-1+" by S&P and, if Fitch provides a rating thereon, "F-1+" by Fitch at the time of purchase so long as the obligations of such unrated broker/dealer are unconditionally guaranteed by such non-bank or bank holding company; and

(g) any other investment permitted by each of the Rating Agencies;

in each case maturing not later than the Business Day preceding the next Payment Date or Special Payment Date, if applicable (for the avoidance of doubt, investments in money market funds or similar instruments that are redeemable on demand shall be deemed to satisfy the foregoing requirement). Notwithstanding the foregoing: (1) no securities or investments that mature in 30 days or more shall be “Eligible Investments” unless the issuer thereof has either a short-term unsecured debt rating of at least “P-1” from Moody’s or a long-term unsecured debt rating of at least “A1” from Moody’s and also has a long-term unsecured debt rating of at least “A” from S&P; (2) no securities or investments described in clauses (b) through (d) above that have maturities of more than 30 days but less than or equal to 3 months shall be “Eligible Investments” unless the issuer thereof has a long-term unsecured debt rating of at least “A1” from Moody’s and a short-term unsecured debt rating of at least “P-1” from Moody’s; and (3) no securities or investments described in clauses (b) through (d) above that have maturities of more than 3 months shall be “Eligible Investments” unless the issuer thereof has a long-term unsecured debt rating of at least “A1” from Moody’s and a short-term unsecured debt rating of at least “P-1” from Moody’s.

“Event of Default” is defined in Section 5.01 of the Indenture.

“Excess Funds Subaccount” is defined in Section 8.02(a) of the Indenture.

“Exchange Act” means the Securities Exchange Act of 1934.

“Expected Sinking Fund Schedule” means, with respect to any Tranche, the expected sinking fund schedule related thereto set forth in the applicable Series Supplement.

“Federal Book-Entry Regulations” means 31 C.F.R. Part 357 et seq. (Department of Treasury).

“Final” means, with respect to the Financing Order or Subsequent Financing Order, that the Financing Order has become final, that the Financing Order is not being appealed and that the time for filing an appeal thereof has expired.

“Final Maturity Date” means, with respect to each Series of Tranche of Storm Recovery Bonds, the final maturity date therefor as specified in the applicable Series Supplement.

“Financing Costs” means all financing costs as defined in Section 62-172(a)(4) of the Storm Recovery Law allowed to be recovered by Duke Energy [Carolinas/Progress] under the Financing Order.

“Financing Order” means the financing order issued by the Commission to Duke Energy [Carolinas/Progress] on [], 20[21], Docket No. [], authorizing the creation of the Storm Recovery Property.

“Financing Party” means any and all of the following: the Holders, the Indenture Trustee, Duke Energy [Carolinas/Progress], collateral agents, any party under the Basic Documents, or any other person acting for the benefit of the Holders.

“Fitch” means Fitch Ratings or any successor thereto. References to Fitch are effective so long as Fitch is a Rating Agency.

“North Carolina Secured Transactions Registry” means the centralized database in which all initial financing statements, amendments, assignments, and other statements of charge authorized to be filed under N.C. Gen. Stat. 25- [].

“North Carolina UCC” means the Uniform Commercial Code as in effect on the Series Closing Date in the State of North Carolina.

“General Subaccount” is defined in Section 8.02(a) of the Indenture for such Series.

“Global Storm Recovery Bond” means a Storm Recovery Bond to be issued to the Holders thereof in Book-Entry Form, which Global Storm Bond shall be issued to the Clearing Agency, or its nominee, in accordance with Section 2.11 of the Indenture and the Series Supplement.

“Governmental Authority” means any nation or government, any U.S. federal, state, local or other political subdivision thereof and any court, administrative agency or other instrumentality or entity exercising executive, legislative, judicial, regulatory or administrative functions of government.

“Grant” means mortgage, pledge, bargain, sell, warrant, alienate, remise, release, convey, grant, transfer, create, grant a lien upon, a security interest in and right of set-off against, deposit, set over and confirm pursuant to the Indenture and the Series Supplement. A Grant of the Collateral shall include all rights, powers and options (but none of the obligations) of the granting party thereunder, including the immediate and continuing right to claim for, collect, receive and give receipt for payments in respect of the Collateral and all other moneys payable thereunder, to give and receive notices and other communications, to make waivers or other agreements, to exercise all rights and options, to bring Proceedings in the name of the granting party or otherwise and generally to do and receive anything that the granting party is or may be entitled to do or receive thereunder or with respect thereto.

“Holder” means the Person in whose name a Storm Recovery Bond is registered on the Storm Recovery Bond Register.

“Indemnified Losses” is defined in Section 5.03 of the Servicing Agreement.

“Indemnified Party” is defined in Section 6.02(a) of the Servicing Agreement.

“Indemnified Person” is defined in Section 5.01(f) of the Sale Agreement.

“Indenture” means the Indenture, dated as [], by and between the Issuer and [], as Indenture Trustee and as Securities Intermediary.

“Indenture Trustee” means [], a national banking association, as indenture trustee for the benefit of the Secured Parties, or any successor indenture trustee for the benefit of the Secured Parties, under the Indenture.

“Independent” means, when used with respect to any specified Person, that such specified Person (a) is in fact independent of the Issuer, any other obligor on the Storm Recovery Bonds, the Seller, the Servicer and any Affiliate of any of the foregoing Persons, (b) does not have any direct financial interest or any material indirect financial interest in the Issuer, any such other obligor, the Seller, the Servicer or any Affiliate of any of the foregoing Persons and (c) is not connected with the Issuer, any such other obligor, the Seller, the Servicer or any Affiliate of any of the foregoing Persons as an officer, employee, promoter, underwriter, trustee, partner, director (other than as an independent director or manager) or person performing similar functions.

“Independent Certificate” means a certificate to be delivered to the Indenture Trustee under the circumstances described in, and otherwise complying with, the applicable requirements of Section 10.01 of the Indenture, made by an Independent appraiser or other expert appointed by an Issuer Order and consented to by the Indenture Trustee, and such certificate shall state that the signer has read the definition of “Independent” in the Indenture and that the signer is Independent within the meaning thereof.

“Independent Manager” is defined in Section 4.01(a) of the LLC Agreement.

“Independent Manager Fee” is defined in Section 4.01(a) of the LLC Agreement.

“Insolvency Event” means, with respect to a specified Person: (a) the filing of a decree or order for relief by a court having jurisdiction in the premises in respect of such specified Person or any substantial part of its property in an involuntary case under any applicable U.S. federal or state bankruptcy, insolvency or other similar law in effect as of the date hereof or thereafter, or appointing a receiver, liquidator, assignee, custodian, trustee, sequestrator or similar official for such specified Person or for any substantial part of its property, or ordering the winding-up or liquidation of such specified Person’s affairs, and such decree or order shall remain unstayed and in effect for a period of 60 consecutive days; or (b) the commencement by such specified Person of a voluntary case under any applicable U.S. federal or state bankruptcy, insolvency or other similar law in effect as of the Series Closing Date or thereafter, or the consent by such specified Person to the entry of an order for relief in an involuntary case under any

such law, or the consent by such specified Person to the appointment of or taking possession by a receiver, liquidator, assignee, custodian, trustee, sequestrator or similar official for such specified Person or for any substantial part of its property, or the making by such specified Person of any general assignment for the benefit of creditors, or the failure by such specified Person generally to pay its debts as such debts become due, or the taking of action by such specified Person in furtherance of any of the foregoing.

“Intercreditor Agreement” means the Intercreditor Agreement, dated as of the date hereof, by and among the Issuer, the Indenture Trustee, Duke Energy [Carolinas/Progress] and the parties to the accounts receivables sale program Duke Energy [Carolinas/Progress] Receivables LLC, and any subsequent such agreement.

“Investment Company Act” means the Investment Company Act of 1940.

“Investment Earnings” means investment earnings on funds deposited in the Collection Account net of losses and investment expenses.

“Issuer” means [Duke Energy [Carolinas/Progress] Storm Recovery Funding], LLC, a Delaware limited liability company, named as such in the Indenture until a successor replaces it and, thereafter, means the successor and, for purposes of any provision contained herein and required by the Trust Indenture Act, each other obligor on the Storm Recovery Bonds.

“Issuer Documents” is defined in Section 1(a)(iv) of the Administration Agreement.

“Issuer Order” means a written order signed in the name of the Issuer by any one of its Responsible Officers and delivered to the Indenture Trustee or Paying Agent, as applicable.

“Issuer Request” means a written request signed in the name of the Issuer by any one of its Responsible Officers and delivered to the Indenture Trustee or Paying Agent, as applicable.

“Legal Defeasance Option” is defined in Section 4.01(b) of the Indenture.

“Letter of Representations” means any applicable agreement between the Issuer and the applicable Clearing Agency, with respect to such Clearing Agency’s rights and obligations (in its capacity as a Clearing Agency) with respect to any Book-Entry Storm Recovery Bonds.

“Lien” means a security interest, lien, mortgage, charge, pledge, claim or encumbrance of any kind.

“LLC Agreement” means the Amended and Restated Limited Liability Company Agreement of [Duke Energy [Carolinas/Progress] Storm Recovery Funding], LLC, dated as of [], 20[21].

“Losses” means (a) any and all amounts of principal of and interest on the Storm Recovery Bonds not paid when due or when scheduled to be paid in accordance with their terms and the amounts of any deposits by or to the Issuer required to have been made in accordance with the terms of the Basic Documents or the Financing Order or Subsequent that are not made when so required and (b) any and all other liabilities, obligations, losses, claims, damages, payments, costs or expenses of any kind whatsoever.

“Manager” means each manager of the Issuer under the LLC Agreement.

“Member” has the meaning specified in the first paragraph of the LLC Agreement.

“Monthly Servicer’s Certificate” is defined in Section 3.01(b)(i) of the Servicing Agreement.

“Moody’s” means Moody’s Investors Service, Inc. References to Moody’s are effective so long as Moody’s is a Rating Agency.

“North Carolina UCC” means the Uniform Commercial Code as in effect on the Series Closing Date in the State of North Carolina.

“NRSRO” is defined in Section 10.19(b) of the Indenture.

“NY UCC” means the Uniform Commercial Code as in effect on the date hereof in the State of New York.

“Officer’s Certificate” means a certificate signed by a Responsible Officer of the Issuer under the circumstances described in, and otherwise complying with, the applicable requirements of Section 10.01 of the Indenture, and delivered to the Indenture Trustee.

“Ongoing Financing Costs” means the Financing Costs described as such in the Financing Order, including Operating Expenses and any other costs identified in the Basic Documents; provided, however, that Ongoing Financing Costs do not include the Issuer’s costs of issuance of the Storm Recovery Bonds.

“Operating Expenses” means all unreimbursed fees, costs and out-of-pocket expenses of the Issuer, including all amounts owed by the Issuer to the Indenture Trustee (including indemnities, legal, audit fees and expenses), the Delaware Trustee, the SRB Trustee or any Manager, the Servicing Fee, the Administration Fee, legal and accounting fees, Rating Agency fees, any Regulatory Assessment Fees and related fees (i.e. website provider fees) and any franchise or other taxes owed by the Issuer, including on investment income in the Collection Account.

“Opinion of Counsel” means one or more written opinions of counsel, who may, except as otherwise expressly provided in the Basic Documents, be employees of or counsel to the party providing such opinion of counsel, which counsel shall be

reasonably acceptable to the party receiving such opinion of counsel, and shall be in form and substance reasonably acceptable to such party.

“Optional Interim True-Up Adjustment” means any Optional Interim True-Up Adjustment made pursuant to Section 4.01(b)(ii) of the Servicing Agreement.

“Outstanding” means, as of the date of determination, all Storm Recovery Bonds theretofore authenticated and delivered under the Indenture, except:

(a) Storm Recovery Bonds theretofore canceled by the Storm Recovery Bond Registrar or delivered to the Storm Recovery Bond Registrar for cancellation;

(b) Storm Recovery Bonds or portions thereof the payment for which money in the necessary amount has been theretofore deposited with the Indenture Trustee or any Paying Agent in trust for the Holders of such Storm Recovery Bonds; and

(c) Storm Recovery Bonds in exchange for or in lieu of other Storm Recovery Bonds that have been issued pursuant to the Indenture unless proof satisfactory to the Indenture Trustee is presented that any such Storm Recovery Bonds are held by a Protected Purchaser; provided, that, in determining whether the Holders of the requisite Outstanding Amount of the Storm Recovery Bonds or any Series or Tranche thereof have given any request, demand, authorization, direction, notice, consent or waiver under any Basic Document, Storm Recovery Bonds owned by the Issuer, any other obligor upon the Storm Recovery Bonds, the Member, the Seller, the Servicer or any Affiliate of any of the foregoing Persons shall be disregarded and deemed not to be Outstanding (unless one or more such Persons owns 100% of such Storm Recovery Bonds), except that, in determining whether the Indenture Trustee shall be protected in relying upon any such request, demand, authorization, direction, notice, consent or waiver, only Storm Recovery Bonds that the Indenture Trustee actually knows to be so owned shall be so disregarded. Storm Recovery Bonds so owned that have been pledged in good faith may be regarded as Outstanding if the pledgee establishes to the satisfaction of the Indenture Trustee the pledgee’s right so to act with respect to such Storm Recovery Bonds and that the pledgee is not the Issuer, any other obligor upon the Storm Recovery Bonds, the Member, the Seller, the Servicer or any Affiliate of any of the foregoing Persons.

“Outstanding Amount” means the aggregate principal amount of all Storm Recovery Bonds, or, if the context requires, all Storm Recovery Bonds of a Series or Tranche, Outstanding at the date of determination.

“Paying Agent” means, with respect to the Indenture, the Indenture Trustee and any other Person appointed as a paying agent for the Storm Recovery Bonds pursuant to the Indenture.

“Payment Date” means, with respect to any Series or Tranche of Storm Recovery Bonds, the dates specified in the applicable Series Supplement; provided, that if any such date is not a Business Day, the Payment Date shall be the Business Day succeeding such date.

“Periodic Billing Requirement” means, for any Remittance Period, the aggregate amount of Charges calculated by the Servicer as necessary to be billed during such period in order to collect the Periodic Payment Requirement on a timely basis.

“Periodic Interest” means, with respect to any Payment Date, the periodic interest for such Payment Date as specified in the Series Supplement.

“Periodic Payment Requirement” for any Remittance Period means the total dollar amount of Storm Recovery Charge Collections reasonably calculated by the Servicer in accordance with Section 4.01 of the Servicing Agreement as necessary to be received during such Remittance Period (after giving effect to the allocation and distribution of amounts on deposit in the Excess Funds Subaccount at the time of calculation and that are projected to be available for payments on the Storm Recovery Bonds at the end of such Remittance Period and including any shortfalls in Periodic Payment Requirements for any prior Remittance Period) in order to ensure that, as of the last Payment Date occurring in such Remittance Period, (a) all accrued and unpaid principal of and interest on the Storm Recovery Bonds then due shall have been paid in full on a timely basis, (b) the Outstanding Amount of the Storm Recovery Bonds is equal to the Projected Unpaid Balance on each Payment Date during such Remittance Period, (c) the balance on deposit in the Capital Subaccount equals the Required Capital Level and (d) all other fees and expenses due and owing and required or allowed to be paid under Section 8.02 of the Indenture as of such date shall have been paid in full; provided, that, with respect to any Semi-Annual True-Up Adjustment or Optional Interim True-Up Adjustment occurring after the date that is one year prior to the last Scheduled Final Payment Date for the Storm Recovery Bonds, the Periodic Payment Requirements shall be calculated to ensure that sufficient Storm Recovery Charges will be collected to retire the Storm Recovery Bonds in full as of the next Payment Date.

“Periodic Principal” means, with respect to any Payment Date, the excess, if any, of the Outstanding Amount of Storm Recovery Bonds over the outstanding principal balance specified for such Payment Date on the Expected Sinking Fund Schedule.

“Permitted Lien” means the Lien created by the Indenture.

“Permitted Successor” is defined in Section 5.02 of the Sale Agreement.

“Person” means any individual, corporation, limited liability company, estate, partnership, joint venture, association, joint stock company, trust (including any beneficiary thereof), unincorporated organization or Governmental Authority.

“Predecessor Storm Recovery Bond” means, with respect to any particular Storm Recovery Bond, every previous Storm Recovery Bond evidencing all or a portion

of the same debt as that evidenced by such particular Storm Recovery Bond, and, for the purpose of this definition, any Storm Recovery Bond authenticated and delivered under Section 2.06 of the Indenture in lieu of a mutilated, lost, destroyed or stolen Storm Recovery Bond shall be deemed to evidence the same debt as the mutilated, lost, destroyed or stolen Storm Recovery Bond.

“Premises” is defined in Section 1(g) of the Administration Agreement.

“Proceeding” means any suit in equity, action at law or other judicial or administrative proceeding.

“Projected Unpaid Balance” means, as of any Payment Date, the sum of the projected outstanding principal amount of each Tranche of Storm Recovery Bonds for such Payment Date set forth in the Expected Sinking Fund Schedule.

“Protected Purchaser” has the meaning specified in Section 8-303 of the UCC.

“Rating Agency” means, with respect to any Tranche of Storm Recovery Bonds, any of Moody’s, S&P or Fitch that provides a rating with respect to the Storm Recovery Bonds. If no such organization (or successor) is any longer in existence, “Rating Agency” shall be a nationally recognized statistical rating organization or other comparable Person designated by the Issuer, notice of which designation shall be given to the Indenture Trustee and the Servicer.

“Rating Agency Condition” means, with respect to any action, at least ten Business Days’ prior written notification to each Rating Agency of such action, and written confirmation from each of S&P and Moody’s to the Servicer, the Indenture Trustee and the Issuer that such action will not result in a suspension, reduction or withdrawal of the then current rating by such Rating Agency of any Tranche of Storm Recovery Bonds; provided, that, if, within such ten Business Day period, any Rating Agency (other than S&P) has neither replied to such notification nor responded in a manner that indicates that such Rating Agency is reviewing and considering the notification, then (a) the Issuer shall be required to confirm that such Rating Agency has received the Rating Agency Condition request and, if it has, promptly request the related Rating Agency Condition confirmation and (b) if the Rating Agency neither replies to such notification nor responds in a manner that indicates it is reviewing and considering the notification within five Business Days following such second request, the applicable Rating Agency Condition requirement shall not be deemed to apply to such Rating Agency. For the purposes of this definition, any confirmation, request, acknowledgment or approval that is required to be in writing may be in the form of electronic mail or a press release (which may contain a general waiver of a Rating Agency’s right to review or consent).

“Record Date” means one Business Day prior to the applicable Payment Date.

“Registered Holder” means the Person in whose name a Storm Recovery Bond is registered on the Storm Recovery Bond Register.

“Regulation AB” means the rules of the SEC promulgated under Subpart 229.1100 – Asset Backed Securities (Regulation AB), 17 C.F.R. §§229.1100-229.1123.

“Reimbursable Expenses” is defined in Section 2 of the Administration Agreement and Section 6.06(a) of the Servicing Agreement.

“Released Parties” is defined in Section 6.02(d) of the Servicing Agreement.

“Remittance Period” means, with respect to any True-Up Adjustment, the period comprised of 6 consecutive Collection Periods beginning with the Collection Period three months prior to when such True-Up Adjustment would go into effect, from the Series Closing Date to the first Scheduled Payment Date, and for each subsequent period between Scheduled Payment Dates.

“Required Capital Level” means, with respect to any Series of Storm Recovery Bonds, the amount specified as such in the Series Supplement therefor.

“Requirement of Law” means any foreign, U.S. federal, state or local laws, statutes, regulations, rules, codes or ordinances enacted, adopted, issued or promulgated by any Governmental Authority or common law.

“Responsible Officer” means, with respect to: (a) the Issuer, any Manager or any duly authorized officer; (b) the Indenture Trustee, any officer within the Corporate Trust Office of such trustee (including the President, any Vice President, any Assistant Vice President, any Secretary, any Assistant Treasurer or any other officer of the Indenture Trustee customarily performing functions similar to those performed by persons who at the time shall be such officers, respectively, and that has direct responsibility for the administration of the Indenture and also, with respect to a particular matter, any other officer to whom such matter is referred to because of such officer’s knowledge and familiarity with the particular subject); (c) any corporation (other than the Indenture Trustee), the Chief Executive Officer, the President, any Vice President, the Chief Financial Officer, the Treasurer, any Assistant Treasurer or any other duly authorized officer of such Person who has been authorized to act in the circumstances; (d) any partnership, any general partner thereof; and (e) any other Person (other than an individual), any duly authorized officer or member of such Person, as the context may require, who is authorized to act in matters relating to such Person.

“Return on Invested Capital” means, for any Payment Date with respect to any Remittance Period, the sum of (i) rate of return, payable to Duke Energy [Carolinas/Progress], on its Capital Contribution equal to the rate of interest payable on the longest maturing Tranche of Storm Recovery Bonds plus (ii) any Return on Invested Capital not paid on any prior Payment Date.

“S&P” means Standard & Poor’s Ratings Services, a Standard & Poor’s Financial Services LLC business. References to S&P are effective so long as S&P is a Rating Agency.

“Sale Agreement” means the Storm Recovery Property Purchase and Sale Agreement, dated as of the date hereof, or any subsequent Storm Recovery Property Purchase and Sale Agreement relating to another Series of Storm Recovery Bonds by and between the Issuer and Duke Energy [Carolinas/Progress] , and acknowledged and accepted by the Indenture Trustee.

“Scheduled Final Payment Date” means, with respect to each Series of Storm Recovery Bonds, the date when all interest and principal is scheduled to be paid with respect to that applicable Series in accordance with the Expected Sinking Fund Schedule, as specified in the Series Supplement. For the avoidance of doubt, the Scheduled Final Payment Date with respect to any Series shall be the last Scheduled Payment Date set forth in the Expected Sinking Fund Schedule relating to such Series. The “last Scheduled Final Payment Date” means the Scheduled Final Payment Date of the latest maturing Tranche of a Series of Storm Recovery Bonds.

“Scheduled Payment Date” means, with respect to each Series or Tranche of Storm Recovery Bonds, each Payment Date on which principal for such Series or Tranche is to be paid in accordance with the Expected Sinking Fund Schedule for such Series or Tranche.

“SEC” means the Securities and Exchange Commission.

“Secured Obligations” means the payment of principal of and premium, if any, interest on, and any other amounts owing in respect of, the Storm Recovery Bonds and all fees, expenses, counsel fees and other amounts due and payable to the Indenture Trustee.

“Secured Parties” means the Indenture Trustee, the Holders and any credit enhancer described in a Series Supplement.

“Securities Act” means the Securities Act of 1933.

“Securities Intermediary” means [], a national banking association, solely in the capacity of a “securities intermediary” as defined in the NY UCC and Federal Book-Entry Regulations or any successor securities intermediary under the Indenture.

“Seller” is defined in the preamble to the Sale Agreement.

“Semi-Annual Servicer’s Certificate” is defined in Section 4.01(c)(ii) of the Servicing Agreement.

“Semi-Annual True-Up Adjustment” means each adjustment to the Storm Recovery Charges made in accordance with Section 4.01(b)(i) of the Servicing Agreement.

“Semi-Annual True-Up Adjustment Date” means the first billing cycle of [January and July] of each year, commencing in [], 2021.

“Series” means any series of Storm Recovery Bonds.

“Series A Storm Recovery Bonds” means the Series A Senior Secured Storm Recovery Bonds issued by the Issuer on [].

“Series Charges” means Charges for the benefit of a particular Series of Storm Recovery Bonds.

“Series Closing Date” means the date on which a Series of the Storm Recovery Bonds are originally issued in accordance with Section 2.10 of the Indenture and the respective Series Supplement.

“Series Collateral” means Collateral for the benefit of a particular Series of Storm Recovery Bonds.

“Series Property” means Property for the benefit of a particular Series of Storm Recovery Bonds.

“Series Supplement” means an indenture supplemental to the Indenture in the form attached as Exhibit B to the Indenture that authorizes the issuance of Storm Recovery Bonds.

“Servicer” means Duke Energy [Carolinas/Progress], as Servicer under the Servicing Agreement.

“Servicer Business Day” means any day other than a Saturday, a Sunday or a day on which banking institutions in St. Petersburg, Florida, Charlotte, North Carolina or New York, New York are authorized or obligated by law, regulation or executive order to be closed, on which the Servicer maintains normal office hours and conducts business.

“Servicer Default” is defined in Section 7.01 of the Servicing Agreement.

“Servicer Policies and Practices” means, with respect to the Servicer’s duties under Exhibit A to the Servicing Agreement, the policies and practices of the Servicer applicable to such duties that the Servicer follows with respect to comparable assets that it services for itself and, if applicable, others.

“Servicing Agreement” means the Storm Recovery Property Servicing Agreement, dated as of the date hereof, or any subsequent Storm Recovery Property Servicing Agreement relating to another Series of Storm Recovery Bonds by and between the Issuer and Duke Energy [Carolinas/Progress], and acknowledged and accepted by the Indenture Trustee.

“Servicing Fee” is defined in Section 6.06(a) of the Servicing Agreement.

“Servicing Standard” means the obligation of the Servicer to calculate, apply, remit and reconcile proceeds of the Property, including Storm Recovery Charge Payments, and all other Collateral for the benefit of the Issuer and the Holders (a) with the same degree of care and diligence as the Servicer applies with respect to payments owed to it for its own account, (b) in accordance with all applicable procedures and requirements established by the Commission for collection of electric utility tariffs and (c) in accordance with the other terms of the Servicing Agreement.

“Special Payment Date” means the date on which, with respect to any Series or Tranche of Storm Recovery Bonds, any payment of principal of or interest (including any interest accruing upon default) on, or any other amount in respect of, the Storm Recovery Bonds of such Series or Tranche that is not actually paid within five days of the Payment Date applicable thereto is to be made by the Indenture Trustee to the Holders.

“Special Record Date” means, with respect to any Special Payment Date, the close of business on the fifteenth day (whether or not a Business Day) preceding such Special Payment Date.

“Sponsor” means Duke Energy [Carolinas/Progress], in its capacity as “sponsor” of the Storm Recovery Bonds within the meaning of Regulation AB.

“SRB Indenture” means the indenture, as from time to time supplemented or amended by one or more indentures supplemental hereto entered into pursuant to the applicable provisions hereof, as so supplemented or amended or both, and shall include the forms and terms of the SRB Notes established hereunder.

“SRB Issuer” means the issuer of the SRB Notes.

“SRB Noteholder” means any holders of the SRB Notes.

“SRB Notes” means the notes issued by the SRB Issuer pursuant to the SRB Indenture.

“SRB Securities Intermediary” means [], solely in its capacity as a “securities intermediary” as defined in Section 8-102(a)(14) of the UCC, or any successor securities intermediary.

“SRB Trustee” means [], as SRB Trustee under the SRB Indenture, and its successors in interest, and any successor SRB Trustee appointed as provided herein. “State” means any one of the fifty states of the United States of America or the District of Columbia.

“State Pledge” means the pledge of the State of North Carolina as set forth in Section 62-172(k) of the Storm Recovery Law.

“Storms” means Hurricanes Florence[,Dorian] and Michael and Winter Storm Diego.

“Storm Recovery Bond Register” is defined in Section 2.05 of the Indenture.

“Storm Recovery Bond Registrar” is defined in Section 2.05 of the Indenture.

“Storm Recovery Bonds” means all Series of the Storm recovery bonds issued under the Indenture.

“Storm Recovery Charge Collections” means Charges actually received by the Servicer to be remitted to the Collection Account.

“Storm Recovery Charge Payments” means the payments made by Customers based on the Charges.

“Storm Recovery Costs” means (i) Duke Energy [Carolinas'/Progress's] deferred asset balance associated with the Storms, including a return on the unrecovered balance, and with respect to the capital investments, including a deferral of depreciation expense and a return on the investment determined by the Commission to be prudently incurred in Docket No. [E-7, Sub 1214/E-2, Sub 1219] including carrying costs in the amount of X through the projected issuances date of the [Series A] Storm Recovery Bonds, calculated at the Company's approved weighted average cost of capital, (ii) plus up-front Financing Costs “Storm Recovery Law” means the laws of the State of North Carolina adopted in 2019 enacted as Section 62-172, North Carolina Statutes.

“Storm Recovery Property” means all storm recovery property as defined in Section 62-172(a)(15)a. of the Storm Recovery Law created pursuant to the Financing Order or a Subsequent Financing Order and under the Storm Recovery Law, including the right to impose, bill, charge, collect and receive the Charges authorized under the Financing Order and to obtain periodic adjustments of the Charges and all revenue, collections, claims, rights to payments, payments, money, or proceeds arising from the rights and interests specified in Section 62-172(a)(15)b., regardless of whether such revenues, collections, claims, rights to payments, money, or proceeds are imposed, billed, received, collected, or maintained together with or commingled with other revenues, collections, rights to payment, payments, money or proceeds.

“Storm Recovery Property Records” is defined in Section 5.01 of the Servicing Agreement.

“Storm Recovery Rate Class” means one of the [five] separate rate classes to whom Charges are allocated for ratemaking purposes in accordance with the Financing Order.

“Storm Recovery Rate Schedule” means the Tariff sheets to be filed with the Commission stating the amounts of the Charges, as such Tariff sheets may be amended or modified from time to time pursuant to a True-Up Adjustment.

“Subaccounts” is defined in Section 8.02(a) of the Indenture.

“Subsequent Financing Order” means, a financing order of the Commission under the Storm Recovery Law issued to Duke Energy [Carolinas/Progress] subsequent to the Financing Order.

“Successor” means any successor to Duke Energy [Carolinas/Progress] under the Storm Recovery Law, whether pursuant to any bankruptcy, reorganization or other insolvency proceeding or pursuant to any merger, conversion, acquisition, sale or transfer, by operation of law, as a result of electric utility restructuring, or otherwise.

“Successor Servicer” is defined in Section 3.07(e) of the Indenture.

“Tariff” means the most current version on file with the Commission of [], 2021.

“Tax Returns” is defined in Section 1(a)(iii) of the Administration Agreement.

“Temporary Storm Recovery Bonds” means Storm Recovery Bonds executed and, upon the receipt of an Issuer Order, authenticated and delivered by the Indenture Trustee pending the preparation of Definitive Storm Recovery Bonds pursuant to Section 2.04 of the Indenture.

“Termination Notice” is defined in Section 7.01 of the Servicing Agreement.

“TPS” means a third party supplier which is authorized by law to sell electric service to a customer using the transmission or distribution system of Duke Energy [Carolinas/Progress].

“Tranche Maturity Date” means, with respect to any Tranche of Storm Recovery Bonds, the maturity date therefor, as specified in the Series Supplement therefor.

“True-Up Adjustment” means any Semi-Annual True-Up Adjustment or Optional Interim True-Up Adjustment, as the case may be.

“Trust Indenture Act” means the Trust Indenture Act of 1939 as in force on the Series Closing Date, unless otherwise specifically provided.

“UCC” means the Uniform Commercial Code as in effect in the relevant jurisdiction.

“Underwriters” means the underwriters who purchase Storm Recovery Bonds of any Series from the Issuer and sell such Storm Recovery Bonds in a public offering.

“Underwriting Agreement” means the Underwriting Agreement, dated [], 2020, by and among Duke Energy [Carolinas/Progress], the representatives of the several Underwriters named therein and the Issuer.

“U.S. Government Obligations” means direct obligations (or certificates representing an ownership interest in such obligations) of the United States of America (including any agency or instrumentality thereof) for the payment of which the full faith and credit of the United States of America is pledged and that are not callable at the option of the issuer thereof.

“Weighted Average Days Outstanding” means the weighted average number of days Duke Energy [Carolinas/Progress] monthly bills to Customers remain outstanding during the calendar year preceding the calculation thereof pursuant to Section 4.01(b)(i) of the Servicing Agreement.

B. Rules of Construction. Unless the context otherwise requires, in each Basic Document to which this Appendix A is attached:

(a) All accounting terms not specifically defined herein shall be construed in accordance with United States generally accepted accounting principles. To the extent that the definitions of accounting terms in any Basic Document are inconsistent with the meanings of such terms under generally accepted accounting principles or regulatory accounting principles, the definitions contained in such Basic Document shall control.

(b) The term “including” means “including without limitation”, and other forms of the verb “include” have correlative meanings.

(c) All references to any Person shall include such Person’s permitted successors and assigns, and any reference to a Person in a particular capacity excludes such Person in other capacities.

(d) Unless otherwise stated in any of the Basic Documents, in the computation of a period of time from a specified date to a later specified date, the word “from” means “from and including” and each of the words “to” and “until” means “to but excluding”.

(e) The words “hereof”, “herein” and “hereunder” and words of similar import when used in any Basic Document shall refer to such Basic Document as a whole and not to any particular provision of such Basic Document. References to Articles, Sections, Appendices and Exhibits in any Basic Document are references to Articles, Sections, Appendices and Exhibits in or to such Basic Document unless otherwise specified in such Basic Document.

(f) The various captions (including the tables of contents) in each Basic Document are provided solely for convenience of reference and shall not affect the meaning or interpretation of any Basic Document.

(g) The definitions contained in this Appendix A apply equally to the singular and plural forms of such terms, and words of the masculine, feminine or neuter gender shall mean and include the correlative words of other genders.

(h) Unless otherwise specified, references to an agreement or other document include references to such agreement or document as from time to time amended, restated, reformed, supplemented or otherwise modified in accordance with the terms thereof (subject to any restrictions on such amendments, restatements, reformations, supplements or modifications set forth in such agreement or document) and include any attachments thereto.

(i) References to any law, rule, regulation or order of a Governmental Authority shall include such law, rule, regulation or order as from time to time in effect, including any amendment, modification, codification, replacement or reenactment thereof or any substitution therefor.

(j) The word “will” shall be construed to have the same meaning and effect as the word “shall”.

(k) The word “or” is not exclusive.

(l) All terms defined in the relevant Basic Document to which this Appendix A is attached shall have the defined meanings when used in any certificate or other document made or delivered pursuant thereto unless otherwise defined therein.

(m) A term has the meaning assigned to it.

ADMINISTRATION AGREEMENT

This ADMINISTRATION AGREEMENT, dated as of [], 2021, is entered into by and between Duke Energy [Carolinas/Progress], LLC, a North Carolina limited liability company (“[DEC/DEP]”), as administrator, and [Duke Energy [Carolinas/Progress] Storm Recovery Funding], LLC, a Delaware limited liability company.

Capitalized terms used but not otherwise defined in this Administration Agreement shall have the respective meanings given to such terms in Appendix A, which is hereby incorporated by reference into this Administration Agreement as if set forth fully in this Administration Agreement. Not all terms defined in Appendix A are used in this Administration Agreement. The rules of construction set forth in Appendix A shall apply to this Administration Agreement and are hereby incorporated by reference into this Administration Agreement as if set forth fully in this Administration Agreement.

WITNESSETH:

WHEREAS, the Issuer is issuing [Series A] Storm Recovery Bonds pursuant to the Indenture and the Series Supplement dated the date hereof;

WHEREAS, the Issuer has entered into certain agreements in connection with the issuance of Storm Recovery Bonds, including (a) the Indenture, (b) the Servicing Agreement for the [Series A] Storm Recovery Bonds, (c) the Sale Agreement for the [Series A] Storm Recovery Bonds and (d) the other Basic Documents to which the Issuer is a party relating to the [Series A] Storm Recovery Bonds;

WHEREAS, pursuant to the Basic Documents, the Issuer is required to perform certain duties in connection with the Basic Documents, the [Series A] Storm Recovery Bonds and the Series Collateral pledged to the Indenture Trustee pursuant to the Indenture and Series Supplement dated the date hereof;

WHEREAS, pursuant to the Indenture, the Issuer may issue Additional Series of Storm Recovery Bonds, whereby the Issuer would be required to perform certain duties in connection with the Basic Documents, the Additional Series of Storm Recovery Bonds and the Collateral pledged to the Indenture Trustee for such Series pursuant to the Indenture and applicable Series Supplement(s);

WHEREAS, the Issuer has no employees, other than its officers and managers, and does not intend to hire any employees, and consequently desires to have the Administrator perform certain of the duties of the Issuer referred to above and to provide such additional services consistent with the terms of this Administration Agreement and the other Basic Documents as the Issuer may from time to time request; and

WHEREAS, the Administrator has the capacity to provide the services and the facilities required thereby and is willing to perform such services and provide such facilities for the Issuer on the terms set forth herein;

NOW, THEREFORE, in consideration of the mutual covenants contained herein, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

Section 1. Duties of the Administrator; Management Services. The Administrator hereby agrees to provide the following corporate management services to the Issuer and to cause third parties to provide professional services required for or contemplated by such services in accordance with the provisions of this Administration Agreement:

(a) furnish the Issuer with ordinary clerical, bookkeeping and other corporate administrative services necessary and appropriate for the Issuer, including the following services:

(i) maintain at the Premises general accounting records of the Issuer (the "Account Records"), subject to year-end audit, in accordance with generally accepted accounting principles, separate and apart from its own accounting records, prepare or cause to be prepared such quarterly and annual financial statements as may be necessary or appropriate and arrange for year-end audits of the Issuer's financial statements by the Issuer's independent accountants;

(ii) prepare and, after execution by the Issuer, file with the SEC and any applicable state agencies documents required to be filed by the Issuer with the SEC and any applicable state agencies, including periodic reports required to be filed under the Exchange Act;

(iii) prepare for execution by the Issuer and cause to be filed such income, franchise or other tax returns of the Issuer as shall be required to be filed by applicable law (the "Tax Returns") and cause to be paid on behalf of the Issuer from the Issuer's funds any taxes required to be paid by the Issuer under applicable law;

(iv) prepare or cause to be prepared for execution by the Issuer's Managers minutes of the meetings of the Issuer's Managers and such other documents deemed appropriate by the Issuer to maintain the separate limited liability company existence and good standing of the Issuer (the "Company Minutes") or otherwise required under the Basic Documents (together with the Account Records, the Tax Returns, the Company Minutes, the LLC Agreement and the Certificate of Formation, the "Issuer Documents") and any other documents deliverable by the Issuer thereunder or in connection therewith; and

(v) hold, maintain and preserve at the Premises (or such other place as shall be required by any of the Basic Documents) executed copies (to the extent applicable) of the Issuer Documents and other documents executed by the Issuer thereunder or in connection therewith;

(b) take such actions on behalf of the Issuer as are necessary or desirable for the Issuer to keep in full effect its existence, rights and franchises as a limited liability company under the laws of the State of Delaware and obtain and preserve its qualification to do business in each jurisdiction in which it becomes necessary to be so qualified;

(c) take such actions on the behalf of the Issuer as are necessary for the issuance and delivery of Storm Recovery Bonds;

(d) provide for the performance by the Issuer of its obligations under each of the Basic Documents, and prepare, or cause to be prepared, all documents, reports, filings, instruments, notices, certificates and opinions that it shall be the duty of the Issuer to prepare, file or deliver pursuant to the Basic Documents;

(e) to the full extent allowable under applicable law, enforce each of the rights of the Issuer under the Basic Documents, at the direction of the Indenture Trustee or the SRB Trustee;

(f) provide for the defense, at the direction of the Issuer's Managers, of any action, suit or proceeding brought against the Issuer or affecting the Issuer or any of its assets;

(g) provide office space (the "Premises") for the Issuer and such reasonable ancillary services as are necessary to carry out the obligations of the Administrator hereunder, including telecopying, duplicating and word processing services;

(h) undertake such other administrative services as may be appropriate, necessary or requested by the Issuer; and

(i) provide such other services as are incidental to the foregoing or as the Issuer and the Administrator may agree.

In providing the services under this Section 1 and as otherwise provided under this Administration Agreement, the Administrator will not knowingly take any actions on behalf of the Issuer that (i) the Issuer is prohibited from taking under the Basic Documents, or (ii) would cause the Issuer to be in violation of any U.S. federal, state or local law or the LLC Agreement.

In performing its duties hereunder, the Administrator shall use the same degree of care and diligence that the Administrator exercises with respect to performing such duties for its own account and, if applicable, for others.

Section 2. Compensation. As compensation for the performance of the Administrator's obligations under this Administration Agreement (including the compensation of Persons serving as Manager(s), other than the Independent Manager(s), and officers of the Issuer, but, for the avoidance of doubt, excluding the performance by Duke Energy [Carolinas/Progress] of its obligations in its capacity as Servicer), the Administrator shall be entitled to \$50,000 annually (the "Administration Fee"), payable by the Issuer in full on the first Payment Date following the issuance of the [Series A] Storm Recovery Bonds and every second Payment Date thereafter. In addition, the Administrator shall be entitled to be reimbursed by the Issuer for all costs and expenses of services performed by unaffiliated third parties and actually incurred by the Administrator in connection with the performance of its obligations under this Administration Agreement in accordance with Section 3 (but, for the avoidance of doubt, excluding any such costs and expenses incurred by Duke Energy [Carolinas/Progress] in its capacity as Servicer), to the extent that such costs and expenses are supported by invoices or other customary documentation and are reasonably allocated to the Issuer ("Reimbursable Expenses").

Section 3. Third Party Services. Any services required for or contemplated by the performance of the above-referenced services by the Administrator to be provided by unaffiliated third parties (including independent accountants' fees and counsel fees) may, if provided for or otherwise contemplated by the Financing Order or a Subsequent Financing Order and if the Issuer deems it necessary or desirable, be arranged by the Issuer or by the Administrator at the direction (which may be general or specific) of the Issuer. Costs and expenses associated with the contracting for such third-party professional services may be paid directly by the Issuer or paid by the Administrator and reimbursed by the Issuer in accordance with Section 2, or otherwise as the Administrator and the Issuer may mutually arrange.

Section 4. Additional Information to be Furnished to the Issuer. The Administrator shall furnish to the Issuer from time to time such additional information regarding the Series Collateral or the Collateral, as applicable, as the Issuer shall reasonably request.

Section 5. Independence of the Administrator. For all purposes of this Administration Agreement, the Administrator shall be an independent contractor and shall not be subject to the supervision of the Issuer with respect to the manner in which it accomplishes the performance of its obligations hereunder. Unless expressly authorized by the Issuer, the Administrator shall have no authority, and shall not hold itself out as having the authority, to act for or represent the Issuer in any way and shall not otherwise be deemed an agent of the Issuer.

Section 6. No Joint Venture. Nothing contained in this Administration Agreement (a) shall constitute the Administrator and the Issuer as partners or co-members of any partnership, joint venture, association, syndicate, unincorporated business or other separate entity, (b) shall be construed to impose any liability as such on either of them or (c) shall be deemed to confer on either of them any express, implied or apparent authority to incur any obligation or liability on behalf of the other.

Section 7. Other Activities of Administrator. Nothing herein shall prevent the Administrator or any of its members, managers, officers, employees or affiliates from engaging in other businesses or, in its sole discretion, from acting in a similar capacity as an administrator for any other Person even though such Person may engage in business activities similar to those of the Issuer.

Section 8. Term of Agreement; Resignation and Removal of Administrator.

(a) This Administration Agreement shall continue in force until the payment in full of all Series of Storm Recovery Bonds and any other amount that may become due and payable under the Indenture, upon which event this Administration Agreement shall automatically terminate. Notwithstanding the foregoing, the Administrator's obligation under Section 11(c) to indemnify [DEC/DEP] Customers shall survive termination of this Administration Agreement.

(b) Subject to Section 8(e) and Section 8(f), the Administrator may resign its duties hereunder by providing the Issuer, the Commission and the Rating Agencies with at least 60 days' prior written notice.

(c) Subject to Section 8(e) and Section 8(f), the Issuer may remove the Administrator without cause by providing the Administrator, the Commission and the Rating Agencies with at least 60 days' prior written notice.

(d) Subject to Section 8(e) and Section 8(f), at the sole option of the Issuer, the Administrator may be removed immediately upon written notice of termination from the Issuer to the Administrator and the Rating Agencies if any of the following events shall occur:

(i) the Administrator shall default in the performance of any of its duties under this Administration Agreement and, after notice of such default, shall fail to cure such default within ten days (or, if such default cannot be cured in such time, shall (A) fail to give within ten days such assurance of cure as shall be reasonably satisfactory to the Issuer and (B) fail to cure such default within 30 days thereafter);

(ii) a court of competent jurisdiction shall enter a decree or order for relief, and such decree or order shall not have been vacated within 60 days, in respect of the Administrator in any involuntary case under any applicable bankruptcy, insolvency or other similar law now or hereafter in effect, or such court shall appoint a receiver, liquidator, assignee, custodian, trustee, sequestrator or similar official for the Administrator or any substantial part of its property or order the winding-up or liquidation of its affairs; or

(iii) the Administrator shall commence a voluntary case under any applicable bankruptcy, insolvency or other similar law now or hereafter in effect, shall consent to the entry of an order for relief in an involuntary case under any such law, shall consent to the appointment of a receiver, liquidator, assignee, trustee, custodian, sequestrator or similar official for the Administrator or any substantial part of its property, shall consent to the taking of possession by any such official of any substantial part of its property, shall make any general assignment for the benefit of creditors or shall fail generally to pay its debts as they become due.

The Administrator agrees that if any of the events specified in Section 8(d)(ii) or Section 8(d)(iii) shall occur, it shall give written notice thereof to the Issuer, the Commission, the Indenture Trustee and the SRB Trustee as soon as practicable but in any event within seven days after the happening of such event.

(e) No resignation or removal of the Administrator pursuant to this Section 8 shall be effective until a successor Administrator has been appointed by the Issuer, the Rating Agency Condition shall have been satisfied with respect to the proposed appointment, [the Commission Condition set forth in Section 13(b) of this Administration Agreement has been satisfied,] and such successor Administrator has agreed in writing to be bound by the terms of this Administration Agreement in the same manner as the Administrator is bound hereunder.

(f) The appointment of any successor Administrator shall be effective only after satisfaction of the Rating Agency Condition [and the Commission Condition] with respect to the proposed appointment.

Section 9. Action upon Termination, Resignation or Removal. Promptly upon the effective date of termination of this Administration Agreement pursuant to Section 8(a), the resignation of the Administrator pursuant to Section 8(b) or the removal of the Administrator pursuant to Section 8(c) or Section 8(d), the Administrator shall be entitled to be paid a pro-rated portion of the annual fee described in Section 2 through the date of termination and all Reimbursable Expenses incurred by it through the date of such termination, resignation or removal. The Administrator shall forthwith upon such termination pursuant to Section 8(a) deliver to the Issuer all property and documents of or relating to the Collateral then in the custody of the Administrator. In the event of the resignation of the Administrator pursuant to Section 8(b) or the removal of the Administrator pursuant to Section 8(c) or Section 8(d), the Administrator shall cooperate with the Issuer and take all reasonable steps requested to assist the Issuer in making an orderly transfer of the duties of the Administrator.

Section 10. Administrator's Liability. (a) Except as otherwise provided herein, the Administrator assumes no liability other than to render or stand ready to render the services called for herein, and neither the Administrator nor any of its members, managers, officers, employees or affiliates shall be responsible for any action of the Issuer or any of the members, managers, officers, employees or affiliates of the Issuer (other than the Administrator itself). The Administrator shall not be liable for nor shall it have any obligation with regard to any of the liabilities, whether direct or indirect, absolute or contingent, of the Issuer or any of the members, managers, officers, employees or affiliates of the Issuer (other than the Administrator itself).

(b) The Administrator acknowledges that the Commission has authority to enforce all provisions of this Administration Agreement for the benefit of [DEC/DEP] Customers, including without limitation the enforcement of Section 11(c). Notwithstanding anything to the contrary contained in this Administration Agreement, for the avoidance of doubt, any right, remedy or claim to which any [DEC/DEP] Customer may be entitled pursuant to this Administration Agreement may be asserted or exercised only by the Commission for the benefit of such [DEC/DEP] Customer.

Section 11. Indemnity.

(a) Subject to the priority of payments set forth in the Indenture, the Issuer shall indemnify the Administrator and its shareholders, directors, officers, employees and affiliates against all losses, claims, damages, penalties, judgments, liabilities and expenses (including all expenses of litigation or preparation therefor whether or not the Administrator is a party thereto) that any of them may pay or incur arising out of or relating to this Administration Agreement and the services called for herein; provided, however, that such indemnity shall not apply to any such loss, claim, damage, penalty, judgment, liability or expense resulting from the Administrator's negligence or willful misconduct in the performance of its obligations hereunder.

(b) The Administrator shall indemnify the Issuer and its members, managers, officers and employees against all losses, claims, damages, penalties, judgments, liabilities and expenses (including all expenses of litigation or preparation therefor whether or not the Issuer is a party thereto) that any of them may incur as a result of the Administrator's negligence or willful misconduct in the performance of its obligations hereunder.

(c) If the Administrator remains an entity subject to the Commission's regulatory authority as a public utility (or otherwise for ratemaking purposes), the Administrator hereby acknowledges and agrees that the Commission, subject to the outcome of an appropriate Commission proceeding, may take such action as it deems necessary or appropriate under its regulatory authority to require the Administrator to make [DEC/DEP] Customers whole for any Losses they incur by reason of the Administrator's negligence, recklessness or willful misconduct, including without limitation Losses attributable to higher Charges imposed on [DEC/DEP] Customers by reason of additional Operating Expenses. The Administrator hereby acknowledges and agrees that such action by the Commission may include, but is not limited to, adjustments to the Administrator's other regulated rates and charges or credits to [DEC/DEP] Customers. If the Administrator does not remain, or is not subject to, the Commission's regulatory authority as a public utility (or otherwise for ratemaking purposes), such Administrator shall indemnify the Commission, on behalf of the [DEC/DEP] Customers, for any Losses incurred by [DEC/DEP] Customers by reason of the Administrator's negligence, recklessness or willful misconduct, including without limitation Losses attributable to higher Charges imposed on [DEC/DEP] Customers by reason of additional Operating Expenses. The Administrator's indemnification under this Section 11(c) shall survive the termination of this Administration Agreement, and any amounts paid with respect thereto shall be remitted and deposited with the Indenture Trustee for deposit into the Collection Account, unless otherwise directed by the Commission.

Section 12. Notices. Any notice, report or other communication given hereunder shall be in writing and shall be effective (i) upon receipt when sent through the mails, registered or certified mail, return receipt requested, postage prepaid, with such receipt to be effective the date of delivery indicated on the return receipt, (ii) upon receipt when sent by an overnight courier, (iii) on the date personally delivered to an authorized officer of the party to which sent or (iv) on the date transmitted by facsimile or other electronic transmission with a confirmation of receipt in all cases, addressed as follows:

(a) if to the Issuer, to [Duke Energy [Carolinas/Progress] Storm Recovery Funding], LLC, at [ADDRESS], Attention: Manager, Telephone: [];

(b) if to the Administrator, to Duke Energy [Carolinas/Progress], LLC, at [ADDRESS], Attention: Director, Rates and Regulatory Strategy, Telephone: [727-820-4560] in care of (c/o): Director, Rates and Regulatory Planning and at 550 South Tryon Street, Charlotte, North Carolina 28202, Attention: Treasurer, Telephone: 704-382-3853 c/o Assistant Treasurer; and

(c) if to the Indenture Trustee, to the Corporate Trust Office; and

(d) if to the SRB Trustee, to the SRB Corporate Trust Office.

Each party hereto may, by notice given in accordance herewith to the other party or parties hereto, designate any further or different address to which subsequent notices, reports and other communications shall be sent.

Section 13. Amendments.

(a) Subject to Section 13(b), this Administration Agreement may be amended from time to time by a written amendment duly executed and delivered by each of the Issuer and the Administrator, with the prior written consent of the Indenture Trustee and the SRB Trustee, the satisfaction of the Rating Agency Condition; provided, that any such amendment may not adversely affect the interest of any Bondholder or SRB Noteholder in any material respect without the consent of the Bondholder or SRB Noteholders of a majority of the outstanding principal amount of all Storm Recovery Bonds. Promptly after the execution of any such amendment or consent, the Issuer shall furnish copies of such amendment or consent to each of the Rating Agencies.

(b) [Commission Condition. Notwithstanding anything to the contrary in this Section 13, no amendment or modification of this Administration Agreement shall be effective, nor shall any action requiring satisfaction of this condition pursuant to Section 8(e), Section 8(f), or Section 14 of this Administration Agreement be taken or be effective except upon satisfaction of the conditions precedent in this paragraph (b).

(i) At least 15 days prior to the effectiveness of any such amendment or modification and after obtaining the other necessary approvals set forth in Section 13(a) (except that the consent of the Indenture Trustee may be subject to the consent of Holders of the Storm Recovery Bonds if such consent is required or sought by the Indenture Trustee in connection with such amendment or modification) the Administrator shall have delivered to the Commission's [Name Appropriate Party] written notification of any proposed amendment, which notification shall contain:

(A) a reference to Docket No. [];

(B) an Officer's Certificate stating that the proposed amendment or modification has been approved by all parties to this Administration Agreement; and

(C) a statement identifying the person to whom the Commission is to address any response to the proposed amendment or to request additional time.

(ii) If the Commission or an authorized representative of the Commission, within 15 days (subject to extension as provided in clause (iii)) of receiving a notification complying with subparagraph (i), shall have delivered to the office of the person specified in clause (i)(C) a written statement that the Commission might object to the proposed amendment or modification, then, subject to clause (iv) below, such proposed amendment or modification shall not be effective unless and until the Commission subsequently delivers a written statement that it does not object to such proposed amendment or modification; or

(iii) If the Commission or an authorized representative of the Commission, within 15 days of receiving a notification complying with subparagraph (i), shall have delivered to the office of the person specified in clause (i)(C) a written statement requesting an additional amount of time not to exceed thirty days in which to consider such proposed amendment or modification, then such proposed amendment or

modification shall not be effective if, within such extended period, the Commission shall have delivered to the office of the person specified in clause (i)(C) a written statement as described in subparagraph (ii), unless and until the Commission subsequently delivers a written statement that it does not object to such proposed amendment or modification.

(iv) If (A) the Commission or an authorized representative of the Commission, shall not have delivered written notice that the Commission might object to such proposed amendment or modification within the time periods described in subparagraphs (ii) or (iii), whichever is applicable, or (B) the Commission or authorized representative of the Commission, has delivered such written notice but does not within 60 days of the delivery of the notification in (a) above, provide subsequent written notice confirming that it does in fact object and the reasons therefore or advise that it has initiated a proceeding to determine what action it might take with respect to the matter, then the Commission shall be conclusively deemed not to have any objection to the proposed amendment or modification and such amendment or modification may subsequently become effective upon satisfaction of the other conditions specified in Section 13(a).

(v) Following the delivery of a statement from the Commission or an authorized representative of the Commission to the Administrator under subparagraph (ii), the Administrator and the Issuer shall have the right at any time to withdraw from the Commission further consideration of any proposed amendment, modification or other action.

(vi) For the purpose of this Section 13, an “authorized representative of the Commission” means any person authorized to act on behalf of the Commission, as evidenced by an Opinion of Counsel (which may be the general counsel) to the Commission.]

Section 14. Successors and Assigns. This Administration Agreement may not be assigned by the Administrator unless such assignment is previously consented to in writing by the Issuer, the Commission and the Indenture Trustee and subject to the satisfaction of the Rating Agency Condition in connection therewith. Any assignment with such consent and satisfaction, if accepted by the assignee, shall bind the assignee hereunder in the same manner as the Administrator is bound hereunder. Notwithstanding the foregoing, this Administration Agreement may be assigned by the Administrator without the consent of the Issuer, the Commission or the Indenture Trustee and without satisfaction of the Rating Agency Condition to a corporation or other organization that is a successor (by merger, reorganization, consolidation or purchase of assets) to the Administrator, including any Permitted Successor; provided, that such successor or organization executes and delivers to the Issuer and the Commission an agreement in which such corporation or other organization agrees to be bound hereunder by the terms of said assignment in the same manner as the Administrator is bound hereunder. Subject to the foregoing, this Administration Agreement shall bind any successors or assigns of the parties hereto. Upon satisfaction of all of the conditions of this Section 14, the preceding Administrator shall automatically and without further notice be released from all of its obligations hereunder.

Section 15. Governing Law. This Administration Agreement shall be construed in accordance with the laws of the State of North Carolina, without reference to its conflict of law

provisions, and the obligations, rights and remedies of the parties hereunder shall be determined in accordance with such laws.

Section 16. Counterparts. This Administration Agreement may be executed in counterparts, each of which when so executed shall be an original, but all of which together shall constitute but one and the same Administration Agreement.

Section 17. Severability. Any provision of this Administration Agreement that is prohibited or unenforceable in any jurisdiction shall be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof, and any such prohibition or unenforceability in any jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction.

Section 18. Nonpetition Covenant. Notwithstanding any prior termination of this Administration Agreement, the Administrator covenants that it shall not, prior to the date that is one year and one day after payment in full of all Storm Recovery Bonds, acquiesce, petition or otherwise invoke or cause the Issuer to invoke the process of any court or government authority for the purpose of commencing or sustaining an involuntary case against the Issuer under any U.S. federal or state bankruptcy, insolvency or similar law or appointing a receiver, liquidator, assignee, trustee, custodian, sequestrator or other similar official of the Issuer or any substantial part of its property or ordering the winding up or liquidation of the affairs of the Issuer.

Section 19. Assignment to Indenture Trustee. The Administrator hereby acknowledges and consents to any mortgage, pledge, assignment and grant of a security interest by the Issuer to the Indenture Trustee for the benefit of the Holders pursuant to the Indenture of any or all of the Issuer's rights hereunder and the assignment of any or all of the Issuer's rights hereunder to the Indenture Trustee for the benefit of the Holders and the collateral assignment by the Sole Holder to the SRB Trustee pursuant to the SRB Indenture for the benefit of the SRB Noteholders and the SRB Trustee in all of the Holder's rights in all rights of the SRB Trustee or the SRB Issuer, as Holder of the [Series A] Storm Recovery Bonds, in and to this Administration Agreement.

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IN WITNESS WHEREOF, the parties have caused this Administration Agreement to be duly executed and delivered as of the day and year first above written.

[Duke Energy [Carolinas/Progress] Storm Recovery Funding], LLC,
as Issuer

By: _____
Name: [] Title: President, Chief Financial Officer
and Treasurer

Duke Energy [Carolinas/Progress], LLC,
as Administrator

By: _____
Name: []
Title: Senior Vice President, Tax and Treasurer

APPENDIX A

DEFINITIONS AND RULES OF CONSTRUCTION

A. Defined Terms. The following terms have the following meanings:

“17g-5 Website” is defined in Section 10.18(a) of the Indenture.

“Account Records” is defined in Section 1(a)(i) of the Administration Agreement.

“Act” is defined in Section 10.03(a) of the Indenture.

“Additional Series” means issuance by the Issuer of any series of Storm Recovery Bonds issued after the date hereof, that will be undertaken only if (i) such issuance has been authorized by the Commission, (ii) the Rating Agency Condition has been satisfied and it is a condition of issuance for each Series of Storm Recovery Bonds that the new Series receive a rating or ratings as required by the Financing Order or a Subsequent Financing Order, (iii) the Issuer has delivered to the Indenture Trustee an Opinion of Counsel of a nationally recognized firm experienced in such matters to the effect that after such issuance, in the opinion of such counsel, if either or both of Duke Energy [Carolinas/Progress] or the Seller were to become a debtor in a case under the United States Bankruptcy Code (Title 11, U.S.C.), a federal court exercising bankruptcy jurisdiction and exercising reasonable judgment after full consideration of all relevant factors would not order substantive consolidation of the assets and liabilities of the Issuer with those of the bankruptcy estate of Duke Energy [Carolinas/Progress] or the Seller, subject to the customary exceptions, qualifications and assumptions contained therein.

“Administration Agreement” means the Administration Agreement, dated as of the date hereof, by and between Duke Energy [Carolinas/Progress] and the Issuer.

“Administration Fee” is defined in Section 2 of the Administration Agreement.

“Administrator” means Duke Energy [Carolinas/Progress], as Administrator under the Administration Agreement, or any successor Administrator to the extent permitted under the Administration Agreement.

“Affiliate” means, with respect to any specified Person, any other Person controlling or controlled by or under common control with such specified Person. For the purposes of this definition, “control” when used with respect to any specified Person means the power to direct the management and policies of such specified Person, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise, and the terms “controlling” and “controlled” have meanings correlative to the foregoing.

“Amendatory Schedule” means a revision to service riders or any other notice filing filed with the Commission in respect of the Storm Recovery Rate Schedule pursuant to a True-Up Adjustment.

“Annual Accountant’s Report” is defined in Section 3.04(a) of the Servicing Agreement.

“Authorized Denomination” means, with respect to any Storm Recovery Bond, the authorized denomination therefor specified in the Series Supplement, which shall be at least \$2,000 and, except as otherwise provided in the Series Supplement, integral multiples of \$1,000 in excess thereof, except for one Storm Recovery bond which may be of a smaller denomination.

“Bankruptcy Code” means Title 11 of the United States Code (11 U.S.C. §§ 101 et seq.).

“Basic Documents” means the Indenture, each Series Supplement, the Certificate of Formation, the LLC Agreement, the Declaration of Trust, the SRB Indenture, the Administration Agreement, and, with respect to each Series, the applicable Sale Agreement, Bill of Sale, Servicing Agreement, Intercreditor Agreement, Letter of Representations, Underwriting Agreement and all other documents and certificates delivered in connection therewith.

“Bill of Sale” means a bill of sale substantially in the form of Exhibit A to the Sale Agreement delivered pursuant to Section 2.02(a) of the Sale Agreement.

“Billed Storm Recovery Charges” means the amounts of Storm Recovery Charges billed by the Servicer.

“Billing Period” means the period created by dividing the calendar year into 12 consecutive periods of approximately 21 Servicer Business Days.

“Bills” means each of the regular monthly bills, summary bills, opening bills and closing bills issued to Customers by Duke Energy [Carolinas/Progress] in its capacity as Servicer.

“Bond Interest Rate” means, with respect to any Series or Tranche of Storm Recovery Bonds, the rate at which interest accrues on the Storm Recovery Bonds of such Series or Tranche, as specified in the applicable Series Supplement.

“Book-Entry Form” means, with respect to any Storm Recovery Bond, that such Storm Recovery Bond is not certificated and the ownership and transfers thereof shall be made through book entries by a Clearing Agency as described in Section 2.11 of the Indenture and the Series Supplement pursuant to which such Storm Recovery Bond was issued.

“Book-Entry Storm Recovery Bonds” means any Storm Recovery Bonds issued in Book-Entry Form; provided, however, that, after the occurrence of a condition

whereupon book-entry registration and transfer are no longer permitted and Definitive Storm Recovery Bonds are to be issued to the Holder of such Storm Recovery Bonds, such Storm Recovery Bonds shall no longer be “Book-Entry Storm Recovery Bonds”.

“Business Day” means any day other than a Saturday, a Sunday or a day on which banking institutions in Raleigh, North Carolina, Charlotte, North Carolina or New York, New York are, or DTC or the Corporate Trust Office is, authorized or obligated by law, regulation or executive order to be closed.

“Capital Contribution” means the amount of cash contributed to the Issuer by Duke Energy [Carolinas/Progress] as specified in the LLC Agreement.

“Capital Subaccount” is defined in Section 8.02(a) of the Indenture.

“Certificate of Compliance” means the certificate referred to in Section 3.03 of the Servicing Agreement and substantially in the form of Exhibit E to the Servicing Agreement.

“Certificate of Formation” means the Certificate of Formation filed with the Secretary of State of the State of Delaware on [], 20[21] pursuant to which the Issuer was formed.

“Charge” means any storm-recovery charges as defined in Section 62-172(a)(13) of the Storm Recovery Law that are authorized by the Financing Order or any Subsequent Financing Order.

“Claim” means a “claim” as defined in Section 101(5) of the Bankruptcy Code.

“Clearing Agency” means an organization registered as a “clearing agency” pursuant to Section 17A of the Exchange Act.

“Clearing Agency Participant” means a securities broker, dealer, bank, trust company, clearing corporation or other financial institution or other Person for whom from time to time a Clearing Agency effects book entry transfers and pledges of securities deposited with such Clearing Agency.

“Code” means the Internal Revenue Code of 1986.

“Collateral” is defined in the preamble of the Indenture.

“Collection Account” is defined in Section 8.02(a) of the Indenture for such Series.

“Collection in Full of the Charges” means the day on which the aggregate amounts on deposit in the General Subaccount and the Excess Funds Subaccount are sufficient to pay in full all the Outstanding Storm Recovery Bonds and to replenish any shortfall in the Capital Subaccount.

“Collection Period” means any period commencing on the first Servicer Business Day of any Billing Period and ending on the last Servicer Business Day of such Billing Period.

“Commission” means the North Carolina Utilities Commission.

[“Commission Condition” means the satisfaction of any precondition to any amendment or modification to or action under any Basic Documents through the obtaining of Commission consent or acquiescence, as described in the related Basic Document.]

“Commission Regulations” means any regulations, including temporary regulations, promulgated by the North Carolina Utilities Commission pursuant to North Carolina law.

“Company Minutes” is defined in Section 1(a)(iv) of the Administration Agreement.

“Corporate Trust Office” means the office of the Indenture Trustee at which, at any particular time, its corporate trust business shall be administered, which office as of the date hereof is located at [BNY Mellon Global Corporate Trust, 10161 Centurion Parkway North, Jacksonville, Florida 32256]; Telephone: [904-998-4714]; Facsimile: [904-645-1930], or at such other address as the Indenture Trustee may designate from time to time by notice to the Holders of Storm Recovery Bonds and the Issuer, or the principal corporate trust office of any successor trustee designated by like notice.

“Covenant Defeasance Option” is defined in Section 4.01(b) of the Indenture.

“Customer” means any existing or future customer (including individuals, corporations, other businesses, and federal, state and local governmental entities) receiving transmission or distribution service from Duke Energy [Carolinas/Progress] or its successors or assignees under Commission-approved rate schedules or under special contracts, even if such customer elects to purchase electricity from an AES following a fundamental change in regulation of public utilities in North Carolina.

“Daily Remittance” is defined in Section 6.11(a) of the Servicing Agreement.

“Declaration of Trust” means the Declaration of Trust filed with the Secretary of State of the State of Delaware on []. 20[21] pursuant to which the SRB Trust was formed.

“Default” means any occurrence that is, or with notice or the lapse of time or both would become, an Event of Default.

“Definitive Storm Recovery Bonds” is defined in Section 2.11 of the Indenture.

“Delaware Trustee” means the Person acting as Delaware trustee under the Declaration of Trust.

“Delaware UCC” means the Uniform Commercial Code as in effect on the Series Closing Date in the State of Delaware.

“DTC” means The Depository Trust Company.

[“Duke Energy Carolinas” means Duke Energy Carolinas, LLC, a North Carolina limited liability company.

“Duke Energy Progress” means Duke Energy Progress, LLC, a North Carolina limited liability company.]

“[Duke Energy Carolinas/Progress Storm Recovery Funding], LLC” means the Issuer.

“Eligible Account” means a segregated non-interest-bearing trust account with an Eligible Institution.

“Eligible Institution” means:

(a) the corporate trust department of the Indenture Trustee or a subsidiary thereof, so long as any of the securities of the Indenture Trustee has a credit rating from each Rating Agency in one of its generic rating categories that signifies investment grade; or

(b) a depository institution organized under the laws of the United States of America or any State (or any domestic branch of a foreign bank) (i) that has either (A) a long-term issuer rating of “AA-” or higher by S&P, “A2” or higher by Moody’s and “AA” or higher by Fitch, if rated by Fitch, or (B) a short-term issuer rating of “A-1+” or higher by S&P, “P-1” or higher by Moody’s and “F1” or higher by Fitch, if rated by Fitch, or any other long-term, short-term or certificate of deposit rating acceptable to the Rating Agencies, and (ii) whose deposits are insured by the Federal Deposit Insurance Corporation.

If so qualified under clause (b) of this definition, the Indenture Trustee may be considered an Eligible Institution for the purposes of clause (a) of this definition.

“Eligible Investments” means instruments or investment property that evidence:

(a) direct obligations of, or obligations fully and unconditionally guaranteed as to timely payment by, the United States of America;

(b) demand or time deposits of, unsecured certificates of deposit of, money market deposit accounts of, bank deposit products of or bankers' acceptances issued by, any depository institution (including, but not limited to, bank deposit products of the Indenture Trustee, acting in its commercial capacity) incorporated or organized under the laws of the United States of America or any State thereof and subject to supervision and examination by U.S. federal or state banking authorities, so long as the commercial paper or other short-term debt obligations of such depository institution are, at the time of deposit, rated at least "A-1" and "P-1" or their equivalents by each of S&P and Moody's and, if Fitch provides ratings thereon by Fitch, or such lower rating as will not result in the downgrading or withdrawal of the ratings of the Storm Recovery Bonds;

(c) commercial paper (including commercial paper of the Indenture Trustee, acting in its commercial capacity, and other than commercial paper of Duke Energy [Carolinas/Progress] or any of its Affiliates), which at the time of purchase is rated at least "A-1" and "P-1" or their equivalents by each of S&P and Moody's or such lower rating as will not result in the downgrading or withdrawal of the ratings of the Storm Recovery Bonds;

(d) investments in money market funds having a rating in the highest investment category granted thereby (including funds for which the Indenture Trustee or any of its Affiliates is investment manager or advisor) from Moody's, S&P and Fitch, if rated by Fitch;

(e) repurchase obligations with respect to any security that is a direct obligation of, or fully guaranteed by, the United States of America or its agencies or instrumentalities, entered into with Eligible Institutions;

(f) repurchase obligations with respect to any security or whole loan entered into with an Eligible Institution or with a registered broker/dealer acting as principal and that meets the ratings criteria set forth below:

(i) a broker/dealer (acting as principal) registered as a broker or dealer under Section 15 of the Exchange Act (any such broker/dealer being referred to in this definition as a "broker/dealer"), the unsecured short-term debt obligations of which are rated at least "P-1" by Moody's, "A-1+" by S&P and, if Fitch provides a rating thereon, "F-1+" by Fitch at the time of entering into such repurchase obligation; or

(ii) an unrated broker/dealer, acting as principal, that is a wholly-owned subsidiary of a non-bank or bank holding company the unsecured short-term debt obligations of which are rated at least "P-1" by Moody's, "A-1+" by S&P and, if Fitch provides a rating thereon, "F-1+" by Fitch at the time of purchase so long as the obligations of such unrated broker/dealer are unconditionally guaranteed by such non-bank or bank holding company; and

(g) any other investment permitted by each of the Rating Agencies;

in each case maturing not later than the Business Day preceding the next Payment Date or Special Payment Date, if applicable (for the avoidance of doubt, investments in money market funds or similar instruments that are redeemable on demand shall be deemed to satisfy the foregoing requirement). Notwithstanding the foregoing: (1) no securities or investments that mature in 30 days or more shall be “Eligible Investments” unless the issuer thereof has either a short-term unsecured debt rating of at least “P-1” from Moody’s or a long-term unsecured debt rating of at least “A1” from Moody’s and also has a long-term unsecured debt rating of at least “A” from S&P; (2) no securities or investments described in clauses (b) through (d) above that have maturities of more than 30 days but less than or equal to 3 months shall be “Eligible Investments” unless the issuer thereof has a long-term unsecured debt rating of at least “A1” from Moody’s and a short-term unsecured debt rating of at least “P-1” from Moody’s; and (3) no securities or investments described in clauses (b) through (d) above that have maturities of more than 3 months shall be “Eligible Investments” unless the issuer thereof has a long-term unsecured debt rating of at least “A1” from Moody’s and a short-term unsecured debt rating of at least “P-1” from Moody’s.

“Event of Default” is defined in Section 5.01 of the Indenture.

“Excess Funds Subaccount” is defined in Section 8.02(a) of the Indenture.

“Exchange Act” means the Securities Exchange Act of 1934.

“Expected Sinking Fund Schedule” means, with respect to any Tranche, the expected sinking fund schedule related thereto set forth in the applicable Series Supplement.

“Federal Book-Entry Regulations” means 31 C.F.R. Part 357 et seq. (Department of Treasury).

“Final” means, with respect to the Financing Order or Subsequent Financing Order, that the Financing Order has become final, that the Financing Order is not being appealed and that the time for filing an appeal thereof has expired.

“Final Maturity Date” means, with respect to each Series of Tranche of Storm Recovery Bonds, the final maturity date therefor as specified in the applicable Series Supplement.

“Financing Costs” means all financing costs as defined in Section 62-172(a)(4) of the Storm Recovery Law allowed to be recovered by Duke Energy [Carolinas/Progress] under the Financing Order.

“Financing Order” means the financing order issued by the Commission to Duke Energy [Carolinas/Progress] on [], 20[21], Docket No. [], authorizing the creation of the Storm Recovery Property.

“Financing Party” means any and all of the following: the Holders, the Indenture Trustee, Duke Energy [Carolinas/Progress], collateral agents, any party under the Basic Documents, or any other person acting for the benefit of the Holders.

“Fitch” means Fitch Ratings or any successor thereto. References to Fitch are effective so long as Fitch is a Rating Agency.

“North Carolina Secured Transactions Registry” means the centralized database in which all initial financing statements, amendments, assignments, and other statements of charge authorized to be filed under N.C. Gen. Stat. 25- [].

“North Carolina UCC” means the Uniform Commercial Code as in effect on the Series Closing Date in the State of North Carolina.

“General Subaccount” is defined in Section 8.02(a) of the Indenture for such Series.

“Global Storm Recovery Bond” means a Storm Recovery Bond to be issued to the Holders thereof in Book-Entry Form, which Global Storm Bond shall be issued to the Clearing Agency, or its nominee, in accordance with Section 2.11 of the Indenture and the Series Supplement.

“Governmental Authority” means any nation or government, any U.S. federal, state, local or other political subdivision thereof and any court, administrative agency or other instrumentality or entity exercising executive, legislative, judicial, regulatory or administrative functions of government.

“Grant” means mortgage, pledge, bargain, sell, warrant, alienate, remise, release, convey, grant, transfer, create, grant a lien upon, a security interest in and right of set-off against, deposit, set over and confirm pursuant to the Indenture and the Series Supplement. A Grant of the Collateral shall include all rights, powers and options (but none of the obligations) of the granting party thereunder, including the immediate and continuing right to claim for, collect, receive and give receipt for payments in respect of the Collateral and all other moneys payable thereunder, to give and receive notices and other communications, to make waivers or other agreements, to exercise all rights and options, to bring Proceedings in the name of the granting party or otherwise and generally to do and receive anything that the granting party is or may be entitled to do or receive thereunder or with respect thereto.

“Holder” means the Person in whose name a Storm Recovery Bond is registered on the Storm Recovery Bond Register.

“Indemnified Losses” is defined in Section 5.03 of the Servicing Agreement.

“Indemnified Party” is defined in Section 6.02(a) of the Servicing Agreement.

“Indemnified Person” is defined in Section 5.01(f) of the Sale Agreement.

“Indenture” means the Indenture, dated as [], by and between the Issuer and [], as Indenture Trustee and as Securities Intermediary.

“Indenture Trustee” means [], a national banking association, as indenture trustee for the benefit of the Secured Parties, or any successor indenture trustee for the benefit of the Secured Parties, under the Indenture.

“Independent” means, when used with respect to any specified Person, that such specified Person (a) is in fact independent of the Issuer, any other obligor on the Storm Recovery Bonds, the Seller, the Servicer and any Affiliate of any of the foregoing Persons, (b) does not have any direct financial interest or any material indirect financial interest in the Issuer, any such other obligor, the Seller, the Servicer or any Affiliate of any of the foregoing Persons and (c) is not connected with the Issuer, any such other obligor, the Seller, the Servicer or any Affiliate of any of the foregoing Persons as an officer, employee, promoter, underwriter, trustee, partner, director (other than as an independent director or manager) or person performing similar functions.

“Independent Certificate” means a certificate to be delivered to the Indenture Trustee under the circumstances described in, and otherwise complying with, the applicable requirements of Section 10.01 of the Indenture, made by an Independent appraiser or other expert appointed by an Issuer Order and consented to by the Indenture Trustee, and such certificate shall state that the signer has read the definition of “Independent” in the Indenture and that the signer is Independent within the meaning thereof.

“Independent Manager” is defined in Section 4.01(a) of the LLC Agreement.

“Independent Manager Fee” is defined in Section 4.01(a) of the LLC Agreement.

“Insolvency Event” means, with respect to a specified Person: (a) the filing of a decree or order for relief by a court having jurisdiction in the premises in respect of such specified Person or any substantial part of its property in an involuntary case under any applicable U.S. federal or state bankruptcy, insolvency or other similar law in effect as of the date hereof or thereafter, or appointing a receiver, liquidator, assignee, custodian, trustee, sequestrator or similar official for such specified Person or for any substantial part of its property, or ordering the winding-up or liquidation of such specified Person’s affairs, and such decree or order shall remain unstayed and in effect for a period of 60 consecutive days; or (b) the commencement by such specified Person of a voluntary case under any applicable U.S. federal or state bankruptcy, insolvency or other similar law in effect as of the Series Closing Date or thereafter, or the consent by such specified Person to the entry of an order for relief in an involuntary case under any

such law, or the consent by such specified Person to the appointment of or taking possession by a receiver, liquidator, assignee, custodian, trustee, sequestrator or similar official for such specified Person or for any substantial part of its property, or the making by such specified Person of any general assignment for the benefit of creditors, or the failure by such specified Person generally to pay its debts as such debts become due, or the taking of action by such specified Person in furtherance of any of the foregoing.

“Intercreditor Agreement” means the Intercreditor Agreement, dated as of the date hereof, by and among the Issuer, the Indenture Trustee, Duke Energy [Carolinas/Progress] and the parties to the accounts receivables sale program Duke Energy [Carolinas/Progress] Receivables LLC, and any subsequent such agreement.

“Investment Company Act” means the Investment Company Act of 1940.

“Investment Earnings” means investment earnings on funds deposited in the Collection Account net of losses and investment expenses.

“Issuer” means [Duke Energy [Carolinas/Progress] Storm Recovery Funding], LLC, a Delaware limited liability company, named as such in the Indenture until a successor replaces it and, thereafter, means the successor and, for purposes of any provision contained herein and required by the Trust Indenture Act, each other obligor on the Storm Recovery Bonds.

“Issuer Documents” is defined in Section 1(a)(iv) of the Administration Agreement.

“Issuer Order” means a written order signed in the name of the Issuer by any one of its Responsible Officers and delivered to the Indenture Trustee or Paying Agent, as applicable.

“Issuer Request” means a written request signed in the name of the Issuer by any one of its Responsible Officers and delivered to the Indenture Trustee or Paying Agent, as applicable.

“Legal Defeasance Option” is defined in Section 4.01(b) of the Indenture.

“Letter of Representations” means any applicable agreement between the Issuer and the applicable Clearing Agency, with respect to such Clearing Agency’s rights and obligations (in its capacity as a Clearing Agency) with respect to any Book-Entry Storm Recovery Bonds.

“Lien” means a security interest, lien, mortgage, charge, pledge, claim or encumbrance of any kind.

“LLC Agreement” means the Amended and Restated Limited Liability Company Agreement of [Duke Energy [Carolinas/Progress] Storm Recovery Funding], LLC, dated as of [], 20[21].

“Losses” means (a) any and all amounts of principal of and interest on the Storm Recovery Bonds not paid when due or when scheduled to be paid in accordance with their terms and the amounts of any deposits by or to the Issuer required to have been made in accordance with the terms of the Basic Documents or the Financing Order or Subsequent that are not made when so required and (b) any and all other liabilities, obligations, losses, claims, damages, payments, costs or expenses of any kind whatsoever.

“Manager” means each manager of the Issuer under the LLC Agreement.

“Member” has the meaning specified in the first paragraph of the LLC Agreement.

“Monthly Servicer’s Certificate” is defined in Section 3.01(b)(i) of the Servicing Agreement.

“Moody’s” means Moody’s Investors Service, Inc. References to Moody’s are effective so long as Moody’s is a Rating Agency.

“North Carolina UCC” means the Uniform Commercial Code as in effect on the Series Closing Date in the State of North Carolina.

“NRSRO” is defined in Section 10.19(b) of the Indenture.

“NY UCC” means the Uniform Commercial Code as in effect on the date hereof in the State of New York.

“Officer’s Certificate” means a certificate signed by a Responsible Officer of the Issuer under the circumstances described in, and otherwise complying with, the applicable requirements of Section 10.01 of the Indenture, and delivered to the Indenture Trustee.

“Ongoing Financing Costs” means the Financing Costs described as such in the Financing Order, including Operating Expenses and any other costs identified in the Basic Documents; provided, however, that Ongoing Financing Costs do not include the Issuer’s costs of issuance of the Storm Recovery Bonds.

“Operating Expenses” means all unreimbursed fees, costs and out-of-pocket expenses of the Issuer, including all amounts owed by the Issuer to the Indenture Trustee (including indemnities, legal, audit fees and expenses), the Delaware Trustee, the SRB Trustee or any Manager, the Servicing Fee, the Administration Fee, legal and accounting fees, Rating Agency fees, any Regulatory Assessment Fees and related fees (i.e. website provider fees) and any franchise or other taxes owed by the Issuer, including on investment income in the Collection Account.

“Opinion of Counsel” means one or more written opinions of counsel, who may, except as otherwise expressly provided in the Basic Documents, be employees of or counsel to the party providing such opinion of counsel, which counsel shall be

reasonably acceptable to the party receiving such opinion of counsel, and shall be in form and substance reasonably acceptable to such party.

“Optional Interim True-Up Adjustment” means any Optional Interim True-Up Adjustment made pursuant to Section 4.01(b)(ii) of the Servicing Agreement.

“Outstanding” means, as of the date of determination, all Storm Recovery Bonds theretofore authenticated and delivered under the Indenture, except:

(a) Storm Recovery Bonds theretofore canceled by the Storm Recovery Bond Registrar or delivered to the Storm Recovery Bond Registrar for cancellation;

(b) Storm Recovery Bonds or portions thereof the payment for which money in the necessary amount has been theretofore deposited with the Indenture Trustee or any Paying Agent in trust for the Holders of such Storm Recovery Bonds; and

(c) Storm Recovery Bonds in exchange for or in lieu of other Storm Recovery Bonds that have been issued pursuant to the Indenture unless proof satisfactory to the Indenture Trustee is presented that any such Storm Recovery Bonds are held by a Protected Purchaser; provided, that, in determining whether the Holders of the requisite Outstanding Amount of the Storm Recovery Bonds or any Series or Tranche thereof have given any request, demand, authorization, direction, notice, consent or waiver under any Basic Document, Storm Recovery Bonds owned by the Issuer, any other obligor upon the Storm Recovery Bonds, the Member, the Seller, the Servicer or any Affiliate of any of the foregoing Persons shall be disregarded and deemed not to be Outstanding (unless one or more such Persons owns 100% of such Storm Recovery Bonds), except that, in determining whether the Indenture Trustee shall be protected in relying upon any such request, demand, authorization, direction, notice, consent or waiver, only Storm Recovery Bonds that the Indenture Trustee actually knows to be so owned shall be so disregarded. Storm Recovery Bonds so owned that have been pledged in good faith may be regarded as Outstanding if the pledgee establishes to the satisfaction of the Indenture Trustee the pledgee’s right so to act with respect to such Storm Recovery Bonds and that the pledgee is not the Issuer, any other obligor upon the Storm Recovery Bonds, the Member, the Seller, the Servicer or any Affiliate of any of the foregoing Persons.

“Outstanding Amount” means the aggregate principal amount of all Storm Recovery Bonds, or, if the context requires, all Storm Recovery Bonds of a Series or Tranche, Outstanding at the date of determination.

“Paying Agent” means, with respect to the Indenture, the Indenture Trustee and any other Person appointed as a paying agent for the Storm Recovery Bonds pursuant to the Indenture.

“Payment Date” means, with respect to any Series or Tranche of Storm Recovery Bonds, the dates specified in the applicable Series Supplement; provided, that if any such date is not a Business Day, the Payment Date shall be the Business Day succeeding such date.

“Periodic Billing Requirement” means, for any Remittance Period, the aggregate amount of Charges calculated by the Servicer as necessary to be billed during such period in order to collect the Periodic Payment Requirement on a timely basis.

“Periodic Interest” means, with respect to any Payment Date, the periodic interest for such Payment Date as specified in the Series Supplement.

“Periodic Payment Requirement” for any Remittance Period means the total dollar amount of Storm Recovery Charge Collections reasonably calculated by the Servicer in accordance with Section 4.01 of the Servicing Agreement as necessary to be received during such Remittance Period (after giving effect to the allocation and distribution of amounts on deposit in the Excess Funds Subaccount at the time of calculation and that are projected to be available for payments on the Storm Recovery Bonds at the end of such Remittance Period and including any shortfalls in Periodic Payment Requirements for any prior Remittance Period) in order to ensure that, as of the last Payment Date occurring in such Remittance Period, (a) all accrued and unpaid principal of and interest on the Storm Recovery Bonds then due shall have been paid in full on a timely basis, (b) the Outstanding Amount of the Storm Recovery Bonds is equal to the Projected Unpaid Balance on each Payment Date during such Remittance Period, (c) the balance on deposit in the Capital Subaccount equals the Required Capital Level and (d) all other fees and expenses due and owing and required or allowed to be paid under Section 8.02 of the Indenture as of such date shall have been paid in full; provided, that, with respect to any Semi-Annual True-Up Adjustment or Optional Interim True-Up Adjustment occurring after the date that is one year prior to the last Scheduled Final Payment Date for the Storm Recovery Bonds, the Periodic Payment Requirements shall be calculated to ensure that sufficient Storm Recovery Charges will be collected to retire the Storm Recovery Bonds in full as of the next Payment Date.

“Periodic Principal” means, with respect to any Payment Date, the excess, if any, of the Outstanding Amount of Storm Recovery Bonds over the outstanding principal balance specified for such Payment Date on the Expected Sinking Fund Schedule.

“Permitted Lien” means the Lien created by the Indenture.

“Permitted Successor” is defined in Section 5.02 of the Sale Agreement.

“Person” means any individual, corporation, limited liability company, estate, partnership, joint venture, association, joint stock company, trust (including any beneficiary thereof), unincorporated organization or Governmental Authority.

“Predecessor Storm Recovery Bond” means, with respect to any particular Storm Recovery Bond, every previous Storm Recovery Bond evidencing all or a portion

of the same debt as that evidenced by such particular Storm Recovery Bond, and, for the purpose of this definition, any Storm Recovery Bond authenticated and delivered under Section 2.06 of the Indenture in lieu of a mutilated, lost, destroyed or stolen Storm Recovery Bond shall be deemed to evidence the same debt as the mutilated, lost, destroyed or stolen Storm Recovery Bond.

“Premises” is defined in Section 1(g) of the Administration Agreement.

“Proceeding” means any suit in equity, action at law or other judicial or administrative proceeding.

“Projected Unpaid Balance” means, as of any Payment Date, the sum of the projected outstanding principal amount of each Tranche of Storm Recovery Bonds for such Payment Date set forth in the Expected Sinking Fund Schedule.

“Protected Purchaser” has the meaning specified in Section 8-303 of the UCC.

“Rating Agency” means, with respect to any Tranche of Storm Recovery Bonds, any of Moody’s, S&P or Fitch that provides a rating with respect to the Storm Recovery Bonds. If no such organization (or successor) is any longer in existence, “Rating Agency” shall be a nationally recognized statistical rating organization or other comparable Person designated by the Issuer, notice of which designation shall be given to the Indenture Trustee and the Servicer.

“Rating Agency Condition” means, with respect to any action, at least ten Business Days’ prior written notification to each Rating Agency of such action, and written confirmation from each of S&P and Moody’s to the Servicer, the Indenture Trustee and the Issuer that such action will not result in a suspension, reduction or withdrawal of the then current rating by such Rating Agency of any Tranche of Storm Recovery Bonds; provided, that, if, within such ten Business Day period, any Rating Agency (other than S&P) has neither replied to such notification nor responded in a manner that indicates that such Rating Agency is reviewing and considering the notification, then (a) the Issuer shall be required to confirm that such Rating Agency has received the Rating Agency Condition request and, if it has, promptly request the related Rating Agency Condition confirmation and (b) if the Rating Agency neither replies to such notification nor responds in a manner that indicates it is reviewing and considering the notification within five Business Days following such second request, the applicable Rating Agency Condition requirement shall not be deemed to apply to such Rating Agency. For the purposes of this definition, any confirmation, request, acknowledgment or approval that is required to be in writing may be in the form of electronic mail or a press release (which may contain a general waiver of a Rating Agency’s right to review or consent).

“Record Date” means one Business Day prior to the applicable Payment Date.

“Registered Holder” means the Person in whose name a Storm Recovery Bond is registered on the Storm Recovery Bond Register.

“Regulation AB” means the rules of the SEC promulgated under Subpart 229.1100 – Asset Backed Securities (Regulation AB), 17 C.F.R. §§229.1100-229.1123.

“Reimbursable Expenses” is defined in Section 2 of the Administration Agreement and Section 6.06(a) of the Servicing Agreement.

“Released Parties” is defined in Section 6.02(d) of the Servicing Agreement.

“Remittance Period” means, with respect to any True-Up Adjustment, the period comprised of 6 consecutive Collection Periods beginning with the Collection Period three months prior to when such True-Up Adjustment would go into effect, from the Series Closing Date to the first Scheduled Payment Date, and for each subsequent period between Scheduled Payment Dates.

“Required Capital Level” means, with respect to any Series of Storm Recovery Bonds, the amount specified as such in the Series Supplement therefor.

“Requirement of Law” means any foreign, U.S. federal, state or local laws, statutes, regulations, rules, codes or ordinances enacted, adopted, issued or promulgated by any Governmental Authority or common law.

“Responsible Officer” means, with respect to: (a) the Issuer, any Manager or any duly authorized officer; (b) the Indenture Trustee, any officer within the Corporate Trust Office of such trustee (including the President, any Vice President, any Assistant Vice President, any Secretary, any Assistant Treasurer or any other officer of the Indenture Trustee customarily performing functions similar to those performed by persons who at the time shall be such officers, respectively, and that has direct responsibility for the administration of the Indenture and also, with respect to a particular matter, any other officer to whom such matter is referred to because of such officer’s knowledge and familiarity with the particular subject); (c) any corporation (other than the Indenture Trustee), the Chief Executive Officer, the President, any Vice President, the Chief Financial Officer, the Treasurer, any Assistant Treasurer or any other duly authorized officer of such Person who has been authorized to act in the circumstances; (d) any partnership, any general partner thereof; and (e) any other Person (other than an individual), any duly authorized officer or member of such Person, as the context may require, who is authorized to act in matters relating to such Person.

“Return on Invested Capital” means, for any Payment Date with respect to any Remittance Period, the sum of (i) rate of return, payable to Duke Energy [Carolinas/Progress], on its Capital Contribution equal to the rate of interest payable on the longest maturing Tranche of Storm Recovery Bonds plus (ii) any Return on Invested Capital not paid on any prior Payment Date.

“S&P” means Standard & Poor’s Ratings Services, a Standard & Poor’s Financial Services LLC business. References to S&P are effective so long as S&P is a Rating Agency.

“Sale Agreement” means the Storm Recovery Property Purchase and Sale Agreement, dated as of the date hereof, or any subsequent Storm Recovery Property Purchase and Sale Agreement relating to another Series of Storm Recovery Bonds by and between the Issuer and Duke Energy [Carolinas/Progress] , and acknowledged and accepted by the Indenture Trustee.

“Scheduled Final Payment Date” means, with respect to each Series of Storm Recovery Bonds, the date when all interest and principal is scheduled to be paid with respect to that applicable Series in accordance with the Expected Sinking Fund Schedule, as specified in the Series Supplement. For the avoidance of doubt, the Scheduled Final Payment Date with respect to any Series shall be the last Scheduled Payment Date set forth in the Expected Sinking Fund Schedule relating to such Series. The “last Scheduled Final Payment Date” means the Scheduled Final Payment Date of the latest maturing Tranche of a Series of Storm Recovery Bonds.

“Scheduled Payment Date” means, with respect to each Series or Tranche of Storm Recovery Bonds, each Payment Date on which principal for such Series or Tranche is to be paid in accordance with the Expected Sinking Fund Schedule for such Series or Tranche.

“SEC” means the Securities and Exchange Commission.

“Secured Obligations” means the payment of principal of and premium, if any, interest on, and any other amounts owing in respect of, the Storm Recovery Bonds and all fees, expenses, counsel fees and other amounts due and payable to the Indenture Trustee.

“Secured Parties” means the Indenture Trustee, the Holders and any credit enhancer described in a Series Supplement.

“Securities Act” means the Securities Act of 1933.

“Securities Intermediary” means [], a national banking association, solely in the capacity of a “securities intermediary” as defined in the NY UCC and Federal Book-Entry Regulations or any successor securities intermediary under the Indenture.

“Seller” is defined in the preamble to the Sale Agreement.

“Semi-Annual Servicer’s Certificate” is defined in Section 4.01(c)(ii) of the Servicing Agreement.

“Semi-Annual True-Up Adjustment” means each adjustment to the Storm Recovery Charges made in accordance with Section 4.01(b)(i) of the Servicing Agreement.

“Semi-Annual True-Up Adjustment Date” means the first billing cycle of [January and July] of each year, commencing in [], 2021.

“Series” means any series of Storm Recovery Bonds.

“Series A Storm Recovery Bonds” means the Series A Senior Secured Storm Recovery Bonds issued by the Issuer on [].

“Series Charges” means Charges for the benefit of a particular Series of Storm Recovery Bonds.

“Series Closing Date” means the date on which a Series of the Storm Recovery Bonds are originally issued in accordance with Section 2.10 of the Indenture and the respective Series Supplement.

“Series Collateral” means Collateral for the benefit of a particular Series of Storm Recovery Bonds.

“Series Property” means Property for the benefit of a particular Series of Storm Recovery Bonds.

“Series Supplement” means an indenture supplemental to the Indenture in the form attached as Exhibit B to the Indenture that authorizes the issuance of Storm Recovery Bonds.

“Servicer” means Duke Energy [Carolinas/Progress], as Servicer under the Servicing Agreement.

“Servicer Business Day” means any day other than a Saturday, a Sunday or a day on which banking institutions in St. Petersburg, Florida, Charlotte, North Carolina or New York, New York are authorized or obligated by law, regulation or executive order to be closed, on which the Servicer maintains normal office hours and conducts business.

“Servicer Default” is defined in Section 7.01 of the Servicing Agreement.

“Servicer Policies and Practices” means, with respect to the Servicer’s duties under Exhibit A to the Servicing Agreement, the policies and practices of the Servicer applicable to such duties that the Servicer follows with respect to comparable assets that it services for itself and, if applicable, others.

“Servicing Agreement” means the Storm Recovery Property Servicing Agreement, dated as of the date hereof, or any subsequent Storm Recovery Property Servicing Agreement relating to another Series of Storm Recovery Bonds by and between the Issuer and Duke Energy [Carolinas/Progress], and acknowledged and accepted by the Indenture Trustee.

“Servicing Fee” is defined in Section 6.06(a) of the Servicing Agreement.

“Servicing Standard” means the obligation of the Servicer to calculate, apply, remit and reconcile proceeds of the Property, including Storm Recovery Charge Payments, and all other Collateral for the benefit of the Issuer and the Holders (a) with the same degree of care and diligence as the Servicer applies with respect to payments owed to it for its own account, (b) in accordance with all applicable procedures and requirements established by the Commission for collection of electric utility tariffs and (c) in accordance with the other terms of the Servicing Agreement.

“Special Payment Date” means the date on which, with respect to any Series or Tranche of Storm Recovery Bonds, any payment of principal of or interest (including any interest accruing upon default) on, or any other amount in respect of, the Storm Recovery Bonds of such Series or Tranche that is not actually paid within five days of the Payment Date applicable thereto is to be made by the Indenture Trustee to the Holders.

“Special Record Date” means, with respect to any Special Payment Date, the close of business on the fifteenth day (whether or not a Business Day) preceding such Special Payment Date.

“Sponsor” means Duke Energy [Carolinas/Progress], in its capacity as “sponsor” of the Storm Recovery Bonds within the meaning of Regulation AB.

“SRB Indenture” means the indenture, as from time to time supplemented or amended by one or more indentures supplemental hereto entered into pursuant to the applicable provisions hereof, as so supplemented or amended or both, and shall include the forms and terms of the SRB Notes established hereunder.

“SRB Issuer” means the issuer of the SRB Notes.

“SRB Noteholder” means any holders of the SRB Notes.

“SRB Notes” means the notes issued by the SRB Issuer pursuant to the SRB Indenture.

“SRB Securities Intermediary” means [], solely in its capacity as a “securities intermediary” as defined in Section 8-102(a)(14) of the UCC, or any successor securities intermediary.

“SRB Trustee” means [], as SRB Trustee under the SRB Indenture, and its successors in interest, and any successor SRB Trustee appointed as provided herein. “State” means any one of the fifty states of the United States of America or the District of Columbia.

“State Pledge” means the pledge of the State of North Carolina as set forth in Section 62-172(k) of the Storm Recovery Law.

“Storms” means Hurricanes Florence[,Dorian] and Michael and Winter Storm Diego.

“Storm Recovery Bond Register” is defined in Section 2.05 of the Indenture.

“Storm Recovery Bond Registrar” is defined in Section 2.05 of the Indenture.

“Storm Recovery Bonds” means all Series of the Storm recovery bonds issued under the Indenture.

“Storm Recovery Charge Collections” means Charges actually received by the Servicer to be remitted to the Collection Account.

“Storm Recovery Charge Payments” means the payments made by Customers based on the Charges.

“Storm Recovery Costs” means (i) Duke Energy [Carolinas'/Progress's] deferred asset balance associated with the Storms, including a return on the unrecovered balance, and with respect to the capital investments, including a deferral of depreciation expense and a return on the investment determined by the Commission to be prudently incurred in Docket No. [E-7, Sub 1214/E-2, Sub 1219] including carrying costs in the amount of X through the projected issuances date of the [Series A] Storm Recovery Bonds, calculated at the Company's approved weighted average cost of capital, (ii) plus up-front Financing Costs “Storm Recovery Law” means the laws of the State of North Carolina adopted in 2019 enacted as Section 62-172, North Carolina Statutes.

“Storm Recovery Property” means all storm recovery property as defined in Section 62-172(a)(15)a. of the Storm Recovery Law created pursuant to the Financing Order or a Subsequent Financing Order and under the Storm Recovery Law, including the right to impose, bill, charge, collect and receive the Charges authorized under the Financing Order and to obtain periodic adjustments of the Charges and all revenue, collections, claims, rights to payments, payments, money, or proceeds arising from the rights and interests specified in Section 62-172(a)(15)b., regardless of whether such revenues, collections, claims, rights to payments, money, or proceeds are imposed, billed, received, collected, or maintained together with or commingled with other revenues, collections, rights to payment, payments, money or proceeds.

“Storm Recovery Property Records” is defined in Section 5.01 of the Servicing Agreement.

“Storm Recovery Rate Class” means one of the [five] separate rate classes to whom Charges are allocated for ratemaking purposes in accordance with the Financing Order.

“Storm Recovery Rate Schedule” means the Tariff sheets to be filed with the Commission stating the amounts of the Charges, as such Tariff sheets may be amended or modified from time to time pursuant to a True-Up Adjustment.

“Subaccounts” is defined in Section 8.02(a) of the Indenture.

“Subsequent Financing Order” means, a financing order of the Commission under the Storm Recovery Law issued to Duke Energy [Carolinas/Progress] subsequent to the Financing Order.

“Successor” means any successor to Duke Energy [Carolinas/Progress] under the Storm Recovery Law, whether pursuant to any bankruptcy, reorganization or other insolvency proceeding or pursuant to any merger, conversion, acquisition, sale or transfer, by operation of law, as a result of electric utility restructuring, or otherwise.

“Successor Servicer” is defined in Section 3.07(e) of the Indenture.

“Tariff” means the most current version on file with the Commission of [], 2021.

“Tax Returns” is defined in Section 1(a)(iii) of the Administration Agreement.

“Temporary Storm Recovery Bonds” means Storm Recovery Bonds executed and, upon the receipt of an Issuer Order, authenticated and delivered by the Indenture Trustee pending the preparation of Definitive Storm Recovery Bonds pursuant to Section 2.04 of the Indenture.

“Termination Notice” is defined in Section 7.01 of the Servicing Agreement.

“TPS” means a third party supplier which is authorized by law to sell electric service to a customer using the transmission or distribution system of Duke Energy [Carolinas/Progress].

“Tranche Maturity Date” means, with respect to any Tranche of Storm Recovery Bonds, the maturity date therefor, as specified in the Series Supplement therefor.

“True-Up Adjustment” means any Semi-Annual True-Up Adjustment or Optional Interim True-Up Adjustment, as the case may be.

“Trust Indenture Act” means the Trust Indenture Act of 1939 as in force on the Series Closing Date, unless otherwise specifically provided.

“UCC” means the Uniform Commercial Code as in effect in the relevant jurisdiction.

“Underwriters” means the underwriters who purchase Storm Recovery Bonds of any Series from the Issuer and sell such Storm Recovery Bonds in a public offering.

“Underwriting Agreement” means the Underwriting Agreement, dated [], 2020, by and among Duke Energy [Carolinas/Progress], the representatives of the several Underwriters named therein and the Issuer.

“U.S. Government Obligations” means direct obligations (or certificates representing an ownership interest in such obligations) of the United States of America (including any agency or instrumentality thereof) for the payment of which the full faith and credit of the United States of America is pledged and that are not callable at the option of the issuer thereof.

“Weighted Average Days Outstanding” means the weighted average number of days Duke Energy [Carolinas/Progress] monthly bills to Customers remain outstanding during the calendar year preceding the calculation thereof pursuant to Section 4.01(b)(i) of the Servicing Agreement.

B. Rules of Construction. Unless the context otherwise requires, in each Basic Document to which this Appendix A is attached:

(a) All accounting terms not specifically defined herein shall be construed in accordance with United States generally accepted accounting principles. To the extent that the definitions of accounting terms in any Basic Document are inconsistent with the meanings of such terms under generally accepted accounting principles or regulatory accounting principles, the definitions contained in such Basic Document shall control.

(b) The term “including” means “including without limitation”, and other forms of the verb “include” have correlative meanings.

(c) All references to any Person shall include such Person’s permitted successors and assigns, and any reference to a Person in a particular capacity excludes such Person in other capacities.

(d) Unless otherwise stated in any of the Basic Documents, in the computation of a period of time from a specified date to a later specified date, the word “from” means “from and including” and each of the words “to” and “until” means “to but excluding”.

(e) The words “hereof”, “herein” and “hereunder” and words of similar import when used in any Basic Document shall refer to such Basic Document as a whole and not to any particular provision of such Basic Document. References to Articles, Sections, Appendices and Exhibits in any Basic Document are references to Articles, Sections, Appendices and Exhibits in or to such Basic Document unless otherwise specified in such Basic Document.

(f) The various captions (including the tables of contents) in each Basic Document are provided solely for convenience of reference and shall not affect the meaning or interpretation of any Basic Document.

(g) The definitions contained in this Appendix A apply equally to the singular and plural forms of such terms, and words of the masculine, feminine or neuter gender shall mean and include the correlative words of other genders.

(h) Unless otherwise specified, references to an agreement or other document include references to such agreement or document as from time to time amended, restated, reformed, supplemented or otherwise modified in accordance with the terms thereof (subject to any restrictions on such amendments, restatements, reformations, supplements or modifications set forth in such agreement or document) and include any attachments thereto.

(i) References to any law, rule, regulation or order of a Governmental Authority shall include such law, rule, regulation or order as from time to time in effect, including any amendment, modification, codification, replacement or reenactment thereof or any substitution therefor.

(j) The word “will” shall be construed to have the same meaning and effect as the word “shall”.

(k) The word “or” is not exclusive.

(l) All terms defined in the relevant Basic Document to which this Appendix A is attached shall have the defined meanings when used in any certificate or other document made or delivered pursuant thereto unless otherwise defined therein.

(m) A term has the meaning assigned to it.

AMENDED AND RESTATED
LIMITED LIABILITY COMPANY AGREEMENT
OF
[DUKE ENERGY [CAROLINAS/PROGRESS] STORM RECOVERY FUNDING], LLC
Dated and Effective as of
[], 2021

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**AMENDED AND RESTATED LIMITED LIABILITY COMPANY AGREEMENT OF
[DUKE ENERGY [CAROLINAS/PROGRESS] STORM RECOVERY FUNDING], LLC**

This AMENDED AND RESTATED LIMITED LIABILITY COMPANY AGREEMENT (this “Agreement”) of [Duke Energy [Carolinas/Progress] Storm Recovery Funding], LLC, a Delaware limited liability company (the “Company”), is made and entered into as of [], 2021 by Duke Energy [Carolinas/Progress], LLC, a [North Carolina limited liability company] (including any additional or successor members of the Company other than Special Members, the “Member”).

WHEREAS, the Member has caused to be filed a Certificate of Formation with the Secretary of State of the State of Delaware to form the Company under and pursuant to the LLC Act and has entered into a Limited Liability Company Agreement of the Company, dated as of [], 2021 (the “Original LLC Agreement”); and

WHEREAS, in accordance with the LLC Act, the Member desires to enter into this Agreement to amend and restate in its entirety the Original LLC Agreement and to set forth the rights, powers and interests of the Member with respect to the Company and its Membership Interest therein and to provide for the management of the business and operations of the Company.

NOW, THEREFORE, in consideration of the mutual covenants and agreements herein contained and other good and valuable consideration, the receipt, adequacy and sufficiency of which are hereby acknowledged, the Member, intending to be legally bound, hereby agrees to amend and restate in its entirety the Original LLC Agreement as follows:

**ARTICLE I
GENERAL PROVISIONS**

SECTION 1.01 Definitions.

(a) Unless otherwise defined herein, capitalized terms used herein shall have the meanings assigned to them in Appendix A attached hereto.

(b) All terms defined in this Agreement shall have the defined meanings when used in any certificate or other document made or delivered pursuant hereto unless otherwise defined therein.

(c) The words “hereof,” “herein,” “hereunder” and words of similar import, when used in this Agreement, shall refer to this Agreement as a whole and not to any particular provision of this Agreement; Article, Section, Schedule, Exhibit, Annex and Attachment references contained in this Agreement are references to Articles, Sections, Schedules, Exhibits, Annexes and Attachments in or to this Agreement unless otherwise specified; and the terms “includes” and “including” shall mean “includes without limitation” and “including without limitation”, respectively.

(d) The definitions contained in this Agreement are applicable to the singular as well as the plural forms of such terms.

(e) Non-capitalized terms used herein which are defined in the LLC Act, shall, as the context requires, have the meanings assigned to such terms in the LLC Act as of the date hereof, but without giving effect to amendments to the LLC Act.

SECTION 1.02 Sole Member; Registered Office and Agent.

(a) The initial sole member of the Company shall be [DEC/DEP], a North Carolina limited liability company, or any successor as sole member pursuant to Sections 1.02(c), 6.06 and 6.07. The registered office and registered agent of the Company in the State of Delaware shall be The Corporation Trust Company, 1209 Orange Street, Wilmington, New Castle County, Delaware 19801. The Member may change said registered office and agent from one location to another in the State of Delaware. The Member shall provide notice of any such change to the Indenture Trustee.

(b) Upon the occurrence of any event that causes the Member to cease to be a member of the Company (other than upon continuation of the Company without dissolution upon the transfer or assignment by the Member of all of its limited liability company interest in the Company and the admission of the transferee or an additional member of the Company pursuant to Sections 6.06 and 6.07), each Person acting as an Independent Manager (as defined herein) pursuant to the terms of this Agreement shall, without any action of any Person and simultaneously with the Member ceasing to be a member of the Company, automatically be admitted to the Company as a Special Member and shall continue the Company without dissolution. No Special Member may resign from the Company or transfer its rights as Special Member unless (i) a successor Special Member has been admitted to the Company as Special Member by executing a counterpart to this Agreement, and (ii) such successor has also accepted its appointment as an Independent Manager pursuant to this Agreement; provided, however, the Special Members shall automatically cease to be members of the Company upon the admission to the Company of a substitute Member. Each Special Member shall be a member of the Company that has no interest in the profits, losses and capital of the Company and has no right to receive any distributions of Company assets (and no Special Member shall be treated as a member of the Company for federal income tax purposes). Pursuant to Section 18-301 of the LLC Act, a Special Member shall not be required to make any capital contributions to the Company and shall not receive a limited liability company interest in the Company. A Special Member, in its capacity as Special Member, may not bind the Company. Except as required by any mandatory provision of the LLC Act, each Special Member, in its capacity as Special Member, shall have no right to vote on, approve or otherwise consent to any action by, or matter relating to, the Company, including the merger, consolidation or conversion of the Company. In order to implement the admission to the Company of each Special Member, each Person acting as an Independent Manager pursuant to this Agreement shall execute a counterpart to this Agreement. Prior to its admission to the Company as Special Member, each Person acting as an Independent Manager pursuant to this Agreement shall not be a member of the Company. A "Special Member" means, upon such Person's admission to the Company as a member of the Company pursuant to this Section 1.02(b), a Person acting as an Independent Manager, in such Person's capacity as a member of the Company. A Special Member shall only have the rights and duties expressly set forth in this Agreement. For purposes of this Agreement, a Special Member is not included within the defined term "Member".

(c) The Company may admit additional Members (as distinguished from a transferee admitted pursuant to Sections 6.06 and 6.07) pursuant to with the affirmative vote of a majority of the Managers, which vote must include the affirmative vote of each Independent Manager. Notwithstanding the preceding sentence, it shall be a condition to the admission of any additional Member that the sole Member shall have received an opinion of outside tax counsel (as selected by the Member in form and substance reasonably satisfactory to the Member and the Indenture Trustee) that the admission of such additional Member shall not cause the Company to be treated, for federal income tax purposes, as having more than a “sole owner” and that the Company shall not be treated, for federal income tax purposes, as an entity separate from such “sole owner”. Notwithstanding the foregoing, no additional Member shall be admitted at any time that any Storm Recovery Bond is outstanding.

SECTION 1.03 Other Offices. The Company may have an office at [], or at any other offices that may at any time be established by the Member at any place or places within or outside the State of Delaware. The Member shall provide notice to the Indenture Trustee of any change in the location of the Company’s office.

SECTION 1.04 Name. The name of the Company shall be “[Duke Energy [Carolinas/Progress] Storm Recovery Funding], LLC”. The name of the Company may be changed from time to time by the Member with [thirty (30) days’ prior written notice to the Managers and the Indenture Trustee], and the filing of an appropriate amendment to the Certificate of Formation with the Secretary of State as required by the LLC Act.

SECTION 1.05 Purpose; Nature of Business Permitted; Powers. [The Company is intended to qualify as an “Assignee” as defined in N.C. Gen. Stat. § 62-172(a)(2). The purposes for which the Company is formed are limited to:

(a) acquire, own, hold, administer, service or enter into agreements regarding the receipt and servicing of one or more Storm Recovery Properties and the other Storm Recovery Bond Collateral, along with certain other related assets;

(b) manage, sell, assign, pledge, collect amounts due on or otherwise deal with the Storm Recovery Properties and the other Storm Recovery Bond Collateral and related assets to be so acquired in accordance with the terms of the Basic Documents;

(c) negotiate, authorize, execute, deliver, assume the obligations under, and perform its duties under, the Basic Documents and any other agreement or instrument or document relating to the activities set forth in clauses (a) and (b) above; provided, that each party to any such agreement under which material obligations are imposed upon the Company shall covenant that it shall not, prior to the date which is one year and one day after the date on which all Storm Recovery Bonds have been paid in full in accordance with their terms and all other amounts owing in connection therewith have been paid in full by the Company, acquiesce, petition or otherwise invoke or cause the Company to invoke the process of any court or Governmental Authority for the purpose of commencing or sustaining an involuntary case against the Company under any federal or state bankruptcy, insolvency or similar law or appointing a receiver, liquidator, assignee, trustee, custodian, sequestrator or other similar official of the Company or any substantial part of the property of the Company; or ordering the winding up or liquidation of the affairs of the

Company; and provided, further, that the Company shall be permitted to incur additional indebtedness or other liabilities payable to service providers and trade creditors in the ordinary course of business in connection with the foregoing activities;

(d) file with the U.S. Securities and Exchange Commission one or more registration statements, including any pre-effective or post-effective amendments thereto and any registration statement filed pursuant to Rule 462(b) under the Securities Act of 1933, as amended (including any prospectus supplement, prospectus and exhibits contained therein) and file such applications, reports, surety bonds, irrevocable consents, appointments of attorney for service of process and other papers and documents necessary or desirable to register one or more series of Storm Recovery Bonds under the securities or “Blue Sky” laws of various jurisdictions;

(e) authorize, execute, deliver, issue and register one or more series of Storm Recovery Bonds;

(f) make payments on the Storm Recovery Bonds;

(g) pledge its interest in Storm Recovery Properties and other Storm Recovery Bond Collateral to the Indenture Trustee under the Indenture in order to secure the respective series of Storm Recovery Bonds; and

(h) engage in any lawful act or activity and exercise any powers permitted to limited liability companies formed under the laws of the State of Delaware that, in either case, are incidental to, or necessary, suitable or convenient for the accomplishment of the above-mentioned purposes.

The Company shall engage only in any activities related to the foregoing purposes or required or authorized by the terms of the Basic Documents or other agreements referenced above. The Company shall have all powers reasonably incidental, necessary, suitable or convenient to effect the foregoing purposes, including all powers granted under the LLC Act. The Company, the Member, any Manager (other than an Independent Manager), or any officer of the Company, acting singly or collectively, on behalf of the Company, may enter into and perform the Basic Documents and all registration statements, underwriting agreements, documents, agreements, certificates or financing statements contemplated thereby or related thereto, all without any further act, vote or approval of any Member, Manager or other Person, notwithstanding any other provision of this Agreement, the LLC Act, or other applicable law, rule or regulation. Notwithstanding any other provision of this Agreement, the LLC Act or other applicable law, any Basic Document executed prior to the date hereof by any Member, Manager or officer on behalf of the Company is hereby ratified and approved in all respects. The authorization set forth in the two preceding sentences shall not be deemed a restriction on the power and authority of the Member or any Manager, including any Independent Manager, to enter into other agreements or documents on behalf of the Company as authorized pursuant to this Agreement and the LLC Act. The Company shall possess and may exercise all the powers and privileges granted by the LLC Act or by any other law or by this Agreement, together with any powers incidental thereto, insofar as such powers and privileges are incidental, necessary, suitable or convenient to the conduct, promotion or attainment of the business purposes or activities of the Company.

SECTION 1.06 Initial Issuance of Storm Recovery Bonds. It is anticipated that the Company's first issuance of Storm Recovery Bonds will be a series issued pursuant to the [Financing Order filed by the Commission on _____, 20[]].¹

SECTION 1.07 Additional Issuances of Storm Recovery Bonds. The Company may issue one or more additional series of Storm Recovery Bonds pursuant to the Financing Order filed by the Commission on _____, 20[]. The Company also may issue one or more additional series of Storm Recovery Bonds if authorized pursuant to a Financing Order adopted in the future by the Commission. Such additional series of Storm Recovery Bonds shall be referred to as "Additional Issuances."

(a) Each series of Storm Recovery Bonds will be secured by separate Storm Recovery Property and other Storm Recovery Bond Collateral. Storm Recovery Property which is pledged to secure one series of Storm Recovery Bonds shall not be pledged to secure any other series of Storm Recovery Bonds.

(b) The Company shall not issue any Additional Issuance unless the Rating Agency Condition set forth in the Basic Documents for any outstanding series of Storm Recovery Bonds has been satisfied.

(c) The following additional conditions must be satisfied in connection with any Additional Issuance:

(i) the Additional Issuance shall receive a rating or ratings as required by the applicable Financing Order;

(ii) each Additional Issuance shall have recourse only to the Storm Recovery Bond Collateral pledged in connection with such Additional Issuance, shall be nonrecourse to any of the Company's other assets and shall not constitute a claim against the Company if cash flow from the pledged Storm Recovery Bond Collateral is insufficient to pay such Additional Issuance in full;

(iii) the Company has delivered to the Indenture Trustee an Opinion of Counsel of a nationally recognized firm experienced in such matters to the effect that after such issuance, in the opinion of such counsel, if the Member were to become a debtor in a case under the United States Bankruptcy Code (Title 11, U.S.C.), a federal court exercising bankruptcy jurisdiction and exercising reasonable judgment after full consideration of all relevant factors would not order substantive consolidation of the assets and liabilities of the Company with those of the bankruptcy estate of the Member, subject to the customary exceptions, qualifications and assumptions contained therein;

(iv) the Company has delivered to the Indenture Trustee an [opinion] stating that the Storm Recovery Bonds issued pursuant to such Additional Issuance shall have the benefit of a true-up mechanism;

¹ NTD: Issuance of bonds under applicable regulatory law to be discussed.

(v) the transaction documentation for such Additional Issuance provides that holders of the Storm Recovery Bonds of such Additional Issuance will not file or join in the filing of any bankruptcy petition against the Company;

(vi) if the holders of the Storm Recovery Bonds of any Additional Issuance are deemed to have any interest in any of the Storm Recovery Bond Collateral pledged under the applicable Indenture (other than Storm Recovery Bond Collateral pledged with respect to such Additional Issuance), the holders of such Storm Recovery Bonds must agree that any such interest is subordinate to the claims and rights of the Holders of such other related series of Storm Recovery Bonds;

(vii) the Additional Issuance shall have its own bank accounts or trust accounts; and

(viii) the Additional Issuance shall bear its own trustees fees and servicer fees, except that the allocation of such fees with respect to any Additional Issuance shall be governed by the terms of the Indenture and the Servicing Agreement.

SECTION 1.08 Limited Liability Company Agreement; Certificate of Formation. This Agreement shall constitute a “limited liability company agreement” within the meaning of the LLC Act. _____, as an authorized person within the meaning of the LLC Act, has caused a certificate of formation of the Company to be executed and filed in the office of the Secretary of State on _____, 20[] (such execution and filing being hereby ratified and approved in all respects). The existence of the Company as a separate legal entity shall continue until the cancellation of the Certificate of Formation of the Company as provided in the LLC Act.

SECTION 1.09 Separate Existence. Except for financial reporting purposes (to the extent required by generally accepted accounting principles) and for federal income tax purposes and, to the extent consistent with applicable state tax law, state income and franchise tax purposes, the Member and the Managers shall take all steps necessary to continue the identity of the Company as a separate legal entity and to make it apparent to third Persons that the Company is an entity with assets and liabilities distinct from those of the Member, Affiliates of the Member or any other Person and correcting any known misunderstandings, and that, the Company is not a division of any of the Affiliates of the Company or any other Person. In that regard, and without limiting the foregoing in any manner, the Company shall:

(a) allocate fairly and reasonably shares expenses, including shared office space;

(b) maintain the assets of the Company in such a manner that it is not costly or difficult to segregate, identify or ascertain its individual assets from those of any other Person, including any Affiliate;

(c) maintain a separate telephone number;

(d) conduct all transactions with Affiliates on an arm’s-length basis;

(e) not guarantee, become obligated for or pay the debts of any Affiliate or hold the credit of the Company out as being available to satisfy the obligations of any Affiliate or other Person (nor, except as contemplated in the Basic Documents, indemnify any Person for losses resulting therefrom), nor, except as contemplated in the Basic Documents, have any of its obligations guaranteed by any Affiliate or hold the Company out as responsible for the debts of any Affiliate or other Person or for the decisions or actions with respect to the business and affairs of any Affiliate, nor seek or obtain credit or incur any obligation to any third party based upon the creditworthiness or assets of any Affiliate or any other Person (i.e. other than based on the assets of the Company) nor allow any Affiliate to do such things based on the credit of the Company;

(f) except as expressly otherwise permitted hereunder or under any of the Basic Documents, not permit the commingling or pooling of the Company's funds or other assets with the funds or other assets of any Affiliate;

(g) maintain separate deposit and other bank accounts and funds (separately identifiable from those of the Member or any other Person) to which no Affiliate has any access, which accounts shall be maintained in the name and, to the extent not inconsistent with applicable federal tax law, with the tax identification number of the Company;

(h) maintain full books of accounts and records (financial or other) and financial statements separate from those of its Affiliates or any other Person, prepared and maintained in accordance with generally accepted accounting principles (including, all resolutions, records, agreements or instruments underlying or regarding the transactions contemplated by the Basic Documents or otherwise) and audited annually by an independent accounting firm which shall provide such audit to the Indenture Trustee;

(i) pay its own liabilities out of its own funds, including fees and expenses of the Administrator pursuant to the Administration Agreement and the Servicer pursuant to any Servicing Agreement;

(j) not hire or maintain any employees, but shall compensate (either directly or through reimbursement of the Company's allocable share of any shared expenses) all consultants, agents and Affiliates, to the extent applicable, for services provided to the Company by such consultants, agents or Affiliates, in each case, from the Company's own funds;

(k) allocate fairly and reasonably the salaries of and the expenses related to providing the benefits of officers or managers shared with the Member, any Special Member or any Manager;

(l) allocate fairly and reasonably any overhead shared with the Member, any Special Member or any Manager;

(m) pay from its own bank accounts for accounting and payroll services, rent, lease and other expenses (or the Company's allocable share of any such amounts provided by one or more other Affiliates) and not have such operating expenses (or the Company's allocable share thereof) paid by any Affiliates; provided, that the Member shall be permitted to pay the initial organization expenses of the Company and certain of the expenses related to the transactions contemplated by the Basic Documents as provided therein;

(n) maintain adequate capitalization to conduct its business and affairs considering the Company's size and the nature of its business and intended purposes and, after giving effect to the transactions contemplated by the Basic Documents, refrain from engaging in a business for which its remaining property represents an unreasonably small capital;

(o) conduct all of the Company's business (whether in writing or orally) solely in the name of the Company through the Member and the Company's Managers, officers and agents and hold the Company out as an entity separate from any Affiliate;

(p) not make or declare any distributions of cash or property to the Member except in accordance with appropriate limited liability company formalities and only consistent with sound business judgment to the extent that it is permitted pursuant to the Basic Documents and not violative of any applicable law;

(q) otherwise practice and adhere to all limited liability company procedures and formalities to the extent required by this Agreement or all other appropriate constituent documents and the laws of its state of formation and all other appropriate jurisdictions;

(r) not appoint an Affiliate or any employee of an Affiliate as an agent of the Company, except as otherwise permitted in the Basic Documents (although such Persons can qualify as a Manager or as an officer of the Company);

(s) not acquire obligations or securities of or make loans or advances to or pledge its assets for the benefit of any Affiliate, the Member or any Affiliate of the Member (other than the Company);

(t) except as expressly provided in the Basic Documents, not permit the Member or any Affiliate to guarantee, pay or become liable for the debts of the Company nor permit any such Person to hold out its creditworthiness as being available to pay the liabilities and expenses of the Company nor, except for the indemnities in this Agreement and the Basic Documents, indemnify any Person for losses resulting therefrom;

(u) maintain separate minutes of the actions of the Member and the Managers, in their capacities as such, including actions with respect to the transactions contemplated by the Basic Documents;

(v) cause (i) all written and oral communications, including letters, invoices, purchase orders, and contracts, of the Company to be made solely in the name of the Company, (ii) the Company to have its own tax identification number (to the extent not inconsistent with applicable federal tax law), stationery, checks and business forms, separate from those of any Affiliate, (iii) all Affiliates not to use the stationery or business forms of the Company, and cause the Company not to use the stationery or business forms of any Affiliate, and (iv) all Affiliates not to conduct business in the name of the Company, and cause the Company not to conduct business in the name of any Affiliate;

(w) direct creditors of the Company to send invoices and other statements of account of the Company directly to the Company and not to any Affiliate and cause the Affiliates

to direct their creditors not to send invoices and other statements of accounts of such Affiliates to the Company;

(x) cause the Member to maintain as official records all resolutions, agreements, and other instruments underlying or regarding the transactions contemplated by the Basic Documents;

(y) disclose, and cause the Member to disclose, in its financial statements the effects of all transactions between the Member and the Company in accordance with generally accepted accounting principles, and in a manner which makes it clear that (i) the Company is a separate legal entity, (ii) the assets of the Company (including any Storm Recovery Property transferred to the Company pursuant to a Sale Agreement) are not assets of any Affiliate and are not available to pay creditors of any Affiliate and (iii) neither the Member nor any other Affiliate is liable or responsible for the debts of the Company;

(z) treat and cause the Member to treat the transfer of Storm Recovery Property from the Member to the Company as a sale under the [Storm Recovery Law];

(aa) except as described herein with respect to tax purposes and financial reporting, describe and cause each Affiliate to describe the Company, and hold the Company out as a separate legal entity and not as a division or department of any Affiliate, and promptly correct any known misunderstanding regarding the Company's identity separate from any Affiliate or any other Person;

(bb) so long as any Storm Recovery Bonds of any series are outstanding, treat the Storm Recovery Bonds as debt for all purposes and specifically as debt of the Company, other than for financial reporting, state or federal regulatory or tax purposes;

(cc) solely for purposes of federal taxes and, to the extent consistent with applicable state, local and other tax law, solely for purposes of state, local and other taxes, so long as any Storm Recovery Bonds of a series are outstanding, treat the Storm Recovery Bonds of that series as indebtedness of the Member secured by the applicable Storm Recovery Bond Collateral unless otherwise required by appropriate taxing authorities;

(dd) file its own tax returns, if any, as may be required under applicable law, to the extent (i) not part of a consolidated group filing a consolidated return or returns or (ii) not treated as a division or disregarded entity for tax purposes of another taxpayer, and pay any taxes so required to be paid under applicable law;

(ee) maintain its valid existence in good standing under the laws of the State of Delaware and maintain its qualification to do business under the laws of such other jurisdictions as its operations require;

(ff) not form, or cause to be formed, any subsidiaries;

(gg) comply with all laws applicable to the transactions contemplated by this Agreement and the Basic Documents;

(hh) cause the Member to observe in all material respects all limited liability company procedures and formalities, if any, required by this Agreement, the laws of the State of Delaware and all other appropriate jurisdictions;

(ii) except as provided in Section 7.06, at all times have at least one Independent Manager;

(jj) not, directly or indirectly, engage in any business or activity other than the transactions contemplated by this Agreement;

(kk) not incur any indebtedness, liability, obligation, or expense, or own any assets, other than in each case those that are contemplated by this Agreement;

(ll) not make or permit to remain outstanding any loan or advance to, or own or acquire any stock or securities of, any Person, other than as contemplated by this Agreement and the Basic Documents; and

(mm) cause the members, managers, officers, agents, and other representatives of the Company to act at all times with respect to the Company consistently and in furtherance of the foregoing and in the best interests of the Company.

SECTION 1.10 Limitation on Certain Activities. Notwithstanding any other provisions of this Agreement, the Company, and the Member or Managers on behalf of the Company, shall not:

(a) engage in any business or activity other than as set forth in Section 1.05 hereof;

(b) without the affirmative vote of the Member and the affirmative vote of all of the Managers, including any Independent Manager, file a voluntary petition for relief under the Bankruptcy Code or similar law, consent to the institution of insolvency or bankruptcy proceedings against the Company or otherwise institute insolvency or bankruptcy proceedings with respect to the Company or take any company action in furtherance of any such filing or institution of a proceeding;

(c) without the affirmative vote of all Managers, including any Independent Manager, and then only to the extent permitted by the Basic Documents, convert, merge or consolidate with any other Person or sell all or substantially all of its assets or acquire all or substantially all of the assets or capital stock or other ownership interest of any other Person;

(d) take any action, file any tax return, or make any election inconsistent with the treatment of the Company, for purposes of federal income taxes and, to the extent consistent with applicable state tax law, state income and franchise tax purposes, as a disregarded entity that is not separate from the Member;

(e) incur any indebtedness or assume or guarantee any indebtedness of any Person (other than the indebtedness incurred under the Basic Documents);

(f) issue any bonds other than Storm Recovery Bonds contemplated by the Basic Documents; or

(g) to the fullest extent permitted by law, without the affirmative vote of its Member and the affirmative vote of all Managers, including each Independent Manager, execute any dissolution, liquidation, or winding up of the Company.

So long as any of the Storm Recovery Bonds are outstanding, the Company and the Member shall give written notice to each applicable Rating Agency of any action described in clause (b), (c) or (g) of this Section 1.10 which is taken by or on behalf of the Company with the required affirmative vote of the Member and all Managers as therein described.

SECTION 1.11 No State Law Partnership. No provisions of this Agreement shall be deemed or construed to constitute a partnership (including a limited partnership) or joint venture, or the Member a partner or joint venturer of or with any Manager or the Company, for any purposes.

ARTICLE II CAPITAL

SECTION 2.01 Initial Capital. The initial capital of the Company shall be the sum of cash contributed to the Company by the Member (the “Capital Contribution”) in the amount set out opposite the name of the Member on Schedule A hereto, as amended from time to time and incorporated herein by this reference.

SECTION 2.02 Additional Capital Contributions. The assets of the Company are expected to generate a return sufficient to satisfy all obligations of the Company under this Agreement and the other Basic Documents and any other obligations of the Company. It is expected that no capital contributions to the Company will be necessary except in connection with the purchase from time-to-time of Storm Recovery Properties. On or prior to the date of issuance of a series of Storm Recovery Bonds, the Member shall make an additional contribution to the Company in an amount equal to at least [0.50]% of the initial principal amount of such series of Storm Recovery Bonds or such greater amount as agreed to by the Member in connection with the issuance by the Company of the series of Storm Recovery Bonds, which amount the Company shall deposit into the Capital Subaccount established by the Indenture Trustee as provided in the applicable Indenture. No capital contribution by the Member to the Company will be made for the purpose of mitigating losses on any Storm Recovery Property that has previously been transferred to the Company, and all capital contributions shall be made in accordance with all applicable limited liability company procedures and requirements, including proper record keeping by the Member and the Company. Each capital contribution will be acknowledged by a written receipt signed by any one of the Managers. The Managers acknowledge and agree that, notwithstanding anything in this Agreement to the contrary, such additional contribution will be managed by an investment manager selected by the Indenture Trustee who shall invest such amounts only in investments eligible pursuant to the Basic Documents, and all income earned thereon shall be allocated or paid by the Indenture Trustee in accordance with the provisions of the Indenture.

SECTION 2.03 Capital Account. A Capital Account shall be established and maintained for the Member on the Company's books (the "Capital Account"). An additional, separate Capital Account may be established and maintained pursuant to each Series Supplement, as necessary.

SECTION 2.04 Interest on Capital Account. Except for the Return on Invested Capital, no interest shall be paid or credited to the Member on its Capital Account or upon any undistributed profits left on deposit with the Company. Except as provided herein or by law, the Member shall have no right to demand or receive the return of its Capital Contribution.

ARTICLE III ALLOCATIONS; BOOKS

SECTION 3.01 Allocations of Income and Loss.

(a) Book Allocations. The net income and net loss of the Company shall be allocated entirely to the Member.

(b) Tax Allocations. Because the Company is not making (and will not make) an election to be treated as an association taxable as a corporation under Section 301.7701-3(a) of the Treasury Regulations, and because the Company is a business entity that has a single owner and is not a corporation, it is expected to be disregarded as an entity separate from its owner for federal income tax purposes under Section 301.7701-3(b)(1) of the Treasury Regulations. Accordingly, all items of income, gain, loss, deduction and credit of the Company for all taxable periods will be treated for federal income tax purposes, and for state and local income and other tax purposes to the extent permitted by applicable law, as realized or incurred directly by the Member. To the extent not so permitted, all items of income, gain, loss, deduction and credit of the Company shall be allocated entirely to the Member as permitted by applicable tax law, and the Member shall pay (or indemnify the Company, the Indenture Trustee and each of their officers, managers, employees or agents for, and defend and hold harmless each such person from and against its payment of) any taxes levied or assessed upon all or any part of the Company's property or assets based on existing law as of the date hereof, including any sales, gross receipts, general corporation, personal property, privilege, franchise or license taxes (but excluding any taxes imposed as a result of a failure of such Person to properly withhold or remit taxes imposed with respect to payments on any Storm Recovery Bond). The Indenture Trustee (on behalf of the Secured Parties) shall be a third party beneficiary of the Member's obligations set forth in this Section 3.01, it being understood that Holders shall be entitled to enforce their rights against the Member under this Section 3.01 solely through a cause of action brought for their benefit by the Indenture Trustee.

SECTION 3.02 Company to be Disregarded for Tax Purposes. The Company shall comply with the applicable provisions of the Code and the applicable Treasury Regulations thereunder in the manner necessary to effect the intention of the parties that the Company be treated, for federal income tax purposes, as a disregarded entity that is not separate from the Member pursuant to Treasury Regulations Section 301.7701-1 et seq. and that the Company be accorded such treatment until its dissolution pursuant to Article IX hereof and shall take all actions, and shall refrain from taking any action, required by the Code or Treasury Regulations thereunder

in order to maintain such status of the Company. In addition, for federal income tax purposes, the Company may not claim any credit on, or make any deduction from the principal or premium, if any, or interest payable in respect of, the Storm Recovery Bonds (other than amounts properly withheld from such payments under the Code or other tax laws) or assert any claim against any present or former Holder by reason of the payment of the taxes levied or assessed upon any part of the Storm Recovery Bond Collateral.

SECTION 3.03 Books of Account. At all times during the continuance of the Company, the Company shall maintain or cause to be maintained full, true, complete and correct books of account in accordance with generally accepted accounting principles, using the fiscal year and taxable year of the Member. In addition, the Company shall keep all records required to be kept pursuant to the LLC Act.

SECTION 3.04 Access to Accounting Records. All books and records of the Company shall be maintained at any office of the Company or at the Company's principal place of business, and the Member, and its duly authorized representative, shall have access to them at such office of the Company and the right to inspect and copy them at reasonable times.

SECTION 3.05 Annual Tax Information. The Managers shall cause the Company to deliver to the Member all information necessary for the preparation of the Member's federal income tax return.

SECTION 3.06 Internal Revenue Service Communications. The Member shall communicate and negotiate with the Internal Revenue Service on any federal tax matter on behalf of the Member and the Company.

ARTICLE IV MEMBER

SECTION 4.01 Powers. Subject to the provisions of this Agreement and the LLC Act, all powers shall be exercised by or under the authority of, and the business and affairs of the Company shall be controlled by, the Member pursuant to Section 4.04. The Member may delegate any or all such powers to the Managers. Without prejudice to such general powers, but subject to the same limitations, it is hereby expressly declared that the Member shall have the following powers:

(a) To select and remove the Managers and all officers and agents of the Company, prescribe such powers and duties for them as may be consistent with the LLC Act and other applicable law and this Agreement, fix their compensation, and require from them security for faithful service; provided, that, except as provided in Section 7.06, at all times the Company shall have at least one Independent Manager. Prior to issuance of any Storm Recovery Bonds, the Member shall appoint at least one Independent Manager. An "Independent Manager" means an individual who (1) has prior experience as an independent director, independent manager or independent member, (2) is employed by, and has at least three years of employment experience with, a nationally-recognized company that provides professional independent managers and other corporate services in the ordinary course of its business, (3) whose services to the Company are provided by a nationally recognized company that provides independent managers and other

corporate services, (4) is duly appointed as an Independent Manager and (5) is not and has not been for at least five years from the date of his or her or its appointment, and will not while serving as Independent Manager, be any of the following:

(i) a member, partner, equity holder, manager, director, officer, agent, consultant, attorney, accountant, advisor or employee of the Company or any of its equityholders or Affiliates (other than as an independent director, independent manager or special member of the Company or an Affiliate of the Company that is not in the direct chain of ownership of the Company and that is required by a creditor to be a single purpose bankruptcy remote entity); provided, that the indirect or beneficial ownership of stock of the Member or its Affiliates through a mutual fund or similar diversified investment vehicle with respect to which the owner does not have discretion or control over the investments held by such diversified investment vehicle shall not preclude such owner from being an Independent Manager;

(ii) a creditor, supplier or service provider (including provider of professional services) to the Company, the Member or any of their respective equityholders or Affiliates (other than a nationally-recognized company that routinely provides professional Independent Managers and other corporate services to the Company, the Member or any of its Affiliates in the ordinary course of its business);

(iii) a family member of any of the foregoing; or

(iv) a Person that controls (whether directly, indirectly or otherwise) any of (i), (ii) or (iii) above.

A natural person who otherwise satisfies the foregoing definition and satisfies subparagraph (i) by reason of being the independent manager or independent director of a “special purpose entity” affiliated with the Company shall be qualified to serve as an Independent Manager of the Company, provided that the fees that such individual earns from serving as an independent manager or independent director of affiliates of the Company in any given year constitute in the aggregate less than five percent (5%) of such individual’s annual income for that year. For purposes of this paragraph, a “special purpose entity” is an entity, whose organizational documents contain restrictions on its activities and impose requirements intended to preserve such entity’s separateness that are substantially similar to the Special Purpose Provisions (as hereinafter defined) of this Agreement.

The Company shall pay each Independent Manager annual fees totaling not more than \$[] per year (the “Independent Manager Fee”). Such fees shall be determined without regard to the income of the Company, shall not be deemed to constitute distributions to the recipient of any profit, loss or capital of the Company and shall be considered a fixed Operating Expense of the Company. Each Manager, including each Independent Manager, is hereby deemed to be a “manager” within the meaning of Section 18-101(10) of the LLC Act.

Promptly following any resignation or replacement of any Independent Manager, the Member shall give written notice to each applicable Rating Agency and to the Indenture Trustee and Staff Director of any such resignation or replacement.

(b) Subject to Sections 1.09 and 1.10 and Article VII hereof, to conduct, manage and control the affairs and business of the Company, and to make such rules and regulations therefor consistent with the LLC Act and other applicable law and this Agreement.

(c) To change the registered agent and office of the Company in Delaware from one location to another; to fix and locate from time to time one or more other offices of the Company; and to designate any place within or without the State of Delaware for the conduct of the business of the Company.

SECTION 4.02 Compensation of Member. To the extent permitted by applicable law and the Basic Documents, the Company shall have authority to reimburse the Member for out-of-pocket expenses incurred by the Member in connection with its service to the Company. It is understood that the compensation paid to the Member under the provisions of this Section 4.02 shall be determined without regard to the income of the Company, shall not be deemed to constitute distributions to the recipient of any profit, loss or capital of the Company and shall be considered an On-going Financing Cost of the Company subject to the limitations on such expenses set forth in the Financing Order.

SECTION 4.03 Other Ventures. Notwithstanding any duties (including fiduciary duties) otherwise existing at law or in equity, it is expressly agreed that the Member, the Managers and any Affiliates, officers, directors, managers, stockholders, partners or employees of the Member, may engage in other business ventures of any nature and description, whether or not in competition with the Company, independently or with others, and the Company shall not have any rights in and to any independent venture or activity or the income or profits derived therefrom.

SECTION 4.04 Actions by the Member. All actions of the Member may be taken by written resolution of the Member which shall be signed on behalf of the Member by an authorized officer of the Member and filed with the records of the Company.

ARTICLE V OFFICERS

SECTION 5.01 Designation; Term; Qualifications.

(a) Officers. Subject to the last sentence of this Section 5.01(a), the Managers may, from time to time, designate one or more Persons to be officers of the Company. Any officer so designated shall have such title and authority and perform such duties as the Managers may, from time to time, delegate to them. Each officer shall hold office for the term for which such officer is designated and until its successor shall be duly designated and shall qualify or until its death, resignation or removal as provided in this Agreement. Any Person may hold any number of offices. No officer need be a Manager, the Member, a Delaware resident, or a United States citizen. The Member hereby appoints the Persons identified on Schedule C to be the officers of the Company.

(b) President. The President shall be the chief executive officer of the Company, shall preside at all meetings of the Managers, shall be responsible for the general and active management of the business of the Company and shall see that all orders and resolutions of the Managers are carried into effect. The President or any other officer authorized by the President

or the Managers may execute all contracts, except: (i) where required or permitted by law or this Agreement to be otherwise signed and executed, including Section 1.10; and (ii) where signing and execution thereof shall be expressly delegated by the Managers to some other officer or agent of the Company.

(c) Vice President. In the absence of the President or in the event of the President's inability to act, the Vice President, if any (or in the event there be more than one Vice President, the Vice Presidents in the order designated by the Managers, or in the absence of any designation, then in the order of their election), shall perform the duties of the President, and when so acting, shall have all the powers of and be subject to all the restrictions upon the President. The Vice Presidents, if any, shall perform such other duties and have such other powers as the Managers may from time to time prescribe.

(d) Secretary and Assistant Secretary. The Secretary shall be responsible for filing legal documents and maintaining records for the Company. The Secretary shall attend all meetings of the Managers and record all the proceedings of the meetings of the Company and of the Managers in a book to be kept for that purpose and shall perform like duties for the standing committees when required. The Secretary shall give, or shall cause to be given, notice of all meetings of the Member, if any, and special meetings of the Managers, and shall perform such other duties as may be prescribed by the Managers or the President, under whose supervision the Secretary shall serve. The Assistant Secretary, or if there be more than one, the Assistant Secretaries in the order determined by the Managers (or if there be no such determination, then in order of their designation), shall, in the absence of the Secretary or in the event of the Secretary's inability to act, perform the duties and exercise the powers of the Secretary and shall perform such other duties and have such other powers as the Managers may from time to time prescribe.

(e) Treasurer and Assistant Treasurer. The Treasurer shall have the custody of the Company funds and securities and shall keep full and accurate accounts of receipts and disbursements in books belonging to the Company and shall deposit all moneys and other valuable effects in the name and to the credit of the Company in such depositories as may be designated by the Manager. The Treasurer shall disburse the funds of the Company as may be ordered by the Manager, taking proper vouchers for such disbursements, and shall render to the President and to the Managers, at its regular meetings or when the Managers so require, an account of all of the Treasurer's transactions and of the financial condition of the Company. The Assistant Treasurer, or if there shall be more than one, the Assistant Treasurers in the order determined by the Managers (or if there be no such determination, then in the order of their designation), shall, in the absence of the Treasurer or in the event of the Treasurer's inability to act, perform the duties and exercise the powers of the Treasurer and shall perform such other duties and have such other powers as the Managers may from time to time prescribe.

(f) Officers as Agents. The officers of the Company, to the extent their powers as set forth in this Agreement or otherwise vested in them by action of the Managers are not inconsistent with this Agreement, are agents of the Company for the purpose of the Company's business and, subject to Section 1.10, the actions of the officers taken in accordance with such powers shall bind the Company.

(g) Duties of Managers and Officers. Except to the extent otherwise provided herein, each Manager (other than an Independent Manager) and officer of the Company shall have a fiduciary duty of loyalty and care similar to that of directors and officers of business corporations organized under the General Corporation Law of the State of Delaware.

SECTION 5.02 Removal and Resignation. Any officer of the Company may be removed as such, with or without cause, by the Managers at any time. Any officer of the Company may resign as such at any time upon written notice to the Company. Such resignation shall be made in writing and shall take effect at the time specified therein or, if no time is specified therein, at the time of its receipt by the Managers.

SECTION 5.03 Vacancies. Any vacancy occurring in any office of the Company may be filled by the Managers.

SECTION 5.04 Compensation. The compensation, if any, of the officers of the Company shall be fixed from time to time by the Managers. Such compensation shall be determined without regard to the income of the Company, shall not be deemed to constitute distributions to the recipient of any profit, loss or capital of the Company, shall be payable only to the extent permitted by the Basic Documents and shall be considered a fixed Operating Expense of the Company subject to the limitations on such expenses set forth in the Financing Order.

ARTICLE VI MEMBERSHIP INTEREST

SECTION 6.01 General. “Membership Interest” means the limited liability company interest of the Member in the Company. The Membership Interest constitutes personal property and, subject to Section 6.06, shall be freely transferable and assignable in whole but not in part upon registration of such transfer and assignment on the books of the Company in accordance with the procedures established for such purpose by the Managers of the Company.

SECTION 6.02 Distributions. The Member shall be entitled to receive, out of the assets of the Company legally available therefor, distributions payable in cash in such amounts, if any, as the Managers shall declare. Notwithstanding any provision to the contrary contained in this Agreement, the Company shall not make a distribution to the Member on account of its interest in the Company if such distribution would violate the LLC Act or any other applicable law or any Basic Document.

SECTION 6.03 Rights on Liquidation. Dissolution or Winding Up.

(a) In the event of any liquidation, dissolution or winding up of the Company, the Member shall be entitled to all remaining assets of the Company available for distribution to the Member after satisfaction (whether by payment or reasonable provision for payment) of all liabilities, debts and obligations of the Company.

(b) Neither the sale of all or substantially all of the property or business of the Company, nor the merger or consolidation of the Company into or with another Person or other entity, shall be deemed to be a dissolution, liquidation or winding up, voluntary or involuntary, for the purpose of this Section 6.03.

SECTION 6.04 Redemption. The Membership Interest shall not be redeemable.

SECTION 6.05 Voting Rights. Subject to the terms of this Agreement, the Member shall have the sole right to vote on all matters as to which members of a limited liability company shall be entitled to vote pursuant to the LLC Act and other applicable law.

SECTION 6.06 Transfer of Membership Interests.

(a) The Member may transfer its Membership Interest, in whole but not in part, but the transferee shall not be admitted as a Member except in accordance with Section 6.07. Until the transferee is admitted as a Member, the Member shall continue to be the sole member of the Company (subject to Section 1.02) and to be entitled to exercise any rights or powers of a Member of the Company with respect to the Membership Interest transferred.

(b) To the fullest extent permitted by law, any purported transfer of any Membership Interest in violation of the provisions of this Agreement shall be wholly void and shall not effectuate the transfer contemplated thereby. Notwithstanding anything contained herein to the contrary and to the fullest extent permitted by law, the Member may not transfer any Membership Interest in violation of any provision of this Agreement or any Basic Document or in violation of any applicable federal or state securities laws.

SECTION 6.07 Admission of Transferee as Member.

(a) A transferee of a Membership Interest desiring to be admitted as a Member must execute a counterpart of, or an agreement adopting, this Agreement and, except as permitted by paragraph (b) below, shall not be admitted without unanimous affirmative vote of the Managers, which vote must include the affirmative vote of any Independent Manager. Upon admission of the transferee as a Member, the transferee shall have the rights, powers and duties and shall be subject to the restrictions and liabilities of the Member under this Agreement and the LLC Act. The transferee shall also be liable, to the extent of the Membership Interest transferred, for the unfulfilled obligations, if any, of the transferor Member to make capital contributions to the Company, but shall not be obligated for liabilities unknown to the transferee at the time such transferee was admitted as a Member and that could not be ascertained from this Agreement. Except as set forth in paragraph (b) below, whether or not the transferee of a Membership Interest becomes a Member, the Member transferring the Membership Interest is not released from any liability to the Company under this Agreement or the LLC Act.

(b) The approval of the Managers, including any Independent Manager, shall not be required for the transfer of the Membership Interest from the Member to any successor pursuant to Section 5.02 of a Sale Agreement or the admission of such Person as a Member. Once the transferee of a Membership Interest pursuant to this paragraph (b) becomes a Member, the prior Member shall cease to be a member of the Company and shall be released from any liability to the Company under this Agreement and the LLC Act.

ARTICLE VII MANAGERS

SECTION 7.01 Managers.

(a) Subject to Sections 1.09 and 1.10, the business and affairs of the Company shall be managed by or under the direction of two or more Managers designated by the Member. Subject to the terms of this Agreement, the Member may determine at any time in its sole and absolute discretion the number of Managers. Subject in all cases to the terms of this Agreement, the authorized number of Managers may be increased or decreased by the Member at any time in its sole and absolute discretion, upon notice to all Managers; provided, that, except as provided in Section 7.06, at all times the Company shall have at least one Independent Manager. The initial number of Managers shall be three, one of which shall be an Independent Manager. Each Manager designated by the Member shall hold office until a successor is elected and qualified or until such Manager's earlier death, resignation, expulsion or removal. Each Manager shall execute and deliver the Management Agreement in the form attached hereto as Exhibit A. Managers need not be a Member. The initial Managers designated by the Member are listed on Schedule B hereto.

(b) Each Manager shall be designated by the Member and shall hold office for the term for which designated and until a successor has been designated.

(c) The Managers shall be obliged to devote only as much of their time to the Company's business as shall be reasonably required in light of the Company's business and objectives. Subject to Section 7.02, a Manager shall perform his or her duties as a Manager in good faith, in a manner he or she reasonably believes to be in the best interests of the Company, and with such care as an ordinarily prudent Person in a like position would use under similar circumstances.

(d) Except as otherwise provided in this Agreement, the Managers shall act by the affirmative vote of a majority of the Managers. Each Manager shall have the authority to sign duly authorized agreements and other instruments on behalf of the Company without the joinder of any other Manager.

(e) Subject to the terms of this Agreement, any action may be taken by the Managers without a meeting and without prior notice if authorized by the written consent of a majority of the Managers (or such greater number as is required by this Agreement), which written consent shall be filed with the records of the Company.

(f) Every Manager is an agent of the Company for the purpose of its business, and the act of every Manager, including the execution in the Company name of any instrument for carrying on the business of the Company, binds the Company, unless such act is in contravention of this Agreement or unless the Manager so acting otherwise lacks the authority to act for the Company and the Person with whom he or she is dealing has knowledge of the fact that he or she has no such authority.

(g) To the extent permitted by law, the Managers shall not be personally liable for the Company's debts, obligations or liabilities.

SECTION 7.02 Powers of the Managers. Subject to the terms of this Agreement, the Managers shall have the right and authority to take all actions which the Managers deem incidental, necessary, suitable or convenient for the day-to-day management and conduct of the Company's business.

An Independent Manager may not delegate his, hers or its duties, authorities or responsibilities hereunder. If any Independent Manager resigns, dies or becomes incapacitated, or such position is otherwise vacant, no action requiring the unanimous affirmative vote of the Managers shall be taken until a successor Independent Manager is appointed by the Member and qualifies and approves such action.

To the fullest extent permitted by law, including Section 18-1101(c) of the LLC Act, and notwithstanding any duty otherwise existing at law or in equity, the Independent Managers shall consider only the interests of the Company, including its creditors, in acting or otherwise voting on the matters referred to in Section 1.10. Except for duties to the Company as set forth in the immediately preceding sentence (including duties to the Member and the Company's creditors solely to the extent of their respective economic interests in the Company but excluding (i) all other interests of the Member, (ii) the interests of other Affiliates of the Company, and (iii) the interests of any group of Affiliates of which the Company is a part), the Independent Managers shall not have any fiduciary duties to the Member, any Manager or any other Person bound by this Agreement; provided, however, the foregoing shall not eliminate the implied contractual covenant of good faith and fair dealing. To the fullest extent permitted by law, including Section 18-1101(e) of the LLC Act, an Independent Manager shall not be liable to the Company, the Member or any other Person bound by this Agreement for breach of contract or breach of duties (including fiduciary duties), unless the Independent Manager acted in bad faith or engaged in willful misconduct.

No Independent Manager shall at any time serve as trustee in bankruptcy for any Affiliate of the Company.

Subject to the terms of this Agreement, the Managers may exercise all powers of the Company and do all such lawful acts and things as are not prohibited by the LLC Act, other applicable law or this Agreement directed or required to be exercised or done by the Member. All duly authorized instruments, contracts, agreements and documents providing for the acquisition or disposition of property of the Company shall be valid and binding on the Company if executed by one or more of the Managers.

Notwithstanding the terms of Section 7.01, 7.07 or 7.09 or any provision of this Agreement to the contrary, (x) no meeting or vote with respect to any action described in clause (b), (c) or (g) of Section 1.10 or any amendment to any of the Special Purpose Provisions (as hereinafter defined) shall be conducted unless any Independent Manager is present and (y) neither the Company nor the Member, any Manager or any officer on behalf of the Company shall (i) take any action described in clause (b), (c) or (g) of Section 1.10 unless the Independent Manager(s) has consented thereto or (ii) adopt any amendment to any of the Special Purpose Provisions unless the Independent Manager(s) has consented thereto. The vote or consent of an Independent Manager with respect to any such action or amendment shall not be dictated by the Member or any other Manager or officer of the Company.

SECTION 7.03 Compensation. To the extent permitted by applicable law and the Basic Documents, the Company may reimburse any Manager, directly or indirectly, for out-of-pocket expenses incurred by such Manager in connection with its services rendered to the Company. Such compensation shall be determined by the Managers without regard to the income of the Company, shall not be deemed to constitute distributions to the recipient of any profit, loss or capital of the Company and shall be considered a fixed Operating Expense of the Company subject to the limitations on such expenses set forth in the Financing Order.

SECTION 7.04 Removal of Managers.

(a) Subject to Section 4.01, the Member may remove any Manager with or without cause at any time.

(b) Subject to Sections 4.01 and 7.05, any removal of a Manager shall become effective on such date as may be specified by the Member and in a notice delivered to any remaining Managers or the Manager designated to replace the removed Manager (except that it shall not be effective on a date earlier than the date such notice is delivered to the remaining Managers or the Manager designated to replace the removed Manager). Should a Manager be removed who is also the Member, the Member shall continue to participate in the Company as the Member and receive its share of the Company's income, gains, losses, deductions and credits pursuant to this Agreement.

SECTION 7.05 Resignation of Manager. A Manager other than an Independent Manager may resign as a Manager at any time by thirty (30) days' prior notice to the Member. An Independent Manager may not withdraw or resign as a Manager of the Company without the consent of the Member. No resignation or removal of an Independent Manager, and no appointment of a successor Independent Manager, shall be effective until such successor (i) shall have accepted his or her appointment as an Independent Manager by a written instrument, which may be a counterpart signature page to the Management Agreement in the form attached hereto as Exhibit A, and (ii) shall have executed a counterpart to this Agreement.

SECTION 7.06 Vacancies.

(a) Subject to Section 4.01, any vacancies among the Managers may be filled by the Member. In the event of a vacancy in the position of Independent Manager, the Member shall, as soon as practicable, appoint a successor Independent Manager.

(b) Notwithstanding anything to the contrary contained in this Agreement, no Independent Manager shall be removed or replaced unless the Company provides the Indenture Trustee with no less than two (2) Business Days' prior written notice of (a) any proposed removal of such Independent Manager, and (b) the identity of the proposed replacement Independent Manager, together with a certification that such replacement satisfies the requirements for an Independent Manager set forth in this Agreement.

(c) Notwithstanding anything to the contrary contained in this Agreement, no Independent Manager shall be removed or replaced unless the Company provides the Staff Director with the written notice required by subsection (b) above. The Staff Director shall have

the right to object to the replacement Independent Manager and cause the Member to appoint a further replacement Independent Manager as follows:

(i) The Staff Director shall have five (5) Business Days from its receipt of the notice described above to object to the replacement Independent Director by delivering to the Member within such five (5) Business Days its written objection describing in reasonable detail the reasons for such objection. Any such objection must be reasonable.

(ii) If the Staff Director fails to deliver a conforming objection to the Member within such time period, the Staff Director shall have no right to object to the replacement Independent Manager.

(iii) If the Staff Director delivers a conforming objection to the Member within such time period, the Member shall promptly propose to the Staff Director in writing three (3) alternative candidates for Independent Manager who satisfy the Staff Director's objections and otherwise meet the requirements for Independent Manager. The Staff Director may eliminate up to two (2) of such candidates by providing the Member with written notice of the eliminations within five (5) Business Days of the Staff Director's receipt of the Member's proposal. The Member shall promptly remove the Independent Manager objected to by the Staff Director and replace him or her with a new replacement Independent Manager from any such candidate not eliminated.

(iv) At any time after the Staff Director has timely delivered a conforming objection until the Member has replaced the Independent Manager objected to by the Staff Director in accordance with subsection (iii) above, the Staff Director may withdraw its objection to a replacement Independent Director or otherwise agree with the Member as to the selection of a replacement Independent Manager.

(v) A replacement Independent Manager objected to by the Staff Director in accordance with this Agreement, shall continue in office until removed in accordance with this Agreement.

SECTION 7.07 Meetings of the Managers. The Managers may hold meetings, both regular and special, within or outside the State of Delaware. Regular meetings of the Managers may be held without notice at such time and at such place as shall from time to time be determined by the Managers. Special meetings of the Managers may be called by the President on not less than one day's notice to each Manager by telephone, facsimile, mail, telegram or any other means of communication, and special meetings shall be called by the President or Secretary in like manner and with like notice upon the written request of any one or more of the Managers.

SECTION 7.08 Electronic Communications. Managers, or any committee designated by the Managers, may participate in meetings of the Managers, or any committee, by means of telephone conference or similar communications equipment that allows all Persons participating in the meeting to hear each other, and such participation in a meeting shall constitute presence in Person at the meeting. If all the participants are participating by telephone conference or similar communications equipment, the meeting shall be deemed to be held at the principal place of business of the Company.

SECTION 7.09 Committees of Managers.

(a) The Managers may, by resolution passed by a majority of the Managers, designate one or more committees, each committee to consist of one or more of the Managers. The Managers may designate one or more Managers as alternate members of any committee, who may replace any absent or disqualified member at any meeting of the committee.

(b) In the absence or disqualification of a member of a committee, the member or members thereof present at any meeting and not disqualified from voting, whether or not such members constitute a quorum, may unanimously appoint another Manager to act at the meeting in the place of any such absent or disqualified member. Any such committee, to the extent provided in the resolution of the Managers, shall have and may exercise all the powers and authority of the Managers in the management of the business and affairs of the Company. Such committee or committees shall have such name or names as may be determined from time to time by resolution adopted by the Managers. Each committee shall keep regular minutes of its meetings and report the same to the Managers when required.

SECTION 7.10 Limitations on Independent Managers. All right, power and authority of each Independent Manager shall be limited to the extent necessary to exercise those rights and perform those duties specifically set forth in this Agreement.

ARTICLE VIII
EXPENSES

SECTION 8.01 Expenses. Except as otherwise provided in this Agreement or the other Basic Documents, the Company shall be responsible for all expenses and the allocation thereof including without limitation:

(a) all expenses incurred by the Member or its Affiliates in organizing the Company;

(b) all expenses related to the business of the Company and all routine administrative expenses of the Company, including the maintenance of books and records of the Company, and the preparation and dispatch to the Member of checks, financial reports, tax returns and notices required pursuant to this Agreement;

(c) all expenses incurred in connection with any litigation or arbitration involving the Company (including the cost of any investigation and preparation) and the amount of any judgment or settlement paid in connection therewith;

(d) all expenses for indemnity or contribution payable by the Company to any Person;

(e) all expenses incurred in connection with the collection of amounts due to the Company from any Person;

(f) all expenses incurred in connection with the preparation of amendments to this Agreement;

(g) all expenses incurred in connection with the liquidation, dissolution and winding up of the Company; and

(h) all expenses otherwise allocated in good faith to the Company by the Managers.

ARTICLE IX
PERPETUAL EXISTENCE; DISSOLUTION, LIQUIDATION AND WINDING-UP

SECTION 9.01 Existence.

(a) The Company shall have a perpetual existence. So long as any of the Storm Recovery Bonds are outstanding, the Member shall not be entitled to consent to the dissolution of the Company.

(b) Notwithstanding any provision of this Agreement, the Bankruptcy of the Member or Special Member will not cause such Member or Special Member, respectively, to cease to be a member of the Company, and upon the occurrence of such an event, the business of the Company shall continue without dissolution. For purposes of this Section 9.01(b), “Bankruptcy” means, with respect to any Person (A) if such Person (i) makes an assignment for the benefit of creditors, (ii) files a voluntary petition in bankruptcy, (iii) is adjudged a bankrupt or insolvent, or has entered against it an order for relief, in any bankruptcy or insolvency proceedings, (iv) files a petition or answer seeking for itself any reorganization, arrangement, composition, readjustment, liquidation or similar relief under any statute, law or regulation, (v) files an answer or other pleading admitting or failing to contest the material allegations of a petition filed against it in any proceeding of this nature, or (vi) seeks, consents to or acquiesces in the appointment of a trustee, receiver or liquidator of the Person or of all or any substantial part of its properties, or (B) if 120 days after the commencement of any proceeding against the Person seeking reorganization, arrangement, composition, readjustment, liquidation or similar relief under any statute, law or regulation, if the proceeding has not been dismissed or if within 90 days after the appointment without such Person’s consent or acquiescence of a trustee, receiver or liquidator of such Person or of all or any substantial part of its properties, the appointment is not vacated or stayed, or within 90 days after the expiration of any such stay, the appointment is not vacated. The foregoing definition of “Bankruptcy” is intended to replace and shall supersede and replace the definition of “Bankruptcy” set forth in Sections 18-101(1) and 18-304 of the LLC Act. Upon the occurrence of any event that causes the last remaining member of the Company to cease to be a member of the Company or that causes the Member to cease to be a member of the Company (other than upon continuation of the Company without dissolution upon an assignment by the Member of all of its limited liability company interest in the Company and the admission of the transferee pursuant to Sections 6.06 and 6.07), to the fullest extent permitted by law, the personal representative of such member is hereby authorized to, and shall, within ninety (90) days after the occurrence of the event that terminated the continued membership of such member in the Company, agree in writing (i) to continue the Company and (ii) to the admission of the personal representative or its nominee or designee, as the case may be, as a substitute member of the Company, effective as of the occurrence of the event that terminated the continued membership of the last remaining member of the Company or the Member in the Company.

SECTION 9.02 Dissolution. The Company shall be dissolved and its affairs shall be wound up upon the occurrence of the earliest of the following events:

(a) subject to Section 1.10, the election to dissolve the Company made in writing by the Member and each Manager, including each Independent Manager, as permitted under the Basic Documents and after the discharge in full of all Storm Recovery Bonds;

(b) the termination of the legal existence of the last remaining member of the Company or the occurrence of any event that causes the last remaining member of the Company to cease to be a member of the Company unless the business of the Company is continued without dissolution in a manner permitted by the LLC Act or this Agreement; or

(c) the entry of a decree of judicial dissolution of the Company pursuant to Section 18-802 of the LLC Act.

SECTION 9.03 Accounting. In the event of the dissolution, liquidation and winding-up of the Company, a proper accounting shall be made of the Capital Account of the Member and of the net income or net loss of the Company from the date of the last previous accounting to the date of dissolution.

SECTION 9.04 Certificate of Cancellation. As soon as possible following the occurrence of any of the events specified in Section 9.02 and the completion of the winding up of the Company, the Person winding up the business and affairs of the Company, as an authorized person, shall cause to be executed a Certificate of Cancellation of the Certificate of Formation and file the Certificate of Cancellation of the Certificate of Formation as required by the LLC Act.

SECTION 9.05 Winding Up. Upon the occurrence of any event specified in Section 9.02, the Company shall continue solely for the purpose of winding up its affairs in an orderly manner, liquidating its assets, and satisfying the claims of its creditors. The Member, or if there is no Member, the Managers, shall be responsible for overseeing the winding up and liquidation of the Company, shall take full account of the liabilities of the Company and its assets, shall either cause its assets to be sold or distributed, and if sold as promptly as is consistent with obtaining the fair market value thereof, shall cause the proceeds therefrom, to the extent sufficient therefor, to be applied and distributed as provided in Section 9.06.

SECTION 9.06 Order of Payment of Liabilities Upon Dissolution. After determining that all debts and liabilities of the Company, including all contingent, conditional or unmatured liabilities of the Company, in the process of winding-up, including, without limitation, debts and liabilities to the Member in the event it is a creditor of the Company to the extent otherwise permitted by law, have been paid or adequately provided for, the remaining assets shall be distributed in cash or in kind to the Member.

SECTION 9.07 Limitations on Payments Made in Dissolution. Except as otherwise specifically provided in this Agreement, the Member shall only be entitled to look solely to the assets of Company for the return of its positive Capital Account balance and shall have no recourse for its Capital Contribution and/or share of net income (upon dissolution or otherwise) against any Manager.

SECTION 9.08 Limitation on Liability. Except as otherwise provided by the LLC Act and except as otherwise characterized for tax and financial reporting purposes, the debts, obligations and liabilities of the Company, whether arising in contract, tort or otherwise, shall be solely the debts, obligations and liabilities of the Company, and no Member or Manager shall be obligated personally for any such debt, obligation or liability of the Company solely by reason of being a Member or a Manager.

ARTICLE X INDEMNIFICATION

SECTION 10.01 Indemnity. Subject to the provisions of Section 10.04 hereof and the provisions of the Basic Documents, to the fullest extent permitted by law, the Company shall indemnify any Person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative, except an action by or in the right of the Company, by reason of the fact that such Person is or was a Manager, Member, officer, controlling Person, legal representative or agent of the Company, or is or was serving at the request of the Company as a member, manager, director, officer, partner, shareholder, controlling Person, legal representative or agent of another limited liability company, partnership, corporation, joint venture, trust or other enterprise, against expenses, including attorneys' fees, judgments, fines and amounts paid in settlement actually and reasonably incurred by such Person in connection with the action, suit or proceeding if such Person acted in good faith and in a manner which such Person reasonably believed to be in or not opposed to the best interests of the Company, and, with respect to a criminal action or proceeding, had no reasonable cause to believe such Person's conduct was unlawful; provided that such Person shall not be entitled to indemnification if such judgment, penalty, fine or other expense was directly caused by such Person's fraud, gross negligence or willful misconduct or, in the case of an Independent Manager, bad faith or willful misconduct.

SECTION 10.02 Indemnity for Actions By or In the Right of the Company. Subject to the provisions of Section 10.04 hereof and the provisions of the Basic Documents, to the fullest extent permitted by law, the Company shall indemnify any Person who was or is a party or is threatened to be made a party to any threatened, pending or completed action or suit by or in the rights of the Company to procure a judgment in its favor by reason of the fact that such Person is or was a Member, Manager, officer, controlling Person, legal representative or agent of the Company, or is or was serving at the request of the Company as a member, manager, director, officer, partner, shareholder, controlling Person, legal representative or agent of another limited liability company, corporation, partnership joint venture, trust or other enterprise, against expenses, including amounts paid in settlement and attorneys' fees actually and reasonably incurred by such Person in connection with the defense or settlement of the actions or suit if such Person acted in good faith and in a manner which such Person reasonably believed to be in or not opposed to the best interests of the Company; provided that such Person shall not be entitled to indemnification if such judgment, penalty, fine or other expense was directly caused by such Person's fraud, gross negligence or willful misconduct or, in the case of an Independent Manager, bad faith or willful misconduct. Indemnification may not be made for any claim, issue or matter as to which such Person has been adjudged by a court of competent jurisdiction, after exhaustion of all appeals therefrom, to be liable to the Company or for amounts paid in settlement to the Company, unless and only to the extent that the court in which the action or suit was brought or

other court of competent jurisdiction determines upon application that in view of all the circumstances of the case, the Person is fairly and reasonably entitled to indemnity for such expenses as the court deems proper.

SECTION 10.03 Indemnity If Successful. To the fullest extent permitted by law, and subject to the provisions of the Basic Documents, the Company shall indemnify any Person who is or was a Manager, Member, officer, controlling Person, legal representative or agent of the Company, or is or was serving at the request of the Company as a member, manager, director, officer, partner, shareholder, controlling Person, legal representative or agent of another limited liability company, corporation, partnership joint venture, trust or other enterprise against expenses, including reasonable attorneys' fees, actually and reasonably incurred by him or her in connection with the defense of any action, suit or proceeding referred to in Sections 10.01 and 10.02 or in defense of any claim, issue or matter therein, to the extent that such Person has been successful on the merits.

SECTION 10.04 Expenses. Any indemnification under Sections 10.01 and 10.02, as well as the advance payment of expenses permitted under Section 10.05 unless ordered by a court or advanced pursuant to Section 10.05 below, must be made by the Company only as authorized in the specific case upon a determination that indemnification of the Manager, Member, officer, controlling Person, legal representative or agent is proper in the circumstances. The determination must be made:

- (a) by the Member if the Member was not a party to the act, suit or proceeding;
- or
- (b) if the Member was a party to the act, suit or proceeding by independent legal counsel in a written opinion.

SECTION 10.05 Advance Payment of Expenses. To the extent permitted by the Basic Documents, the expenses of each Person who is or was a Manager, Member, officer, controlling Person, legal representative or agent, or is or was serving at the request of the Company as a member, manager, director, officer, partner, shareholder, controlling Person, legal representative or agent of another limited liability company, corporation, partnership joint venture, trust or other enterprise, incurred in defending a civil or criminal action, suit or proceeding may be paid by the Company as they are incurred and in advance of the final disposition of the action, suit or proceeding, upon receipt of an undertaking by or on behalf of such Person to repay the amount if it is ultimately determined by a court of competent jurisdiction that such Person is not entitled to be indemnified by the Company. The provisions of this Section 10.05 shall not affect any rights to advancement of expenses to which personnel other than the Member or the Managers (other than each Independent Manager) may be entitled under any contract or otherwise by law.

SECTION 10.06 Other Arrangements Not Excluded. The indemnification and advancement of expenses authorized in or ordered by a court pursuant to this Article X:

- (a) does not exclude any other rights to which a Person seeking indemnification or advancement of expenses may be entitled under any agreement, decision of the Member, consent or action of the Managers, or otherwise, for either an action of any Person who is or was

a Manager, Member, officer, controlling Person, legal representative or agent, or is or was serving at the request of the Company as a member, manager, director, officer, partner, shareholder, controlling Person, legal representative or agent of another limited liability company, corporation, partnership, joint venture, trust or other enterprise, in the official capacity of such Person or an action in another capacity while holding such position, except that indemnification and advancement, unless ordered by a court pursuant to Section 10.05 above, may not be made to or on behalf of such Person if a final adjudication established that its acts or omissions involved intentional misconduct, fraud or a knowing violation of the law and were material to the cause of action; and

(b) continues for a Person who has ceased to be a Member, Manager, officer, legal representative or agent and inures to the benefit of the successors, heirs, executors and administrators of such a Person.

ARTICLE XI MISCELLANEOUS PROVISIONS

SECTION 11.01 No Bankruptcy Petition; Dissolution.

(a) To the fullest extent permitted by law, the Member, each Special Member and each Manager hereby covenant and agree (or shall be deemed to have hereby covenanted and agreed) that, prior to the date which is one year and one day after the termination in accordance with their terms of all Indentures and the payment in full of all series of Storm Recovery Bonds and any other amounts owed under any Indenture, it will not acquiesce, petition or otherwise invoke or cause the Company to invoke the process of any court or Governmental Authority for the purpose of commencing or sustaining an involuntary case against the Company under any federal or state bankruptcy, insolvency or similar law or appointing a receiver, liquidator, assignee, trustee, custodian, sequestrator or other similar official of the Company or any substantial part of the property of the Company, or ordering the winding up or liquidation of the affairs of the Company; provided, however, that nothing in this Section 11.01 shall constitute a waiver of any right to indemnification, reimbursement or other payment from the Company pursuant to this Agreement. This Section 11.01 is not intended to apply to the filing of a voluntary bankruptcy petition on behalf of the Company which is governed by Section 1.10 of this Agreement.

(b) To the fullest extent permitted by law, the Member, each Special Member and each Manager hereby covenant and agree (or shall be deemed to have hereby covenanted and agreed) that, until the termination in accordance with their terms of all Indentures and the payment in full of all series of Storm Recovery Bonds and any other amounts owed under any Indenture, the Member, such Special Member and such Manager will not consent to, or make application for, or institute or maintain any action for, the dissolution of the Company under Section 18-801 or 18-802 of the LLC Act or otherwise.

(c) In the event that the Member, any Special Member or any Manager takes action in violation of this Section 11.01, the Company agrees that it shall file an answer with the court or otherwise properly contest the taking of such action and raise the defense that the Member, the Special Member or Manager, as the case may be, has agreed in writing not to take such action

and should be estopped and precluded therefrom and such other defenses, if any, as its counsel advises that it may assert.

(d) The provisions of this Section 11.01 shall survive the termination of this Agreement and the resignation, withdrawal or removal of the Member, any Special Member or any Manager. Nothing herein contained shall preclude participation by the Member, any Special Member or a Manager in assertion or defense of its claims in any such proceeding involving the Company.

SECTION 11.02 Amendments.

(a) The power to alter, amend or repeal this Agreement shall be only with the consent of the Member, provided, that the Company shall not alter, amend or repeal any provision of Sections 1.02(b) and (c), 1.05, 1.09, 1.10, 3.01(b), 3.02, 6.06, 6.07, 7.02, 7.05, 7.06, 9.01, 9.02, 11.02 and 11.07 of this Agreement or the definition of “Independent Manager” contained herein or the requirement that at all times the Company have at least one Independent Manager (collectively, the “Special Purpose Provisions”) without, in each case, the affirmative vote of a majority of the Managers, which vote must include the affirmative vote of any Independent Manager.

So long as any Storm Recovery Bonds of any series are outstanding, the Company and the Member shall give written notice to each applicable Rating Agency and to the Indenture Trustee of any amendment to this Agreement. The effectiveness of any amendment of the Special Purpose Provisions shall be subject to the Rating Agency Condition set forth in the Basic Documents (other than an amendment which is necessary: (i) to cure any ambiguity or (ii) to correct or supplement any such provision in a manner consistent with the intent of this Agreement).

(b) The Company’s power to alter or amend the Certificate of Formation shall be vested in the Member. Upon obtaining the approval of any amendment, supplement or restatement as to the Certificate of Formation, the Member on behalf of the Company shall cause a Certificate of Amendment or Amended and Restated Certificate of Formation to be prepared, executed and filed in accordance with the LLC Act.

(c) Notwithstanding anything in this Agreement to the contrary, including Sections 11.02(a) and (b), unless and until any Storm Recovery Bonds are issued and outstanding, the Member may, without the need for any consent or action of, or notice to, any other Person, including any Manager, any officer, the Indenture Trustee or any Rating Agency, alter, amend or repeal this Agreement in any manner.

SECTION 11.03 [Commission Condition]. Notwithstanding anything to the contrary in Section 11.02, no amendment or modification of this Agreement shall be effective unless the process set forth in this Section 11.03 has been followed.

(a) At least fifteen (15) days prior to the effectiveness of any such amendment or modification and after obtaining the other necessary approvals set forth in Section 11.02 above (except that the consent of the Indenture Trustee may be subject to the consent of Holders if such consent is required or sought by the Indenture Trustee in connection with such amendment), the

Member shall have delivered to the [Commission's Staff Director of Accounting & Finance] written notification of any proposed amendment or modification, which notification shall contain:

- (i) [a reference to Docket No. []];
- (ii) an Officer's Certificate stating that the proposed amendment or modification has been approved by all parties to this Agreement; and
- (iii) a statement identifying the person to whom the Commission or its authorized representative is to address any response to the proposed amendment or modification or to request additional time.

(b) If the Commission or its staff, within 15 days (subject to extension as provided in clause (c)) of receiving a notification complying with subparagraph (a), shall have delivered to the office of the person specified in clause (a)(iii) a written statement that the Commission might object to the proposed amendment or modification, then, subject to clause (d) below, such proposed amendment or modification shall not be effective unless and until the Commission subsequently delivers a written statement that it does not object to such proposed amendment or modification.

(c) If the Commission or an authorized representative of the Commission, within 15 days of receiving a notification complying with subparagraph (a), shall have delivered to the office of the person specified in clause (a)(iii) a written statement requesting an additional amount of time not to exceed thirty days in which to consider such proposed amendment or modification, then such proposed amendment or modification shall not be effective if, within such extended period, the Commission shall have delivered to the office of the person specified in clause (a)(iii) a written statement as described in subparagraph (b), unless and until the Commission subsequently delivers a written statement that it does not object to such proposed amendment or modification.

(d) If (i) the Commission or an authorized representative of the Commission shall not have delivered written notice that the Commission might object to such proposed amendment or modification within the time periods described in subparagraph (b) or (c), whichever is applicable, or (ii) the Commission or an authorized representative of the Commission, has delivered such written notice but does not within 60 days of the delivery of the notification in (a) above, provide subsequent written notice confirming that it does in fact object and the reasons therefor or advise that it has initiated a proceeding to determine what action it might take with respect to the matter, then the Commission shall be conclusively deemed not to have any objection to the proposed amendment or modification and such amendment or modification may subsequently become effective upon satisfaction of the other conditions specified in Section 11.02.

(e) Following the delivery of a statement from the Commission or an authorized representative of the Commission to the Member under subparagraph (b), the Member and the Company shall have the right at any time to withdraw from the Commission further consideration of any proposed amendment. Such withdrawal shall be evidenced by the prompt written notice thereof by the Member to the Commission, the Indenture Trustee, each Independent Manager and the Servicer.

(f) For the purpose of this Section 11.03, an “authorized representative” of the Commission means any person authorized to act on behalf of the Commission as evidenced by an Opinion of Counsel (which may be the general counsel) to the Commission.]

SECTION 11.04 Governing Law. THIS AGREEMENT SHALL BE CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF DELAWARE, WITHOUT REFERENCE TO ITS CONFLICT OF LAW PROVISIONS, AND THE OBLIGATIONS, RIGHTS AND REMEDIES OF THE PARTIES HEREUNDER SHALL BE DETERMINED IN ACCORDANCE WITH SUCH LAWS.

SECTION 11.05 Headings. The headings of the various Articles and Sections herein are for convenience of reference only and shall not define or limit any of the terms or provisions hereof.

SECTION 11.06 Severability. Any provision of this Agreement that is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remainder of such provision (if any) or the remaining provisions hereof (unless such construction shall be unreasonable), and any such prohibition or unenforceability in any jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction.

SECTION 11.07 Assigns. Each and all of the covenants, terms, provisions and agreements contained in this Agreement shall be binding upon and inure to the benefit of the Member, and its permitted successors and assigns.

SECTION 11.08 Enforcement by Each Independent Manager. Notwithstanding any other provision of this Agreement, the Member agrees that this Agreement constitutes a legal, valid and binding agreement of the Member, and is enforceable against the Member by each Independent Manager in accordance with its terms.

SECTION 11.09 Waiver of Partition; Nature of Interest. Except as otherwise expressly provided in this Agreement, to the fullest extent permitted by law, each of the Member and the Special Members hereby irrevocably waives any right or power that such Person might have to cause the Company or any of its assets to be partitioned, to cause the appointment of a receiver for all or any portion of the assets of the Company, to compel any sale of all or any portion of the assets of the Company pursuant to any applicable law or to file a complaint or to institute any proceeding at law or in equity to cause the dissolution, liquidation, winding up or termination of the Company. The Member shall not have any interest in any specific assets of the Company, and the Member shall not have the status of a creditor with respect to any distribution pursuant to this Agreement.

SECTION 11.10 Benefits of Agreement; No Third-Party Rights. Except for the Indenture Trustee and Persons entitled to indemnification hereunder, none of the provisions of this Agreement shall be for the benefit of or enforceable by any creditor of the Company or by any creditor of the Member or Special Member. Nothing in this Agreement shall be deemed to create any right in any Person (other than the Indenture Trustee and Persons entitled to indemnification

hereunder) not a party hereto, and this Agreement shall not be construed in any respect to be a contract in whole or in part for the benefit of any third Person.

[SIGNATURE PAGE FOLLOWS]

IN WITNESS WHEREOF, this Agreement is hereby executed by the undersigned
as the sole Member of the Company and is effective as of the date first written above.

[DUKE ENERGY [CAROLINAS/PROGRESS]
STORM RECOVERY FUNDING], LLC

By: _____
Name:
Title:

ACKNOWLEDGED AND AGREED:

[],
as Independent Manager

SCHEDULE A

SCHEDULE OF INITIAL CAPITAL CONTRIBUTION OF MEMBER

MEMBER'S NAME	CAPITAL CONTRIBUTION	MEMBERSHIP INTEREST PERCENTAGE	CAPITAL ACCOUNT
Duke Energy [Carolinas/Progress], LLC	\$100	100%	\$100

SCHEDULE B
INITIAL MANAGERS

[]

SCHEDULE C
INITIAL OFFICERS

Name

Office

President, Chief Financial Officer and Treasurer
Vice President and Controller
Assistant Treasurer
Secretary
Assistant Treasurer
Assistant Secretary
Assistant Secretary

EXHIBIT A
MANAGEMENT AGREEMENT

_____, 20[]

[]

Re: Management Agreement — [Duke Energy [Carolinas/Progress] Storm Recovery Funding], LLC

Ladies and Gentlemen:

For good and valuable consideration, each of the undersigned Persons, who have been designated as managers of [Duke Energy [Carolinas/Progress] Storm Recovery Funding], LLC, a Delaware limited liability company (the “Company”), in accordance with the Amended and Restated Limited Liability Company Agreement of the Company, dated as of [_____] (as it may be amended, restated, supplemented or otherwise modified from time to time, the “LLC Agreement”), hereby agree as follows:

1. Each of the undersigned accepts such Person’s rights and authority as a Manager under the LLC Agreement and agrees to perform and discharge such Person’s duties and obligations as a Manager under the LLC Agreement, and further agrees that such rights, authorities, duties and obligations under the LLC Agreement shall continue until such Person’s successor as a Manager is designated or until such Person’s resignation or removal as a Manager in accordance with the LLC Agreement. Each of the undersigned agrees and acknowledges that it has been designated as a “manager” of the Company within the meaning of the Delaware Limited Liability Company Act.

2. Until a year and one day has passed since the date that the last obligation under the Basic Documents was paid, to the fullest extent permitted by law, each of the undersigned agrees, solely in its capacity as a creditor of the Company on account of any indemnification or other payment owing to the undersigned by the Company, not to acquiesce, petition or otherwise invoke or cause the Company to invoke the process of any court or governmental authority for the purpose of commencing or sustaining a case against the Company under any federal or state bankruptcy, insolvency or similar law or appointing a receiver, liquidator, assignee, trustee, custodian, sequestrator or other similar official of the Company or any substantial part of the property of the Company, or ordering the winding up or liquidation of the affairs of the Company.

3. THIS MANAGEMENT AGREEMENT SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF DELAWARE, AND ALL RIGHTS AND REMEDIES SHALL BE GOVERNED BY SUCH LAWS WITHOUT REGARD TO PRINCIPLES OF CONFLICTS OF LAWS.

Capitalized terms used and not otherwise defined herein have the meanings set forth in the LLC Agreement.

This Management Agreement may be executed in any number of counterparts, each of which shall be deemed an original of this Management Agreement and all of which together shall constitute one and the same instrument.

IN WITNESS WHEREOF, the undersigned have executed this Management Agreement as of the day and year first above written.

APPENDIX A

DEFINITIONS

As used in this Agreement, the following terms have the following meanings:

“Additional Issuance” is defined in Section 1.07 of this Agreement.

“Administration Agreement” means an administration agreement to be entered into between the Company and the Administrator pursuant to which the Administrator will provide certain management services to the Company.

“Administrator” means [DEC/DEP], as Administrator under the Administration Agreement, or any successor Administrator to the extent permitted under the Administration Agreement.

“Affiliate” means, with respect to any specified Person, any other Person controlling or controlled by or under common control with such specified Person. For the purposes of this definition, “control” when used with respect to any specified Person means the power to direct the management and policies of such specified Person, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise; and the terms “controlling” and “controlled” have meanings correlative to the foregoing.

“Agreement” has the meaning set forth in the preamble to this Agreement.

“Bankruptcy” is defined in Section 9.01(b) of this Agreement.

“Bankruptcy Code” means Title 11 of the United States Code (11 U.S.C. §§ 101 et seq.), as amended from time to time.

“Basic Documents” means the Indentures, the Administration Agreement, the Sale Agreements, the Bills of Sale, the Certificate of Formation, Declaration of Trust, the Original LLC Agreement, this Agreement, the Servicing Agreements, the Series Supplements, the Intercreditor Agreements, the Letters of Representations, the Underwriting Agreements and all other documents and certificates delivered in connection therewith.

“Bill of Sale” means a bill of sale in connection with the sale of Storm Recovery Property pursuant to a Sale Agreement.

“Capital Account” is defined in Section 2.03 of this Agreement.

“Capital Contribution” is defined in Section 2.01 of this Agreement.

“Certificate of Formation” means the Certificate of Formation filed with the Secretary of State on [] pursuant to which the Company was formed.

“Clearing Agency” means an organization registered as a “clearing agency” pursuant to Section 17A of the Securities Exchange Act of 1934, as amended.

“Code” means the Internal Revenue Code of 1986, as amended.

“Collection Account” with respect to each series of Storm Recovery Bonds means the account established and maintained by the Indenture Trustee in connection with the applicable Indenture and Series Supplement, and any subaccounts contained therein.

“Commission” means [North Carolina Utilities Commission].

“Company” has the meaning set forth in the preamble to this Agreement.

“[DEC/DEP]” means Duke Energy [Carolinas/Progress], a North Carolina limited liability company, and any of its successors or permitted assigns.

“Financing Order” means the financing order filed by the Commission on [], [Docket No. []], authorizing the creation of Storm Recovery Property and the issuance of Storm Recovery Bonds in one or more series for the benefit of [DEC/DEP].

“Financing Order” also means any financing order in the future filed by the Commission pursuant to the Storm Recovery Law for the benefit of [DEC/DEP].

“Fitch” means Fitch Ratings or any successor thereto. References to Fitch are effective as long as Fitch is a Rating Agency.

“Governmental Authority” means any nation or government, any federal, state, local or other political subdivision thereof and any court, administrative agency or other instrumentality or entity exercising executive, legislative, judicial, regulatory or administrative functions of government.

“Holder” means the Person in whose name a Storm Recovery Bond is registered.

“Indenture” means each Indenture to be entered into between the Company and the Indenture Trustee authorizing the issuance of Storm Recovery Bonds in one or more series pursuant to a Financing Order, as such Indenture shall be originally executed and, as from time to time supplemented or amended by any supplements or indentures supplemental thereto entered into pursuant to the applicable provisions of the Indenture, as so supplemented or amended, or both, and shall include the forms and terms of Storm Recovery Bonds established thereunder.

“Indenture Trustee” means [], as indenture trustee for the benefit of the Secured Parties, or any successor indenture trustee for the benefit of the Secured Parties, under the applicable Indenture and the applicable Series Supplement.

“Independent Manager” is defined in Section 4.01(a) of this Agreement.

“Independent Manager Fee” is defined in Section 4.01(a) of this Agreement.

[“Intercreditor Agreement” means the Intercreditor Agreement, by and among the Company, the Indenture Trustee, [DEC/DEP] and the parties to the accounts receivable sale program of [], and any subsequent such agreement.]

“Letter of Representations” means any applicable agreement between the Company and the applicable Clearing Agency, with respect to such Clearing Agency’s rights and obligations (in its capacity as a Clearing Agency) with respect to any Book-Entry Storm Recovery Bonds (as defined in the Indenture).

“LLC Act” means the Delaware Limited Liability Company Act, as amended.

“Manager” means each manager of the Company under this Agreement.

“Member” has the meaning set forth in the preamble to this Agreement.

“Membership Interest” is defined in Section 6.01 of this Agreement.

“Moody’s” means Moody’s Investors Service, Inc. References to Moody’s are effective so long as Moody’s is a Rating Agency.

“Storm Recovery Charge” means any storm recovery charge as defined in N.C. Gen. Stat. § 62-172(a)(13) that is authorized by a Financing Order.

“On-going Financing Cost” means with respect to a series of Storm Recovery Bonds, the Financing Costs described as such in the applicable Financing Order, including Operating Expenses and any other costs identified in the Basic Documents; provided, however, that On-going Financing Costs do not include the Company’s costs of issuance of such series of Storm Recovery Bonds.

“Operating Expenses” means all unreimbursed fees, costs and out-of-pocket expenses of the Company, including all amounts owed by the Company to the Indenture Trustee (including indemnitees, legal fees and expense), or any Manager, fees of the Servicer pursuant to the Servicing Agreement, fees of the Administrator pursuant to the Administration Agreement, legal and accounting fees, Rating Agency and related fees (i.e. website provider fees), and any franchise or other taxes owed by the Company, including on investment income in the Collection Account.

“Original LLC Agreement” has the meaning set forth in the preamble to this Agreement.

“Payment Date” means, with respect to any Series or tranche of Storm Recovery Bonds, the dates specified in the Series Supplement; provided, that if any such date is not a Business Day, the Payment Date shall be the Business Day succeeding such date.

“Person” means any individual, corporation, limited liability company, estate, partnership joint venture, association, joint stock company, trust (including any beneficiary thereof), unincorporated organization or Government Authority.

“Rating Agency” means, with respect to any tranche of Storm Recovery Bonds, any of Moody’s, S&P or Fitch that provides a rating with respect to the Storm Recovery Bonds. If no such organization (or successor) is any longer in existence, “Rating Agency” shall be a

nationally recognized statistical rating organization or other comparable Person designated by the Company, notice of which designation shall be given to the Indenture Trustee and the Servicer.

“Rating Agency Condition” means, with respect to any action, at least ten Business Days’ prior written notification to each Rating Agency of such action, and written confirmation from each of S&P and Moody’s to the Servicer, the Indenture Trustee and the Issuer that such action will not result in a suspension, reduction or withdrawal of the then current rating by such Rating Agency of any tranche of Storm Recovery Bonds; provided, that, if, within such ten Business Day period, any Rating Agency (other than S&P) has neither replied to such notification nor responded in a manner that indicates that such Rating Agency is reviewing and considering the notification, then (a) the Company shall be required to confirm that such Rating Agency has received the Rating Agency Condition request and, if it has, promptly request the related Rating Agency Condition confirmation and (b) if the Rating Agency neither replies to such notification nor responds in a manner that indicates it is reviewing and considering the notification within five Business Days following such second request, the applicable Rating Agency Condition requirement shall not be deemed to apply to such Rating Agency. For the purposes of this definition, any confirmation, request, acknowledgment or approval that is required to be in writing may be in the form of electronic mail or a press release (which may contain a general waiver of a Rating Agency’s right to review or consent).

“Return on Invested Capital” means, for any Payment Date with respect to any Remittance Period, the sum of (i) rate of return, payable to [DEC/DEP], on its Capital Contribution equal to the rate of interest payable on the longest maturing tranche of Storm Recovery Bonds plus (ii) any Return on Invested Capital not paid on any prior Payment Date.

“S&P” means Standard & Poor’s Ratings Services, a Standard & Poor’s Financial Services LLC business. References to S&P are effective as long as S&P is a Rating Agency.

“Sale Agreement” means a sale agreement to be entered into pursuant to which the Seller will sell its rights and interests in Storm Recovery Property with respect to a particular series of Storm Recovery Bonds to the Company.

“Secretary of State” means the Secretary of State of the State of Delaware.

“Secured Parties” means the Indenture Trustee, the Holders of a particular series of Storm Recovery Bonds and any credit enhancer described in the Series Supplement.

“Seller” means [DEC/DEP].

“Series Supplement” means the indenture supplemental to an Indenture in the form attached as an exhibit to the Indenture that authorizes the issuance of a particular series of Storm Recovery Bonds.

“Servicer” means [DEC/DEP], as Servicer under the Servicing Agreement, or any successor Servicer to the extent permitted under the Servicing Agreement.

“Servicing Agreement” means a servicing agreement to be entered into pursuant to which the Servicer will service Storm Recovery Property on behalf of the Company.

“Special Member” is defined in Section 1.02(b) of this Agreement.

“Special Purpose Provisions” is defined in Section 11.02(a) of this Agreement.

[“Staff Director” means the Commission’s Staff Director of Accounting & Finance or a designee of the Staff Director of Accounting & Finance provided that such designee is also a member of the Commission’s Staff.]

“Storm Recovery Bonds” means Storm Recovery Bonds authorized by a Financing Order and issued under an Indenture.

“Storm Recovery Bond Collateral” means, with respect to a series of Storm Recovery Bonds, the Storm Recovery Property created under and pursuant to a Financing Order and the Storm Recovery Law with respect to that series, and transferred by the Seller to the Company pursuant to a Sale Agreement (including, to the fullest extent permitted by law, the right to impose, bill, charge, collect and receive Storm Recovery Charges, the right to obtain periodic adjustments to the Storm Recovery Charges, and all revenue, collections, claims, rights to payments, payments, money and or proceeds of or arising from the Storm Recovery Charges out of the rights and interests created under the Financing Order with respect to that series), (b) all Storm Recovery Charges related to the Storm Recovery Property with respect to that series, (c) the Sale Agreement and the Bill of Sale executed in connection with that series of Storm Recovery Bonds and all property and interests in property transferred under the Sale Agreement and the Bill of Sale with respect to that Storm Recovery Property and that series of Storm Recovery Bonds, (d) the Servicing Agreement, the Administration Agreement, the Intercreditor Agreement and any subservicing, agency, administration or collection agreements executed in connection therewith, to the extent related to the foregoing Storm Recovery Property and that series of Storm Recovery Bonds, (e) the Collection Account, all subaccounts thereof and all amounts of cash, instruments, investment property or other assets on deposit therein or credited thereto from time to time and all financial assets and securities entitlements carried therein or credited thereto, (f) all rights to compel the Servicer with respect to a series of Storm Recovery Bonds to file for and obtain adjustments to the Storm Recovery Charges in accordance with N.C. Gen. Stat. § 62-172(b)(3)b.6. and N.C. Gen. Stat. § 62-172(b)(3)d. and the Financing Order, (g) all present and future claims, demands, causes and choses in action in respect of any or all of the foregoing, whether such claims, demands, causes and choses in action constitute Storm Recovery Property, accounts, general intangibles, instruments, contract rights, chattel paper or proceeds of such items or any other form of property, (h) all accounts, chattel paper, deposit accounts, documents, general intangibles, goods, instruments, investment property, letters of credit, letters-of-credit rights, money, commercial tort claims and supporting obligations related to the foregoing and (i) all payments on or under, and all proceeds in respect of, any or all of the foregoing.

“Storm Recovery Law” means the laws of the State of North Carolina adopted in 2019 enacted as N.C. Gen. Stat. § 62-172.

“Storm Recovery Property” means all Storm Recovery Property as defined in N.C. Gen. Stat. § 62-172(a)(15)a. created pursuant to the Financing Order or a Subsequent Financing Order and under the Storm Recovery Law, including the right to impose, bill, charge, collect and receive the Storm Recovery Charges authorized under the Financing Order and to

obtain periodic adjustments of the Storm Recovery Charges and all revenue, collections, claims, rights to payments, payments, money, or proceeds arising from the rights and interests specified in N.C. Gen. Stat. § 62-172(a)(15)b., regardless of whether such revenues, collections, claims, rights to payment, payments, money, or proceeds are imposed, billed, received, collected, or maintained together with or commingled with other revenues, collections, rights to payment, payments, money or proceeds.

“Treasury Regulations” means the regulations, including proposed or temporary regulations, promulgated under the Code.

“Underwriting Agreement” with respect to any series of Storm Recovery Bonds means the Underwriting Agreement by and among [DEC/DEP], the representatives of the several underwriters named therein and the Company.

AMENDED AND RESTATED DECLARATION OF TRUST

Of

SPECIAL PURPOSE TRUST

Among

Duke Energy Progress, LLC and

Duke Energy Carolinas, LLC

acting jointly as Settlers

and

_____,

as Delaware Trustee

and

Duke Energy Corporation,

as Administrative Trustee

Dated as of _____, 2021

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THIS AMENDED AND RESTATED DECLARATION OF TRUST dated and effective as of _____, 2021 (as further amended or restated from time to time, the "Declaration"), by the Bond Issuers (as defined below), acting jointly hereunder as settlors, _____, acting hereunder not in its individual or corporate capacity but solely as trustee under the laws of the State of Delaware (the "Delaware Trustee"), and Duke Energy Corporation as administrative trustee of the Trust (the "Administrative Trustee" and collectively with the Delaware Trustee, the "Trustees").

RECITALS:

WHEREAS, pursuant to the NC Code 8 Section 62-172 (the "Statute") an electric distribution utility in the State of North Carolina may obtain from The North Carolina Utilities Commission (the "NCUC") a financing order (as defined in the Statute) permitting such utility to recover storm recovery costs (as contemplated by the Statute) through the issuance of storm recovery bonds (as defined in the Statute).

WHEREAS, Duke Energy Progress, LLC ("DEP Bond Issuer"), a Delaware special purpose limited liability company, and Duke Energy Carolinas, LLC ("DEC Bond Issuer"), a Delaware special purpose limited liability company (collectively the "Bond Issuers") have applied for and received a financing order (as defined in the Statute) from the NCUC, have formed the Bond Issuers to issue storm recovery bonds and have requested the Bond Issuers to form a special purpose trust to hold the bonds issued by the Bond Issuers and to issue pass-through notes.

WHEREAS, the trust was created on _____ as a Delaware statutory trust pursuant to a Declaration of Trust and a Certificate of Trust filed with the Delaware Secretary of State. The trust continued hereby (the "Trust") shall constitute a special purpose trust empowered to issue one or more series with one or more Tranches (as defined in the Note Indenture (as defined below)) of notes constituting _____ secured notes (the "Notes"). All such Notes shall be issued pursuant to a note indenture, as may be supplemented from time to time (the "Note Indenture"), by and among the Trust and a trustee (the "Note Trustee"), initially secured by the following bonds: (i) DEP bonds (the "DEP Bonds") issued by the DEP Bond Issuer, and (ii) the DEC bonds ("DEC Bonds") issued by the DEC Bond Issuer. The DEP Bonds and the DEC Bonds are collectively referred to as the "Bonds." The Note Indenture and this Declaration shall together constitute the governing instrument of the Trust. The Trust shall purchase the Bonds from each Bond Issuer pursuant to a bond purchase agreement (each, a "Bond Purchase Agreement") relating to the respective Bonds. The Bonds of each Bond Issuer will be issued pursuant to an indenture (each, a "Bond Indenture"), by and between such Bond Issuer and a trustee (the "Bond Trustee") initially designated for each Bond Indenture as _____ and secured by a pledge of and lien upon the storm cost recovery property (as defined in the Statute) in the case of (i) the Bond Indenture for the DEP Bond Issuer, purchased by the DEP Bond Issuer from _____ together with substantially all other assets of the DEP Bond Issuer, and (ii) the Bond Indenture for the DEC Bond Issuer, purchased by the DEC Bond Issuer from _____ together with substantially all other assets of the DEC Bond Issuer. DEP will service the storm recovery property purchased by the DEP Bond Issuer for the benefit of the DEP Bond Issuer pursuant to a storm recover property servicing agreement (the "DEP Servicing Agreement"), between DEP as servicer (in such

capacity, together with any successor servicer, the “DEP Servicer”) and the DEP Bond Issuer. DEC will service storm recovery property purchased by the DEC Bond Issuer for the benefit of the DEC Bond Issuer pursuant to a DEC property servicing agreement (the “DEC Servicing Agreement”), between DEC as servicer (in such capacity, together with any successor servicer, the “DEC Servicer”) and the DEC Bond Issuer. The DEP Servicing Agreement and DEC Servicing Agreement are collectively referred to as the “Servicing Agreements” and the DEP Servicer and DEC Servicer are collectively referred to as the “Servicers.”

WHEREAS, this Declaration, the Note Indenture, the Bond Purchase Agreements, the Bond Indentures, the Servicing Agreements, the Fee and Indemnity Agreement (defined below), the Storm Recovery Property Purchase and Sale Agreements between (i) DEP, as seller, and the DEP Bond Issuer, and (ii) DEC, as seller, and the DEC Bond Issuer, the Administration Agreements between (x) DEP, as administrator, and the DEP Bond Issuer, (y) DEC, as administrator, and the DEC Bond Issuer, (each of DEP and DEC, in their respective capacity as administrator, collectively, the “Administrators”), the Underwriting Agreement among the Bond Issuers, _____, the Trust and the underwriters named therein, relating to the underwriting of the Notes, and the DTC Agreement (as defined in the Note Indenture), are herein collectively referred to as the “Initial Basic Documents.”

WHEREAS, the Trust may issue additional series of Notes pursuant to the Note Indenture secured by additional series of storm recovery bonds (as defined in the Statute) purchased from the Bond Issuers (“Additional Bonds”) and each series of Additional Bonds shall require the execution of additional documents similar to the Initial Basic Documents (the “Additional Basic Documents”, and together with the Initial Basic Documents, the “Basic Documents”).

NOW, THEREFORE, in consideration of the premises and the mutual covenants herein contained, the parties hereto agree as follows:

ARTICLE I DEFINITIONS AND INCORPORATION BY REFERENCE

Section 1.1. Definitions. All references herein to the “Declaration” or this “Declaration” are to this Amended and Restated Declaration of Trust, all references herein to the “Trust” are to the trust continued hereunder, and all references herein to Articles, Sections, subsections, Schedules and Exhibits are to Articles, Sections, subsections, Schedules and Exhibits of this Declaration, unless otherwise specified. All capitalized terms used herein and not otherwise defined shall have the meanings set forth in the Recitals hereto.

ARTICLE II ORGANIZATION

Section 2.1. Creation of Trust. The Trust continued hereby shall be known as “_____,” in which name the Delaware Trustee (only to the extent the Delaware Trustee is expressly required herein) and the Administrative Trustee may conduct the business of the Trust, make and execute contracts and other instruments on behalf of the Trust and sue and be sued on behalf of the Trust. In addition, the Administrative Trustee may conduct

the business of the Trust in its own name, as trustee hereunder, to the extent deemed necessary or appropriate by such Administrative Trustee, in its sole discretion; provided, that such Administrative Trustee may rely conclusively upon an opinion of counsel as to whether any proposed action is necessary or appropriate. It is the intention that the Trust shall constitute a statutory trust under the Delaware Statutory Trust Act (being Chapter 38 of Title 12 of the Delaware Code, 12 Del. C., § 3801 et seq., as the same may be amended from time to time and any successor statute) (the “Statutory Trust Act”), that the Note Indenture shall be deemed a part of this Declaration and that this Declaration (together with the Note Indenture) shall constitute the governing instrument of the Trust. To the extent that the provisions of this Declaration and the Note Indenture conflict with respect to the issuance of a series of Notes and the rights of the holders thereof, the Note Indenture shall control. The Delaware Trustee filed the Certificate of Trust, substantially in the form attached hereto as Exhibit A, pursuant to § 3810 et seq. of the Statutory Trust Act in connection with the creation of the Trust as a statutory trust under the Statutory Trust Act. The fiscal year of the Trust shall be the calendar year.

Section 2.2. Situs of the Trust. The Trust shall be located in Delaware and administered in Delaware, _____ or such other location as is acceptable to the Bond Issuers. The office of the Trust shall be in care of the Delaware Trustee at the corporate trust office (the “Office”) at _____ (although any notice, direction, consent or waiver given to the Delaware Trustee hereunder shall also be given in care of the address set forth in Section 7.3(a) hereof), which Office shall be located in Delaware, or at such other address in Delaware as the Delaware Trustee may designate by written notice to the Note Trustee, the Bond Issuers, the Bond Trustees, the Servicers, and the holders of the Certificates. The Trust shall not have any employees in any state other than Delaware; provided, however, that nothing herein shall restrict or prohibit the Delaware Trustee or the Note Trustee (each in its individual capacity but not as Delaware Trustee or Note Trustee, as applicable) from having employees within or outside of the State of Delaware.

Section 2.3. Purposes and Powers.

(a) The Trust is constituted solely for the purpose of acquiring and holding the Bonds or other storm recovery bonds as defined in the Statute (“Additional Bonds”) and issuing Notes, applying the proceeds of such Notes to purchase the Bonds or Additional Bonds from each Bond Issuer and entering into and performing its obligations under each of the Basic Documents or any similar documents related to a series of Notes secured Additional Bonds to which it may be a party (which functions the Administrative Trustee or the Delaware Trustee (only to the extent the Delaware Trustee is expressly required herein) shall perform or cause to be performed on behalf of the Trust), and, except as set forth herein, the Trust (and any Person acting on behalf of the Trust) is not authorized or empowered to acquire any other investments or engage in any other activities on behalf of the Trust and, in particular, neither Trustee is authorized or empowered to do anything that would cause the Trust to fail to qualify as a “grantor trust” for federal income tax purposes.

(b) The Trustees shall have all rights and powers set forth herein and, to the extent not inconsistent herewith, in the Statutory Trust Act with respect to accomplishing the purposes of the Trust.

Section 2.4. Trust Property.

(a) The Administrator assigned, transferred, conveyed and set over to the Delaware Trustee on behalf of the Trust the sum of \$1.00. The Delaware Trustee previously acknowledged receipt of such amount in trust from the Bond Issuers, which amount constituted the initial trust property.

(b) Upon issuance of Notes and purchase of the Bonds from each Bond Issuer, the holders of Notes shall become the sole and exclusive beneficial owners of the Trust estate established hereby. In accordance with Section 3805(e) of the Statutory Trust Act and subject to the terms and conditions of the Note Indenture, at the time that a holder of Notes becomes entitled to receive a distribution from the Trust, it has the status of, and is entitled to all remedies available to, a creditor of a statutory trust with respect to the distribution. The Delaware Trustee hereby declares that it shall hold the Bonds of each Bond Issuer, the security interest in the storm recovery property (as defined in the Statute) securing the Bonds of each Bond Issuer, and all other property constituting Trust Property (as defined in the Notes Indenture) in trust as herein provided for the benefit of the holders of Notes, subject to the rights of such holders under the Note Indenture, from and after such date until termination of the Trust as herein provided, or under any of Basic Documents.

(c) Legal title to the Trust Property shall be vested at all times in the Trust as a separate legal entity except where applicable law in any jurisdiction requires title to any part of the Trust Property to be vested in a trustee or trustees, in which case title shall be deemed to be vested in the Delaware Trustee, a co-trustee and/or a separate trustee, as the case may be.

Section 2.5. Issuance of Notes. The Trust shall execute and deliver the Notes in accordance with, and only upon satisfaction of the terms of, the Note Indenture. Each series of Notes shall be issued in accordance with the terms of the Note Indenture.

Section 2.6. Organizational Expenses. The Delaware Trustee shall be reimbursed, but solely from amounts payable by the Bond Issuers under a fee and indemnity agreement dated as of _____ among the Bond Issuers, the Note Trustee, the Delaware Trustee, and the Trust (the "Fee and Indemnity Agreement"), for organizational expenses of the Trust as they may arise. No Trustee shall have recourse against the Bonds or the payments thereon and proceeds thereof, for the reimbursement of such expenses.

Section 2.7. Independent Status. The Trust and each of the Bond Issuers each covenant and agree to hold itself out to the public under its own name as a separate and distinct entity and will each conduct its business so as not to mislead others as to its identity. The Trust (and the Administrative Trustee on behalf of the Trust) shall cause those financial statements and other records required by law, or otherwise required, to be prepared and maintained separate and apart from those of the Bond Issuers.

Section 2.8. Tax Treatment; Construction.

(a) It is the intention that the Trust shall be treated as a “grantor trust” for federal income tax purposes and all transactions contemplated by this Declaration will be reported consistently with such treatment.

(b) The provisions of this Declaration shall be construed, and the affairs of the Trust shall be conducted, so as to achieve treatment of the Trust as a “grantor trust” for federal income tax purposes. Accordingly, notwithstanding any other provision hereof to the contrary, this Declaration, along with the Note Indenture, shall be construed to establish one or more series of Notes. The assets of the Trust shall consist of the Bonds of each Bond Issuer, any Additional Bonds and other property described in this Declaration (including by reference to the Note Indenture), and the Trustees shall have no power hereunder to vary the investment of the holders of any such Tranche of Certificates.

ARTICLE III
DELIVERY OF CERTAIN DOCUMENTS

Section 3.1. Documents Relating to Issuance of Notes. The Delaware Trustee is hereby directed to execute and deliver on behalf of the Trust from time to time and as instructed in writing by the Bond Issuers, all Basic Documents to which the Trust may be a party, including the Note Indenture, the Notes (including any Notes issued upon transfer or exchange or as replacement Notes in accordance with the Notes Indenture), the Bond Purchase Agreements, the Fee and Indemnity Agreement and the Underwriting Agreement, and any amendment or supplement to any of the foregoing, and each Administrative Trustee is hereby directed to execute and deliver on behalf of the Trust from time to time and as instructed in writing by the Bond Issuers all other documents and instruments as may be necessary or desirable to issue the Notes pursuant to the provisions of the Note Indenture and to purchase the Bonds pursuant to the Bond Purchase Agreements, and any amendment or supplement to any of the foregoing; provided that in the case of the execution and delivery of any amendment or supplement to a document or instrument by the Delaware Trustee and the Administrative Trustee, such Trustee shall be obligated only to execute and deliver any such amendment or supplement in such form as the Bond Issuers shall approve, as evidenced conclusively by the presentation of such amendment or supplement by the Bond Issuers to the applicable Trustee or Trustees for execution and delivery thereof on behalf of the Trust.

Section 3.2. Residual Matters. To the extent the Trust is required to take any actions that are incidental to, contemplated by or in furtherance of its purpose set forth in Section 2.3 hereof, which actions are not otherwise contemplated or addressed by this Declaration, or the Bond Issuers otherwise deem such actions to be necessary or advisable and in the best interests of the Note holders, each Administrative Trustee is hereby authorized to cause the Trust to take such actions.

ARTICLE IV THE TRUSTEES

Section 4.1. Appointment. For valuable consideration received, it is mutually covenanted and agreed that (a) the Delaware Trustee has been, and by this document is, appointed to serve as the trustee of the Trust in the State of Delaware pursuant to Section 3807 of the Statutory Trust Act and (b) the Administrative Trustee is hereby appointed to serve as a trustee of the Trust.

Section 4.2. Duties and Responsibilities. It is understood and agreed that, the duties and responsibilities of: (a) the Delaware Trustee shall be limited to (i) executing and delivering on behalf of the Trust the Basic Documents to which the Trust or the Delaware Trustee may be a party, and any amendments or supplements to the foregoing, (ii) accepting legal process served on the Trust in the State of Delaware, (iii) the execution and delivery of all certifications required to be filed with the Secretary of State of the State of Delaware in order to form, maintain and terminate the existence of the Trust under the Statutory Trust Act as instructed by the Bond Issuers, and (iv) the taking of only such other actions as are specifically assigned to it by this Declaration; and (b) the Administrative Trustee shall be limited to (i) executing and delivering on behalf of the Trust all other documents and instruments not specifically required to be executed and delivered by the Delaware Trustee as may be necessary or desirable to issue the Notes pursuant to the provisions of the Note Indenture and to purchase the Bonds pursuant to the Bond Purchase Agreements, and any amendments or supplements to the foregoing and (ii) the taking of only such other actions as are specifically assigned to it by this Declaration, including the matters contemplated by Section 3.2 hereof. No implied covenants or obligations shall be read into this Declaration against any Trustee. No Trustee nor any of its respective officers, directors, employees, agents or affiliates shall have any implied duties (including law fiduciary duties) or liabilities otherwise existing at law or in equity with respect to the Trust, which implied duties and liabilities are hereby eliminated. The permissive right of the Trustees to take any action hereunder or under any other Basic Document shall not be construed as a duty.

Section 4.3. Prohibited Actions. Except as otherwise expressed herein and as permitted under the Basic Documents, the Trustees shall not (i) take any action with respect to any election by the Trust to file an amendment to this Declaration, (ii) amend, change, modify or terminate any Basic Document, or (iii) sell the Bonds of any Bond Issuer, any other Trust Property or any interest therein.

Section 4.4. Acceptance of the Trusts. By the execution hereof, the Trustees accept the trusts created hereinabove.

Section 4.5. Limitation of Liability. Except as otherwise expressly required by this Declaration and except for its own willful misconduct or negligence in the performance of its specified duties under this Declaration, no Trustee shall have any duty or liability with respect to the administration of the Trust, the investment of the Trust's property or the payment of dividends or other distributions of income or principal to the holders of the Notes. No Trustee shall be liable for the acts or omissions of the Note Trustee nor shall any Trustee be liable for supervising or monitoring the performance of the duties and obligations of the Trust, the Note

Trustee, any other Trustee, the Servicers, any document custodian or any other Person hereunder or under any Basic Document or otherwise. No Trustee shall be personally liable under any circumstances, except for its own willful misconduct or negligence. In particular, but not by way of limitation:

(a) the Delaware Trustee shall not be personally liable for any error of judgment made in good faith by any officer within the corporate trust department of the Delaware Trustee who has been assigned to perform or provide trustee functions or services on behalf of the Trust nor shall the Administrative Trustee be personally liable for any error of judgment made in good faith by any of its officers, employees or agents who have been assigned to perform or provide trustee functions or services on behalf of the Trust;

(b) no provision of this Declaration shall require any Trustee to expend or risk its personal funds or otherwise incur any financial liability in the performance of its rights or powers hereunder, if such Trustee shall have reasonable grounds for believing that repayment of such funds or indemnity satisfactory to it against such risk or liability is not reasonably assured or provided to it;

(c) it is expressly understood and agreed by the parties hereto that (i) each of the representations, undertakings and agreements herein made on the part of the Trust is made and intended not as personal representations, undertakings and agreements by the Trustees but is made and intended for the purpose of binding only the Trust, (ii) nothing herein contained shall be construed as creating any liability of the Trustees, individually or personally, to perform any covenant of the Trust either expressed or implied contained herein, all such liability, if any, deemed waived by the parties who are signatories to this Declaration and by any person or entity (each, a "Person") claiming by, through or under such parties and (iii) under no circumstances shall the Trustees be personally liable for the payment of any indebtedness or expenses of the Trust (other than expenses subject to reimbursement as contemplated by Section 2.6 above), or be liable for the breach or failure of any obligation, representation, warranty or covenant made or undertaken by or on behalf of the Trust under this Declaration;

(d) the Trustees shall not be personally responsible for the validity or sufficiency of this Declaration or the Notes or for the due execution hereof by the Bond Issuers or for the form, character, genuineness, sufficiency, value or validity of any of the Trust Property;

(e) in the exercise or administration of the trusts hereunder, each Trustee (i) may act directly or through agents (including affiliates), attorneys, custodians or nominees pursuant to agreements entered into with any of them, and such Trustee shall not be liable for the default or misconduct or supervision of such agents, attorneys, custodians or nominees if such agents, attorneys, custodians or nominees shall have been selected by such Trustee in good faith and (ii) may, at the expense of the Bond Issuers, consult with attorneys, accountants and other skilled Persons to be selected in good faith and employed by it, and it shall not be liable for anything done, suffered or omitted in good faith by it in accordance with the advice or opinion of any such attorneys, accountants or other skilled Persons;

(f) except as expressly provided in this Section 4.5, in accepting and performing the trusts hereby created, each Trustee acts solely as trustee for the Trust and not in its individual capacity, and all Persons having any claim against any Trustee by reason of the transactions contemplated by this Declaration shall look only to the Trust's property for payment or satisfaction thereof;

(g) the Delaware Trustee's sole duty with respect to the custody, safekeeping and physical preservation of the Trust Property shall be to deal with such property in a manner similar to the manner in which the Delaware Trustee deals with similar property for its own account, subject to the protections and limitations on liability afforded to the Delaware Trustee under this Declaration;

(h) the Delaware Trustee has not prepared or verified, and shall not be responsible or liable for, any information, disclosure or other statement in any disclosure or offering document or in any other document issued or delivered in connection with the sale or transfer of the Notes or the Bonds;

(i) the Trustees shall have no duty or liability for or with respect to the value, genuineness, existence or sufficiency of the Trust Property or the payment of any taxes or assessments levied thereon or in connection therewith;

(j) the Delaware Trustee shall not be liable for any interest on any moneys received by it on behalf of the Trust, except as the Delaware Trustee may otherwise agree with the Bond Issuers in writing;

(k) moneys held by the Delaware Trustee on behalf of the Trust need not be segregated from other moneys except as the Delaware Trustee may otherwise agree with the Bond Issuers or as otherwise required by law;

(l) no Trustee shall be under any obligation to exercise any of the rights or powers vested in it by this Declaration, or to institute, conduct or defend any litigation under this Declaration or otherwise in relation to the Trust, this Declaration or any Basic Document, at the request or direction of any of the Bond Issuers, the Note holders, the Settlers, any other Trustee or any other Person, unless such Persons have offered to such Trustee and, in the case of the Delaware Trustee, **[name of trustee]**, security or indemnity satisfactory to it against the costs, expenses (including reasonable legal fees and expenses) and liabilities that might be incurred by such Trustee or **[name of trustee]**, as the case may be, in compliance with such request or direction. The right of any Trustee to perform any discretionary act enumerated in this Declaration or in any Basic Document shall not be construed as a duty, and such Trustee shall not be answerable or personally liable to any Person for any such act other than liability to the Trust and the beneficial owners for its own negligence or willful misconduct in the performance in any such act;

(m) no Trustee shall be bound to make any investigation into the facts or matters stated in any resolution, certificate, statement, instrument, opinion, report, notice, request, consent, entitlement order, approval or other paper or document;

(n) (i) the Delaware Trustee shall not be deemed to have knowledge of any fact or event unless an officer in the corporate trust office of the Delaware Trustee having direct responsibility for administration of the Declaration (a “Responsible Officer”) has actual knowledge thereof or unless written notice of such fact or event is received by a Responsible Officer and such notice references the fact or event and (ii) no Administrative Trustee shall be deemed to have knowledge of any fact or event unless an officer having direct responsibility for administration of the Declaration has actual knowledge thereof or unless written notice of such fact or event is received by such an officer and such notice references the fact or event;

(o) each of the parties hereto hereby agrees and, as evidenced by its acceptance of any benefits hereunder, any Note holder agrees that neither Trustee, in any capacity (x) has provided or will provide in the future, any advice, counsel or opinion regarding the tax, financial, investment, securities law or insurance implications and consequences of the formation, funding and ongoing administration of the Trust, and (y) has made any investigation as to the accuracy of any representations, warranties or other obligations of the Trust under the Basic Documents; and

(p) each Trustee shall have the right at any time to seek instructions concerning the administration of the Trust, or from any court of competent jurisdiction. Each Trustee shall take such action or refrain from taking such action under this Declaration as it may be directed in writing by the Bond Issuers or, in the case of the Delaware Trustee, any Administrative Trustee (in each case, an “Instructing Party”) from time to time; provided, however, that such Trustee shall not be required to take or refrain from taking any such action if it shall have determined, or shall have been advised by counsel, that such performance is likely to involve such Trustee in personal liability or is contrary to the terms of this Declaration or of any document contemplated hereby to which the Trust is a party or is otherwise contrary to law. If at any time such Trustee determines that it requires or desires guidance regarding the application of any provision of this Declaration or any other document, then such Trustee may deliver a notice to an Instructing Party requesting written instructions as to the course of action desired by such Instructing Party and such instructions shall constitute full and complete authorization and protection for actions taken by such Trustee in reliance thereon. If such Trustee does not receive such instructions within five (5) Business Days after it has delivered to such Instructing Party such notice requesting instructions, or such shorter period of time as may be set forth in such notice, it shall refrain from taking any action with respect to the matters described in such notice. Each instruction delivered by an Instructing Party to such Trustee shall certify to such Trustee that any actions to be taken pursuant to such instruction comply with the terms of this Declaration and such Trustee may rely on such certification and instruction without inquiry except to the extent it has actual knowledge to the contrary.

Section 4.6. Compensation and Reimbursement; Indemnification.

(a) Pursuant to the Fee and Indemnity Agreement, each Bond Issuer has agreed to pay, or cause to be paid, to the Delaware Trustee from time to time compensation for its services and to reimburse it for its reasonable expenses hereunder. The Delaware Trustee shall have no recourse against the Bonds of any Bond Issuer, the payments received thereon or the proceeds therefrom, for the payment of such compensation or for the reimbursement of such expenses.

(b) Pursuant to the Fee and Indemnity Agreement, each Bond Issuer has agreed to indemnify, defend and hold harmless the Delaware Trustee and any of the affiliates, officers, directors, employees and agents of the Delaware Trustee (the “Delaware Trustee Indemnified Persons”) from and against any and all losses, claims, actions, suits, taxes, damages, costs, expenses (including the reasonable fees and expenses of its counsel) and liabilities (including liabilities under state or federal securities laws) of any kind and nature whatsoever (collectively, “Delaware Trustee Expenses”), to the extent that such Delaware Trustee Expenses arise out of or are imposed upon or asserted against such Delaware Trustee Indemnified Persons with respect to the creation, operation or termination of the Trust, the execution, delivery or performance of this Declaration or the transactions contemplated hereby; provided, however, that no Bond Issuer is, nor shall it be, required to indemnify any Delaware Trustee Indemnified Person for any Delaware Trustee Expenses that result from the willful misconduct or negligence of such Delaware Trustee Indemnified Person. Pursuant to the Fee and Indemnity Agreement, the obligations of the Bond Issuers to indemnify the Delaware Trustee Indemnified Persons shall survive the termination of this Declaration and the resignation or removal of the Delaware Trustee. The Delaware Trustee is hereby authorized to execute the Fee and Indemnity Agreement on behalf of the Trust and to enforce the terms thereof on its own behalf and on behalf of the Trust.

(c) Notwithstanding anything to the contrary in this Declaration, the Delaware Trustee shall have no recourse against the Bonds of any Bond Issuer or the payments thereon and proceeds thereof, for payment of any amounts required to be paid to the Delaware Trustee under the Fee and Indemnity Agreement. Each Bond Issuer’s obligations to make payments of such amounts to any Trustee shall be subject to the priorities and Cap (as defined in the Bond Indenture) set forth in Section _____ of its Bond Indenture.

Section 4.7. Resignation. Any Trustee may resign upon 30 days’ prior written notice to the Certificate Trustee, the Bond Issuers, the other Trustees and the Trust; provided, however, that a successor Delaware Trustee or Administrative Trustee, as the case may be, satisfactory to the Bond Issuers shall have been appointed and agreed to serve. If a successor Delaware Trustee or Administrative Trustee, as the case may be, shall not have been appointed by the Bond Issuers within such 30-day period, the Delaware Trustee or the Administrative Trustee may apply to the Court of Chancery of the State of Delaware for the appointment of a successor Delaware Trustee or Administrative Trustee, as the case may be. Any successor Delaware Trustee must satisfy the requirement of Section 3807(a) of the Statutory Trust Act.

Section 4.8. Merger or Consolidation of Delaware Trustee. Any Person into which the Delaware Trustee may be merged or with which it may be consolidated, or any Person resulting from any merger or consolidation to which the Delaware Trustee shall be a party, or any Person which succeeds to all or substantially all of the corporate trust business of the Delaware Trustee, shall be the successor Delaware Trustee under this Agreement without the execution, delivery or filing of any paper or instrument or further act to be done on the part of the parties hereto (except for the filing at the expense of the Trust of an amendment to the Trust’s certificate of trust if required by law), notwithstanding anything to the contrary herein; provided, however, that such successor Delaware Trustee shall satisfy the requirement of Section 3807(a) of the Statutory Trust Act.

Section 4.9. Appointment of Co-Trustee or Separate Trustee.

(a) Whenever (i) it shall be deemed necessary or prudent in order either to conform to any law of any jurisdiction in which all or any part of the Trust Property shall be situated or to make any claim or bring any suit with respect to the Trust Estate or (ii) the Delaware Trustee shall be advised by counsel that it is necessary or prudent, the Delaware Trustee shall execute and deliver an agreement supplemental hereto and any other required supplemental instruments and agreements, and shall take all other actions necessary or proper to appoint one or more Persons either as co-trustee or co-trustees jointly with the Delaware Trustee of all or any part of the Trust Property, or as separate trustee or separate trustees of all or any part of the Trust Estate, and to vest in such Person or Persons, in such capacity, such title to the Trust Estate or any part thereof and such rights or duties as may be necessary or desirable, all for such period and under such terms and conditions as are satisfactory to the Delaware Trustee. No co-trustee or separate trustee shall be required to meet the terms of eligibility as a successor Delaware Trustee pursuant to Section 4.7. If any co-trustee or separate trustee shall die, become incapable of acting, resign or be removed, all of its estates, properties, rights, remedies and trusts shall vest in and be exercised by the Delaware Trustee, to the extent permitted by law, without the appointment of a new or successor trustee. All rights, powers, duties and obligations conferred or imposed upon the Delaware Trustee shall be conferred or imposed upon and exercised or performed by the Delaware Trustee and such separate trustee or co-trustee jointly (it being understood that such separate trustee or co-trustee is not authorized to act separately without the Delaware Trustee joining in such act), except to the extent that under any law of any jurisdiction in which any particular act or acts are to be performed the Delaware Trustee shall be incompetent or unqualified to perform such act or acts, in which event such rights, powers, duties and obligations (including the holding of title to the Trust Property or any portion thereof in any such jurisdiction) shall be exercised and performed singly by such separate trustee or co-trustee, but solely at the direction of the Delaware Trustee;

Section 4.10. Representations and Warranties of the Trustees. (a) The Delaware Trustee hereby represents and warrants to each other party hereto as follows:

(a) It is a _____ duly organized, validly existing and in good standing under the laws of the United States;

(b) It has full power, authority and legal right to execute, deliver and perform this Declaration, and has taken all necessary action to authorize the execution, delivery and performance by it of this Declaration;

(c) The execution, delivery and performance of this Declaration by the Delaware Trustee (A) do not violate any requirement of federal law or the law of the State of Delaware governing its banking and trust powers or any order, writ, judgment or decree of any court, arbitrator or governmental authority applicable to it or any of its assets, (B) do not violate any provision of its charter or bylaws, and (C) do not violate any provision of, or constitute, with or without notice or lapse of time, a default under, or result in the creation or imposition of any Lien on any properties included in the Trust pursuant to the provisions of any mortgage, indenture, contract, agreement or other undertaking to which it is a party, which violation, default or lien could reasonably be expected to have a materially adverse effect on its

performance or its ability to perform its duties as Delaware Trustee under this Declaration or on the transactions contemplated by this Declaration;

(d) The execution, delivery and performance of this Declaration by the Delaware Trustee shall not require the authorization, consent or approval of, the giving of notice to, the filing or registration with, or the taking of any other action in respect of, any governmental authority or agency regulating the banking and corporate trust activities of banks or trust companies in the jurisdiction in which the Trust was formed (except for the filing of the Certificate of Trust with the Secretary of State of the State of Delaware); and

(e) This Declaration has been duly executed and delivered by the Delaware Trustee and, assuming due authorization, execution and delivery hereof by the other parties hereto, constitutes the legal, valid and binding agreement of it, enforceable against it in accordance with the terms of this Declaration, except as enforceability may be limited by bankruptcy, insolvency, reorganization, and other similar laws affecting the enforcement of creditors' rights in general and by general principles of equity, regardless of whether such enforceability is considered in a proceeding in equity or at law.

(f) The Administrative Trustee hereby represents and warrants to each other party hereto as follows:

(i) It is a corporation duly organized, validly existing and in good standing under the laws of the State of _____;

(ii) It has full power, authority and legal right to execute, deliver and perform this Declaration, and has taken all necessary action to authorize the execution, delivery and performance by it of this Declaration;

(iii) The execution, delivery and performance of this Declaration by such Administrative Trustee (A) do not violate any requirement of federal law or the law of the State of _____ governing it or any order, writ, judgment or decree of any court, arbitrator or governmental authority applicable to it or any of its assets, (B) do not violate any provision of its charter or bylaws, and (C) do not violate any provision of, or constitute, with or without notice or lapse of time, a default under, or result in the creation or imposition of any Lien on any properties pursuant to the provisions of any mortgage, indenture, contract, agreement or other undertaking to which it is a party, which violation, default or lien could reasonably be expected to have a materially adverse effect on its performance or its ability to perform its duties as Administrative Trustee under this Declaration or on the transactions contemplated by this Declaration;

(iv) The execution, delivery and performance of this Declaration by such Administrative Trustee shall not require the authorization, consent or approval of, the giving of notice to, the filing or registration with, or the taking of any other action in respect of, any governmental authority or agency having jurisdiction over it or its properties, except such as have been given or obtained; and

(v) This Declaration has been duly executed and delivered by such Administrative Trustee and, assuming due authorization, execution and delivery hereof by

the other parties hereto, constitutes the legal, valid and binding agreement of it, enforceable against it in accordance with the terms of this Declaration, except as enforceability may be limited by bankruptcy, insolvency, reorganization, and other similar laws affecting the enforcement of creditors' rights in general and by general principles of equity, regardless of whether such enforceability is considered in a proceeding in equity or at law.

Section 4.11. Reliance; Advice of Counsel.

(a) No Trustee shall incur liability to anyone in acting upon any signature, instrument, notice, resolution, request, consent, order, certificate, report, opinion, bond or other document or paper reasonably believed by it to be genuine and reasonably believed by it to be signed by the proper party or parties or need investigate any fact or matter pertaining to or in any such document. Each Trustee may accept a certified copy of a resolution of the board of directors or other governing body of any corporate or limited liability company party as conclusive evidence that such resolution has been duly adopted by such body and that the same is in full force and effect unless and until such Trustee receives a certified copy of a resolution of such board of directors or other governing body revoking the same. As to any fact or matter the method of the determination of which is not specifically prescribed herein, each Trustee may for all purposes hereof rely on a certificate, signed by the president or any vice president or by the treasurer or other authorized persons of the relevant party, as to such fact or matter, and such certificate shall constitute full protection to it for any action taken or omitted to be taken by it in good faith in reliance thereon.

(b) In the exercise or administration of the Trust and in the performance of its duties and obligations under this Declaration and the Basic Documents, each Trustee: (i) may, at the expense of the Bond Issuers (to the extent provided in the Fee and Indemnity Agreement or the Servicing Agreements, as applicable) or any other party, act directly or through its agents, attorneys, custodians or nominees (including, if necessary, the granting of a power of attorney to any of its officers not otherwise authorized to execute and deliver any Basic Document, Note or other document related thereto and to take any action in connection therewith on behalf such Trustee) pursuant to agreements entered into with any of them, and such Trustee shall not be liable for the conduct or misconduct of such agents, attorneys, custodians or nominees if such agents, attorneys, custodians or nominees shall have been selected by such Trustee with reasonable care; and (ii) may, at the expense of the Bond Issuers (to the extent provided in the Fee and Indemnity Agreement or the Servicing Agreements, as applicable) or any other party, consult with counsel, accountants and other professionals to be selected with reasonable care by it. No Trustee shall be liable for anything done, suffered or omitted in good faith by it in accordance with the opinion or advice of any such counsel, accountant or other such Persons reasonably relied on and which, according to such opinion or advice, is not contrary to this Declaration or any other Basic Document.

ARTICLE V
REPRESENTATION AND WARRANTIES OF THE BOND ISSUERS

Section 5.1. Representations and Warranties of Bond Issuers. Each Bond Issuer as a settlor of the Trust severally represents and warrants, as of the date hereof and as of the issuance date of any Notes, as follows:

(a) Such Bond Issuer has full power, authority and legal right, and has taken all action necessary, to execute and deliver and perform this Declaration;

(b) The execution, delivery and performance by such Bond Issuer of this Declaration do not and will not violate any law or regulation applicable to it or violate any provision of, or constitute, with or without notice or lapse of time, a default under, or result in the creation or imposition of any lien on any properties included in the Trust Property pursuant to, any mortgage, indenture, contract, agreement or other undertaking to which such Bond Issuer is a party;

(c) This Declaration has been duly executed and delivered by such Bond Issuer and constitutes its legal, valid and binding obligation, enforceable in accordance with its terms, except as enforceability may be limited by bankruptcy, insolvency, reorganization, and other similar laws affecting the enforcement of creditors' rights in general and by general principles of equity, regardless of whether such enforceability is considered in a proceeding in equity or at law;

(d) The Trust is not required to be registered as an investment company under the Investment Company Act of 1940, as amended; and

(e) The execution, delivery or performance of this Declaration shall not require consent, approval or authorization of any governmental authority or any agency other than those already obtained.

ARTICLE VI TERMINATION OF DECLARATION

Section 6.1. Termination of the Trust. The respective obligations and responsibilities of the Bond Issuers, the Trustees and the Trust shall terminate, and the Trust shall be dissolved and its affairs wound up, only upon the expiration of, one year and one day following the distribution to all holders of any Notes of all amounts required to be distributed to them pursuant to the Note Indenture and the disposition of all other property, if any, held as part of the Trust Property with respect to such Notes. Upon dissolution of the Trust, the Bond Issuers shall make reasonable provision for payment of all claims and obligations of the Trust in accordance with Section 3808 of the Statutory Trust Act and, in connection therewith, shall pay or provide for the payment of all remaining liabilities of the Trust, and the Trustees (with respect to the Trust), but, in the case of the Delaware Trustee, solely from amounts payable by the Bond Issuers under the Fee and Indemnity Agreement, and upon completion of the winding up of the Trust, at the written instruction of the Bond Issuers, the Delaware Trustee shall file a certificate of cancellation under the Statutory Trust Act and the Trust, shall terminate. Any fees or expenses associated with such filing payable to the Delaware Trustee shall be paid from amounts payable by the Bond Issuers under the Fee and Indemnity Agreement.

ARTICLE VII MISCELLANEOUS

Section 7.1. No Legal Title to Trust Property. As provided in Section 2.4(c) hereof, the Bond Issuers shall not have legal title to any part of the Trust Property.

Section 7.2. Limitations on Rights of Others. Except as otherwise provided herein, the provisions of this Declaration are solely for the benefit of the Bond Issuers, the Delaware Trustee, the Administrative Trustee, the Note Trustee and the holders of the Notes, and nothing in this Declaration, whether express or implied, shall be construed to give to any other Person any legal or equitable right, remedy or claim in the Trust Property or under or in respect of this Declaration or any covenants, conditions or provisions contained herein.

Section 7.3. Notices.

(a) Unless otherwise specifically provided herein, all notices, directions, consents and waivers required under the terms and provisions of this Declaration shall be in English and in writing, and any such notice, direction, consent or waiver may be given by United States mail, courier service, facsimile transmission or electronic mail (confirmed by telephone, United States mail or courier service in the case of notice by facsimile transmission or electronic mail) or any other customary means of communication, and any such notice, direction, consent or waiver shall be effective when delivered, or if mailed, three days after deposit in the United States mail with proper postage for ordinary mail prepaid,

if to the Trust, to:

with copies to the Bond Issuers at the addresses listed below.

if to the DEP Bond Issuer, to:

if to the DEC Bond Issuer, to:

if to the Administrative Trustee, to:

if to the Delaware Trustee, to:

(b) The Trust, the Bond Issuers, the Administrative Trustee or the Delaware Trustee, by notice to the others, may designate additional or different addresses for subsequent notices or communications.

(c) If a notice or communication is mailed in the manner provided above within the time prescribed, it is conclusively presumed to have been duly given, whether or not the addressee receives it.

Section 7.4. Severability. If any one or more of the covenants, agreements, provisions or terms of this Declaration shall be for any reason whatsoever held invalid, then such covenants, agreements, provisions or terms shall be deemed severable from the remaining covenants, agreements, provisions or terms of this Declaration and shall in no way affect the validity or enforceability of the other provisions of this Declaration.

Section 7.5. Amendments Without Consent of Holders. Notwithstanding any provision of this Declaration other than Section 7.7(e) hereof, including Section 7.6 hereof, this Declaration may be amended by the Delaware Trustee, the Administrative Trustee and the Bond Issuers without the consent of any of the holders of the Notes or any other Person (and with prior

notice to the rating agencies named in the Note Indenture) to (i) cure any ambiguity; (ii) correct or supplement any provision in this Declaration that may be defective or inconsistent with any other provision in this Declaration; (iii) add to the covenants, restrictions or obligations of the Delaware Trustee or the Administrative Trustee for the benefit of the holders of the Notes; (iv) evidence and provide for the acceptance of the appointment of a successor trustee with respect to the Trust Property and add to or change any provisions as shall be necessary to facilitate the administration of the trusts hereunder by more than one trustee; or (v) add, change or eliminate any other provision of this Declaration in any manner that shall not, as evidenced by an opinion of counsel addressed to the Bond Issuers, the Delaware Trustee, the Administrative Trustee and the Note Trustee, adversely affect in any material respect the powers, preferences or special rights of the holders of the Notes; provided, however, that this Declaration shall not be amended in any manner which (i) would cause the Trust to be characterized as other than a "grantor trust" for federal income tax purposes or (ii) would affect the rights of the Bond Issuers hereunder or under the Basic Documents without the prior written consent of the Bond Issuers or receipt of an opinion of counsel addressed to the Bond Issuers, the Delaware Trustee, the Administrative Trustee and the Note Trustee to the effect that such amendment does not adversely affect, in any manner, the interests of the Bond Issuers under this Declaration or the Basic Documents. After the execution of any such amendment, the Delaware Trustee shall furnish a copy thereof to the rating agencies named in the Note Indenture.

Section 7.6. Amendments With Consent of Holders. Subject to Section 7.7(e) hereof, this Declaration may be amended from time to time by the Delaware Trustee, the Administrative Trustee and the Bond Issuers with the consent of the Note Trustee acting at the instruction of the holders of Notes whose Notes evidence not less than a majority of the outstanding principal amount of each affected series of Notes as of the close of business on the preceding Note payment date) (which consent, whether given pursuant to this Section 7.6 or pursuant to any other provision of this Declaration or the Note Indenture, shall be conclusive and binding on each Note holder and on all future holders of such Note and of any Notes issued upon the transfer therefor or in exchange thereof or in lieu thereof whether or not notation of such consent is made upon the Notes) (and with prior notice to the rating agencies named in the Note Indenture) for the purpose of adding any provisions to or changing in any manner or eliminating any of the provisions of this Declaration, or of modifying in any manner the rights of the holders of the Notes; provided, however, that no such amendment shall (a) increase or reduce in any manner the amount of, or accelerate or delay the timing of, payments that shall be required to be made on any Note without the consent of the holder thereof; (b) adversely affect the rating of any Note without the consent of each holder of an affected Note; or (c) reduce the foregoing majority requirement for consent to any such amendment, without the consent of each holder of Notes then outstanding. Prior to the execution of any such amendment, supplement or consent, the Administrative Trustee shall furnish written notification of the substance of such amendment, supplement or consent to the rating agencies named in the Note Indenture. After the execution of any such amendment, supplement or consent, the Delaware Trustee shall furnish a copy thereof to the rating agencies named in the Note Indenture.

Section 7.7. Form of Amendments.

(a) Promptly after the execution of any amendment, supplement or consent pursuant to Sections 7.5 and 7.6, the Delaware Trustee shall furnish written notification of the substance of such amendment or consent to the Note Trustee and the Bond Issuers.

(b) The manner of obtaining such consents (and any other consents of holders of the Notes provided for in this Declaration or in any other Basic Document) and of evidencing the authorization of the execution thereof by holders of the Notes shall be subject to such reasonable requirements as the Administrative Trustee may prescribe to the extent not inconsistent with the provisions of the Basic Documents.

(c) Promptly after the execution of any amendment to the Certificate of Trust, the Delaware Trustee shall cause the filing of such amendment with the Secretary of State of the State of Delaware.

(d) Prior to the execution of any amendment to this Declaration, the Delaware Trustee, the Administrative Trustee and the Certificate Trustee shall receive an opinion of counsel to the effect that (i) the execution of such amendment is authorized or permitted by this Declaration, (ii) all conditions precedent to the execution of such amendments have been met and (iii) such execution will not adversely affect the treatment of the Trust as a “grantor trust” for federal income tax purposes.

(e) The Delaware Trustee may, but shall not be obligated to, enter into any such amendment that affects and only affects the Delaware Trustee’s own rights, duties or immunities under this Declaration or otherwise. No amendment of this Declaration that affects the rights, duties or immunities of the Note Trustee or the Administrative Trustee under this Declaration or otherwise shall be effective without the prior written consent of such Note Trustee or Administrative Trustee, as applicable.

Section 7.8. Counterparts. This Declaration may be executed by the parties hereto in separate counterparts, each of which when so executed and delivered shall be an original, but all such counterparts shall together constitute one and the same instrument.

Section 7.9. Successors. All covenants and agreements contained herein shall be binding upon, and inure to the benefit of the Bond Issuers, the Trust, the Delaware Trustee and the Administrative Trustee and their respective successors and permitted assigns, all as herein provided.

Section 7.10. No Petition Covenant. Notwithstanding any other provision of this Declaration or any Basic Document and notwithstanding any prior termination of this Declaration, the Trust (or the Delaware Trustee on behalf of the Trust) and the Bond Issuers shall not, prior to the date which is one year and one day after the termination of this Declaration, acquiesce, petition or otherwise invoke or cause the Trust to invoke the process of any governmental authority for the purpose of commencing or sustaining a case against the Trust under any federal or state bankruptcy, insolvency or similar law or appointing a receiver, liquidator, assignee, trustee, custodian, sequestrator or other similar official of the Trust or any

substantial part of its property, or ordering the winding up or liquidation of the affairs of the Trust.

Section 7.11. Headings. The headings of the various Articles and Sections herein are for convenience of reference only and shall not define or limit any of the terms or provisions hereof.

Section 7.12. Governing Law. THIS DECLARATION SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF DELAWARE, WITHOUT REFERENCE TO ITS CONFLICT OF LAW PROVISIONS, AND THE OBLIGATIONS, RIGHTS AND REMEDIES OF THE PARTIES HEREUNDER SHALL BE DETERMINED IN ACCORDANCE WITH SUCH LAWS.

[Signature page follows.]

IN WITNESS WHEREOF, the Delaware Trustee, the Administrative Trustee and the Bond Issuers have caused this Declaration to be duly executed by duly authorized officers, all as of the day and year first above written.

Duke Energy Carolinas, LLC, as a Settlor

By: _____
Name: _____
Title: _____

Duke Energy Progress, LLC, as a Settlor

By: _____
Name: _____
Title: _____

Duke Energy Corporation
as Administrative Trustee

By: _____
Name: _____
Title: _____

_____, as Delaware Trustee

By: _____
Name: _____
Title: _____

EXHIBIT A
FORM OF CERTIFICATE OF TRUST
OF
SPECIAL PURPOSE TRUST 2021

THIS Certificate of Trust of _____ (the "Trust") is being duly executed and filed by the undersigned, not in its individual capacity but solely as trustee, to form a statutory trust under the Delaware Statutory Trust Act (12 Del. C. § 3801 et seq.) (the "Act").

1. Name. The name of the statutory trust is _____.
2. Delaware Trustee. The name and address of a trustee of the Trust having its principal place of business in the State of Delaware are _____.
3. Effective Date. This Certificate of Trust shall be effective upon its filing with the Secretary of State of the State of Delaware.

[Signature Page Follows]

IN WITNESS WHEREOF, the undersigned, being the sole trustee of the Trust, has duly executed this Certificate of Trust in accordance with Section 3811 of the Act.

_____,
not in its individual capacity, but solely
as Delaware Trustee of the Trust

By:
Name:
Title:

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

DOCKET NO. E-7, SUB 1243

DOCKET NO. E-2, SUB 1262

In the Matter of:

Joint Petition of Duke Energy Carolinas, LLC
and Duke Energy Progress, LLC for
Issuance of Storm Recovery Financing
Orders

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**DIRECT TESTIMONY OF
CHARLES N. ATKINS II
FOR DUKE ENERGY
CAROLINAS, LLC AND DUKE
ENERGY PROGRESS, LLC**

**INDEX TO THE DIRECT TESTIMONY OF
CHARLES N. ATKINS II**

**FOR
DUKE ENERGY CAROLINAS, LLC AND DUKE ENERGY PROGRESS,
LLC**

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Atkins Exhibit 1	Professional Resume of Charles N. Atkins II
Atkins Exhibit 2	Internal Revenue Service Revenue Procedure 2005-62
Atkins Exhibit 3	A list of utility securitization transactions since 1997
Atkins Exhibit 4	Preliminary Transaction Structures

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I. INTRODUCTION

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Charles N. Atkins II. My business address is 170 East End Avenue,
New York, New York 10128.

Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?

A. I am Chief Executive Officer of Atkins Capital Strategies LLC, based in New
York City.

**Q. PLEASE BRIEFLY DESCRIBE YOUR EDUCATIONAL
BACKGROUND AND PROFESSIONAL EXPERIENCE.**

A. I am a graduate of Harvard Law School, with a Juris Doctor degree. I am also
a graduate of Howard University's College of Arts and Sciences with a
Bachelor of Arts degree in Political Science, with minor concentrations in
Economics, Mathematics and Sociology (Honors Program, Magna Cum Laude,
Phi Beta Kappa).

My relevant professional experience includes 23 years of structured
finance investment banking at Morgan Stanley, where I focused on corporate
structured finance and the securitization of consumer, operating and new assets.
I served as an independent consultant to utilities, financial sponsors and other
financial institutions as CEO of Atkins Capital Strategies LLC, from 2013 to
2017. I was a Senior Advisor at Guggenheim Securities, LLC from 2017
through August 2020. I have been heavily involved in utility securitizations
and played a lead banking role in the first utility stranded cost securitization,
which was the \$2.9 billion transaction for Pacific Gas and Electric in 1997. At

1 Morgan Stanley, and as an independent consultant, I served as an advisor to
2 utilities or as the senior Morgan Stanley banker where Morgan Stanley served
3 as a lead or joint lead underwriter for 25 utility securitization bond issues, plus
4 two utility ring-fencing reorganization transactions totaling more than \$18.8
5 billion. I provided testimony as an expert witness on behalf of utilities before
6 regulatory commissions in Arkansas, Louisiana, Maryland, and Texas.

7 Recently, during 2019-2020 as a Senior Advisor to Guggenheim
8 Securities, I advised Public Service Company of New Mexico (“PNM”), a
9 subsidiary of PNM Resources, in connection with its application before the
10 New Mexico Public Regulation Commission for a securitization financing
11 order. PNM requested a financing order to authorize the issuance of energy
12 transition bonds for the recovery of certain costs associated with the
13 abandonment of the PNM investment in the San Juan coal-fired generation
14 facility. I provided written testimony and interrogatory responses, as well as
15 oral testimony before the New Mexico Public Regulation Commission. The
16 requested financing order was approved on April 1, 2020. A copy of my
17 professional resume is attached as Atkins Exhibit 1.

18 **Q. DO YOU POSSESS ANY PROFESSIONAL LICENSES RELATED TO**
19 **THE SECURITIES INDUSTRY?**

20 A. Yes. I am Series 7 (General Securities Representative Qualification) qualified
21 by the Financial Industry Regulatory Authority, which allows an individual to
22 solicit, purchase, or sell all securities products, including asset-backed
23 securities. I am also Series 79 (Investment Banking Representative) qualified,

1 which allows an individual to advise on and facilitate debt and equity offerings
2 (public offerings or private placements), mergers and acquisitions, tender
3 offers, financial restructurings, asset sales, divestitures, corporate
4 reorganizations and business combination transactions.

5 **Q. ON WHOSE BEHALF ARE YOU TESTIFYING IN THIS**
6 **PROCEEDING?**

7 A. I am testifying on behalf of Duke Energy Carolinas, LLC (“DEC”) and Duke
8 Energy Progress, LLC (“DEP”) (collectively, the “Companies”).

9 **Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE NORTH**
10 **CAROLINA UTILITIES COMMISSION (“COMMISSION”)?**

11 A. No.

12 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

13 A. The purpose of my testimony is to:

- 14 1. Provide background information on the use of utility securitization in
15 other jurisdictions (“utility securitization” is a generic term used to refer
16 to securitizations for a number of different recovery purposes; some of the
17 names used include rate reduction bonds, stranded cost bonds, storm
18 recovery bonds, system restoration bonds, and restructuring bonds, among
19 other names); as well as discuss some of the basic elements of the
20 proposed storm recovery bonds;
21 2. Present a proposed preliminary storm recovery bond issuance structure
22 and discuss certain structuring considerations; and

1 3. Discuss several of the key commercial terms of proposed Storm recovery
2 bonds that DEC and DEP expect will be required for a successful
3 transaction, as well as key provisions of the proposed Financing Order.

4 **Q. ARE YOU SPONSORING ANY EXHIBITS WITH YOUR DIRECT**
5 **TESTIMONY?**

6 A. Yes. I am sponsoring the following exhibits described below and attached to
7 my testimony:

- 8 • Atkins Exhibit 1: Professional resume of Charles N. Atkins II
- 9 • Atkins Exhibit 2: Internal Revenue Service Revenue Procedure 2005-
10 62
- 11 • Atkins Exhibit 3: A list of utility securitization transactions since 1997
- 12 • Atkins Exhibit 4: Preliminary transaction structure cash flows

13 Each of these exhibits were prepared under my direction and control, and
14 to the best of my knowledge all factual matters contained therein are true and
15 accurate.

16 **Q. PLEASE SUMMARIZE YOUR TESTIMONY IN THIS PROCEEDING.**

17 A. Pursuant to N.C. Gen. Stat. § 62-172, an Act to Permit the Financing of Certain
18 Storm Recovery Costs (the “Securitization Statute”), DEC and DEP are
19 submitting a Joint Petition for Financing Orders (“Joint Petition”) for the
20 approval of separate Financing Orders authorizing the issuance of storm
21 recovery bonds to recover certain storm recovery costs and related upfront
22 financing costs, associated with the aftermath of Hurricanes Florence, Dorian
23 and Michael, and Winter Storm Diego (the “Storms”). Accordingly, my

1 testimony provides background about, and makes recommendations for, the
2 Financing Orders proposed by the Companies.

3 Specifically, my testimony describes how the securitizations are
4 proposed to be designed to provide quantifiable benefits to the customers of
5 DEC and DEP, and how the recommended structures and the market-clearing
6 pricing process are reasonably expected to result in the lowest storm recovery
7 charges consistent with market conditions at the time the storm recovery bonds
8 are priced and consistent with the terms of the Financing Orders.

9 **Q. PLEASE ELABORATE FURTHER ON THE GOAL OF UTILITY**
10 **SECURITIZATIONS AND HOW YOUR RECOMMENDATIONS HELP**
11 **TO ACHIEVE THIS GOAL.**

12 A. Before I discuss the securitization process in detail, I review here (1) the
13 principal goal of utility securitizations, (2) how these securitizations differ from
14 utility corporate debt and other structured debt, and (3) why the issuance by the
15 Commission of financing orders that are consistent with the letter and spirit of
16 the Securitization Statute is critical to achieve the goal of utility securitizations
17 – to deliver significant savings to customers.

18 **Significant customer savings.** As reflected in Atkins Exhibit 3,
19 securitization has been used by utilities 66 times since the mid-1990s to recover
20 authorized costs in a manner designed to produce significant customer savings.
21 With the appropriate statutory framework and a carefully crafted financing
22 order, securitizations benefit from a significantly lower cost of capital
23 compared to traditional investor-owned utility rate mechanisms. While

1 traditional rate mechanisms set customer rates based upon a regulatory-
2 approved weighted cost of capital, including an average corporate debt rate
3 along with an allowed return on 50 percent or more equity capital in the
4 calculation, utility securitization customer charges are based upon a capital cost
5 comprised of 99.5 percent AAA-rated debt and 0.5 percent equity. In some
6 cases, customer charges are further mitigated through extending the
7 securitization payment period longer than the recovery period under a
8 traditional ratemaking approach.

9 **Distinct from utility unsecured and first mortgage debt as well as**
10 **most structured debt.** Utility securitizations are quite different from
11 traditional utility debt offerings. Unsecured utility corporate debt offerings are
12 full recourse obligations of the utility. First mortgage debt offerings are also
13 full recourse to the utility with the added security of a first lien on tangible
14 utility property. In contrast, utility securitizations are non-recourse to the
15 corporate credit of the utility.

16 Most structured debt is also non-recourse to the sponsor of the
17 transaction, but holds tangible property, loan or revenue-producing contract
18 assets as collateral that is legally isolated from the sponsor's bankruptcy risk,
19 providing security for timely payment of the debt. Such structured debt also
20 typically has what is called "overcollateralization." Overcollateralization
21 means that an incremental amount of collateral is pledged to the debt to provide
22 extra security if the pledged assets do not perform as expected. Another feature
23 of overcollateralization consists of the pledged collateral generating an extra

1 amount of revenues so that there is excess coverage of debt service, called
2 “excess debt service coverage.” Some BBB-rated investment grade structured
3 debt transactions have debt service coverage of 1.25 to 1.75 times debt service
4 or more. Rating agency stress scenarios determine how much
5 overcollateralization and debt service coverage is required for a particular
6 rating. It is important to note, that higher ratings for specific structured debt
7 issues, such as AA or AAA, if attainable at all, typically require high quality
8 collateral, and overcollateralization and/or debt service coverage that is
9 significantly higher than the coverage levels mentioned above for BBB-rated
10 investment grade debt. By contrast, while utility securitizations have the
11 intangible securitization property rights as collateral legally isolated from the
12 utility like structured debt, the mandatory true-up mechanism, which adjusts
13 customer charges in amounts required to ensure debt service and ongoing
14 financing costs are paid as scheduled, along with other features work together
15 to produce this non-recourse security that is rated AAA, and at the same time
16 only has a debt service coverage targeted to be 1.0 times. This combination of
17 AAA equivalent ratings and the lack of any excess debt service coverage is
18 unique to this class of structured securities. This extremely low debt service
19 coverage further reduces the required amount of customer charges, enhancing
20 customer savings. However, the low debt service coverage also increases rating
21 agency and investor focus on the provisions of the financing orders, because
22 investors do not have the security of any material overcollateralization or excess
23 debt service coverage.

1 **The Commission's Financing Orders are critical.** For an investor-
2 owned utility to recover authorized costs in a manner to result in significant
3 customer savings through securitization, the proper statutory framework is
4 required, coupled with a Commission-issued financing order that is consistent
5 with the letter and the spirit of the authorizing statute. The North Carolina
6 Securitization Statute has the proper framework authorizing these storm
7 recovery securitizations and outlines the necessary statutory requirements for
8 securitization financing orders. DEC and DEP, through the Joint Petition and
9 accompanying testimony, propose Financing Orders that meet the requirements
10 for the storm recovery bonds to achieve AAA ratings and broad acceptance by
11 investors.

12 My testimony provides an overview of the utility securitization process,
13 the proposed transaction structures, as well as several required Financing Order
14 elements. But at a high level, it is the Financing Orders that leads to the creation
15 of the intangible property that serves as collateral for the securitizations. The
16 Financing Orders must be crafted in a manner to enable the storm recovery
17 bonds to achieve AAA equivalent ratings, even though the transactions will be
18 structured with essentially only 1.0 times debt service coverage. Moreover, for
19 investors to accept these bonds with virtually no excess debt service coverage
20 or overcollateralization, the rating agencies and investors need to be persuaded
21 that over the life of the transactions, there is little risk of political and regulatory
22 interference from the legislature and/or a subsequent Commission that may
23 delay payments on the bonds. The way the Financing Orders are crafted can

1 serve as important evidence that such risk is sufficiently minimized in these
2 transactions, particularly since these will be the first securitization Financing
3 Orders issued by the North Carolina Utilities Commission. The structure
4 recommended in the Companies' Joint Petition, corresponding testimony and
5 exhibits is designed to result in financing orders that satisfy these important
6 requirements.

7 **II. SECURITIZATION BACKGROUND**

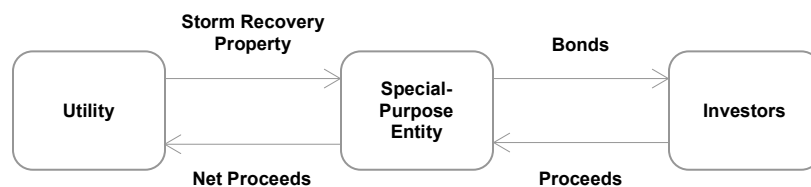
8 **Q. PLEASE PROVIDE A BASIC DESCRIPTION OF SECURITIZATION.**

9 A. In general, securitization is the process in which an owner of a cash flow-
10 generating asset sells the asset for an upfront payment, done in a manner that
11 legally isolates (or de-links) the cash flow-generating asset from the credit
12 profile of the owner/seller. The sale process is intended to protect investors
13 from any changes in credit circumstances, or even the bankruptcy, of the entity
14 that sold the asset. Therefore, the "credit" of a securitization is the ability of
15 the legally isolated asset to produce a set of payments (or cash flows) for
16 investors, who purchased a securitized interest in the asset. Fixed income debt
17 securities collateralized by the legally isolated asset are issued to investors, and
18 those investors rely solely on the legally isolated asset and associated cash flows
19 to pay interest and principal on the issued debt securities. The debt securities
20 are non-recourse to the selling entity.

21 In the context of utility securitization, the underlying cash flow-
22 generating asset is an intangible property right authorized by state legislation
23 and created pursuant to a financing order. This property right includes the right

1 to impose upon the utility's current and future customers the charges required
2 to pay the interest, principal and other ongoing financing costs associated with
3 the debt securities issued in the securitization on a timely basis, as scheduled.
4 This property right is also referred to as the collateral for the transaction. The
5 utility sells the property right to a newly established, special-purpose entity
6 ("SPE") which, as its name implies, functionally does nothing other than
7 purchase the collateral and issue bonds to investors to fund that purchase. The
8 conveyance of the property right from the utility to the SPE is also referred to
9 as a "true sale," as it legally isolates the collateral from the seller of that
10 collateral. A true sale of the collateral supports the "bankruptcy-remoteness"
11 of the SPE and the securitization debt.

12 To have the funds needed to purchase the collateral, the SPE, directly or
13 indirectly issues debt securities to investors, collateralized by the property right
14 it purchases from the seller. In exchange for the issued debt, investors pay an
15 upfront purchase price, which is passed through to the SPE back to the utility.
16 Figure A, below, is a simplified indicative schematic of the transaction closing
17 mechanics described above:



19 In addition to the essential structure described above, the securitization
20 process also includes another key component: ongoing collections of the cash
21 generated by the collateral. Here, the utility and a trustee ("Trustee," typically

1 a commercial bank experienced with securitization trust services) play
2 important roles. The utility will continue to perform its routine billing and
3 collecting functions. In the context of securitization, this function is referred to
4 as servicing, and the utility takes on the role as the servicer. Therefore, in the
5 proposed transaction, DEC and DEP will each act as a servicer for its SPE. In
6 addition to its routine billing and collecting functions, as servicer, the utility
7 will also perform certain reporting duties with respect to the amount of money
8 collected. The servicer will perform these functions for the SPE pursuant to a
9 contractual arrangement known as the servicing agreement.

10 The Trustee also plays an important role in the safekeeping of the
11 ongoing collections and distributing them to investors. After receiving its
12 collections, the servicer remits the monies to the SPE trust account held at the
13 Trustee, which maintains those monies until it periodically remits them to
14 investors according to a pre-determined set of payment priorities (the
15 “waterfall”) and schedule (typically semi-annually in utility securitizations).
16 The Trustee serves as a representative of the bondholding investors and ensures
17 that their rights are protected in accordance with the terms of the transaction.

18 **Q. WHAT IS THE VOLUME OF UTILITY SECURITIZATIONS THAT**
19 **HAVE BEEN TRANSACTED TO DATE, AND WHO ARE THE**
20 **TYPICAL INVESTORS?**

21 A. Utility securitizations are structured based upon well-established legal and
22 rating criteria and have been issued since 1997. These securitizations may have
23 specific requirements for tax purposes, please see Atkins Exhibit 2. According

1 to public records, including Securities and Exchange Commission (“SEC”)
2 registration filings, since 1997 to date, there have been 66 securitization
3 transactions by or on behalf of investor-owned utilities, totaling in excess of
4 \$50 billion. These transactions are well understood by many investors, and
5 types of investors that have participated in utility securitizations include banks,
6 institutional and retail trust funds, money managers, investment advisors,
7 pension funds, insurance companies, securities lenders and state trust funds. I
8 attach a list of utility securitization transactions as Atkins Exhibit 3.

9 **Q. HAVE OTHER COLLATERAL TYPES BEEN SECURITIZED IN A**
10 **SIMILAR MANNER?**

11 A. Yes, the market for securitized products or asset-backed securities (“ABS”) is
12 large. Examples of other collateral types include certain consumer-related cash
13 flows, such as credit card receivables, auto loans, auto leases, and student loans.
14 During 2019, an estimated \$297 billion of ABS was issued in the United States,
15 and as of the end of September 2020, the year-to-date issuance for the U.S. ABS
16 market was over \$172 billion (Source: Asset-Back Alert Database). The
17 investors who primarily purchase utility securitizations generally come from
18 both the ABS market and the corporate debt market.

19 **Q PLEASE DESCRIBE THE FORMATION OF THE SPE THAT WILL**
20 **ISSUE THE STORM RECOVERY BONDS.**

21 A. The DEC and DEP securitization transactions are generally expected to follow
22 a process similar to the process for utility securitizations described above. DEC
23 and DEP will form SPEs as Delaware LLCs, and each SPE is a wholly-owned

1 subsidiary of DEC and DEP, respectively. Each SPE's LLC Agreement will
2 contain provisions designed to ensure that such SPE will be a bankruptcy-
3 remote limited purpose entity. When I refer to "bankruptcy-remote," I mean
4 that the SPE is structured so that in the unlikely event of a DEC, DEP or Duke
5 Energy Corporation ("Duke Energy") bankruptcy, that SPE would not be
6 consolidated with other Duke Energy entities, would not be included in Duke
7 Energy's bankruptcy estate, and the payment of the securitization debt service
8 would not be "stayed" or stopped during the bankruptcy process. Importantly,
9 each SPE is structured to operate independently, requiring that fees paid to
10 third-parties providing services to the SPE, including DEC and DEP as
11 Servicers and Administrators, are set on an arms-length basis. These provisions
12 supporting the bankruptcy-remote nature of each SPE are critical to achieving
13 the desired "AAA" equivalent ratings for the storm recovery bonds. In addition,
14 each SPE will be able to issue more than one series of storm recovery bonds, in
15 the event subsequent financing orders are approved and issued, and the
16 Companies choose to do so. An illustrative draft form of each SPE LLC
17 Agreement has been included as exhibits to the testimony of the Companies'
18 witness Thomas J. Heath, Jr.

19 **Q. WHAT MAKES UP THE "STORM RECOVERY PROPERTY" THAT**
20 **THE COMPANY SELLS TO THE SPE?**

21 A. The storm recovery property that is created pursuant to the Financing Order and
22 sold to the SPE is the right to impose, bill, charge, collect and receive a certain
23 nonbypassable charge, the storm recovery charge, paid by all existing or future

1 retail customers receiving transmission or distribution service, or both, from
2 DEC or DEP, as applicable, or their respective successors or assignees under
3 Commission-approved rate schedules or under special contracts, even if a
4 customer elects to purchase electricity from an alternative supplier, applying
5 the applicable customer allocations, in amounts necessary to pay principal and
6 interest on the storm recovery bonds, as well as other amounts, timely and in
7 full. Included in this property right is the requirement, over the full life of the
8 transaction, to adjust the amount of the storm recovery charges owed by each
9 Company's retail electric customers, based principally upon variations in
10 energy demand, energy consumption and the number of each Company's
11 customers, to ensure that the amounts collected are sufficient to pay all amounts
12 owed with respect to the storm recovery bonds, on a timely basis as scheduled.
13 This process is referred to as the "true-up" adjustment mechanism.

14 **Q. PLEASE FURTHER DESCRIBE THE SALE OF THE STORM**
15 **RECOVERY PROPERTY BY THE COMPANIES TO THE SPES.**

16 A. Pursuant to the purchase and sale agreement, in consideration for the payment
17 by each SPE of the purchase price for the storm recovery property, the
18 Company will sell, assign, transfer and convey all rights, title and interest of the
19 Company in, to and under the storm recovery property to the SPE. An
20 illustrative draft of the storm recovery property purchase and sale agreement
21 (the "Purchase and Sale Agreement") between DEC and DEP and the SPEs is
22 attached to the testimony of witness Heath, as Heath Exhibit 2a. The Purchase
23 and Sale Agreement will provide that such sale, transfer, assignment and

1 conveyance is expressly stated to be an absolute transfer and true sale. Pursuant
2 to N.C. Gen. Stat. § 62-172(e)(3)a., if the purchase and sale agreement
3 expressly so states, any sale, assignment or other transfer of storm recovery
4 property shall be an absolute transfer and true sale of, and not a pledge of or
5 secured transaction relating to, the seller's right, title and interest in, to and
6 under the storm recovery property. As I mentioned previously, this "true sale"
7 treatment is an essential component of legally isolating the storm recovery
8 property collateral from the bankruptcy risk of DEC and DEP and achieving
9 "AAA" or equivalent ratings for the storm recovery bonds.

10 **Q. PLEASE DESCRIBE THE STORM RECOVERY PROPERTY AND**
11 **STORM RECOVERY CHARGES SUPPORTING THE STORM**
12 **RECOVERY BONDS.**

13 A. "Storm recovery property" is defined in N.C. Gen. Stat. § 62-172(a)(15) as (i)
14 all rights and interests of a public utility, such as DEC and DEP, or successor
15 or assignee of the public utility under a financing order (*i.e.* the SPE), including
16 the right to impose, bill, charge, collect and receive storm recovery charges
17 authorized under the Financing Orders and to obtain periodic adjustments to
18 such charges as provided in the Financing Orders and (ii) all revenues,
19 collections, claims, rights to payments, payments, money or proceeds arising
20 from the rights and interests specified in the Financing Orders, regardless of
21 whether such revenues, collections, claims, rights to payment, payments,
22 money or proceeds are imposed, billed, received, collected or maintained

1 together with or commingled with other revenues, collections, rights to
2 payment, payments, money, or proceeds.

3 As set forth in N.C. Gen. Stat. § 62-172(a)(13), the storm recovery
4 charges are nonbypassable charges (i) imposed on and part of all retail customer
5 bills, (ii) collected by a public utility or its successors or assignees, or a
6 collection agent, in full, separate and apart from the public utility's base rates,
7 and (iii) paid by all existing or future retail customers receiving transmission or
8 distribution service, or both, from the public utility or its successors or assignees
9 under Commission-approved rate schedules or under special contracts, even if
10 a customer elects to purchase electricity from an alternative electricity supplier
11 following a fundamental change in regulation of public utilities in North
12 Carolina.

13 The storm recovery charges will be designed to provide for amounts
14 sufficient to pay the principal of and interest on the storm recovery bonds as
15 scheduled and in full, as well as other on-going financing costs associated with
16 the storm recovery bonds. Included in the storm recovery property is the right
17 to the true-up adjustment mechanism ("True-Up Mechanism"), which is a
18 requirement to adjust the amount of the storm recovery charges owed by
19 customers to ensure that the amounts actually collected are sufficient to pay all
20 amounts owed with respect to the storm recovery bonds as scheduled and in
21 full, including on-going financing costs. The process for implementing the
22 True-Up Mechanism is described in the testimony of witness Shana W. Angers.

1 **Q. HOW ARE STORM RECOVERY BONDS DIFFERENT FROM**
2 **UTILITY UNSECURED CORPORATE BONDS?**

3 A. The proposed storm recovery bonds are different from utility unsecured bonds
4 because these proposed bonds are non-recourse to the Companies. Utility
5 unsecured and first mortgage bonds are fully recourse to the Companies. In
6 addition, the storm recovery bonds will be structured to amortize with
7 scheduled principal payments through specific points in time prior to the rated
8 legal maturity date of the storm recovery bonds. These points in time are
9 referred to as the expected or scheduled maturities for each of the multiple
10 tranches of bonds issued in the transaction, as further described below.
11 Amortizing, or sinking-fund, structures are distinct from traditional utility
12 corporate bonds, which generally have only a single “bullet” principal payment
13 at the bond maturity date. Another difference is that the storm recovery bonds
14 will be structured with a time gap between each tranche’s scheduled final
15 payment and the rated legal maturity of that tranche. This time gap, sometimes
16 called a “maturity cushion,” provides extra time to pay the outstanding principal
17 amount of the tranche in full in the event that unforeseen circumstances such as
18 significant declines from either the forecasted energy demand, forecasted
19 consumption, and/or the forecasted number of customers, cause a material
20 decrease in storm recovery charge collections.

1 **Q. ARE THERE “OTHER AMOUNTS” BEYOND DEBT SERVICE**
2 **REQUIRED TO BE COLLECTED IN CONNECTION WITH THE**
3 **STORM RECOVERY BONDS?**

4 A. There will be other amounts in addition to the bond principal and interest that
5 will be payable on an ongoing basis over the life of the transaction. These costs,
6 which are required on-going financing costs, include, but are not limited to,
7 servicing fees, trustee fees, rating agency surveillance fees, legal fees,
8 administrative fees, audit fees, other operating expenses and credit
9 enhancement expenses (if any). Generally, these amounts are SPE expenses
10 that are required to keep the transaction working as designed, without reliance
11 on DEC and DEP or any other source of funds. It is essential to the SPE’s status
12 as a bankruptcy-remote entity for the transaction structure to provide for the full
13 payment of on-going financing costs. These anticipated fees and expenses are
14 estimated in the testimony of witness Heath and included as Heath Exhibit 1.

15 **Q. IN YOUR EXPERIENCE, ARE THE COSTS ESTIMATED BY DEC**
16 **AND DEP WITHIN THE RANGE OF COSTS YOU HAVE**
17 **PREVIOUSLY SEEN FOR SIMILAR EXPENSES?**

18 A. Yes. I have provided input on and reviewed the preliminary expense estimates
19 provided by witness Heath, as well as the supporting examples provided from
20 previous transactions. While the Companies’ proposed securitization is not
21 expected to occur until 2021, and costs may change, these estimated costs are
22 within the ranges found in other utility securitization transactions.

1 **Q. IN ADDITION TO THE STORM RECOVERY PROPERTY, ARE**
2 **THERE ANY OTHER COMPONENTS OF THE COLLATERAL FOR**
3 **THIS TRANSACTION?**

4 A. Yes. The collateral for the transaction includes other components in addition
5 to the storm recovery property. However, that property right is the principal
6 asset pledged as collateral. Pursuant to the Indenture, the other collateral
7 includes a collection account, which is established by the SPE as a trust account
8 to be held by the Trustee to ensure the scheduled payment of principal, interest
9 and other costs associated with the storm recovery bonds are paid in full and on
10 a timely basis. The collection account, in turn, is comprised of the three
11 subaccounts:

- 12 • the general subaccount;
- 13 • the capital subaccount; and
- 14 • the excess funds subaccount.

15 The collateral also consists of the SPE's rights under certain agreements it
16 enters into as part of the transaction, including the purchase and sale agreement
17 and the servicing agreement.

18 **Q. PLEASE DESCRIBE THE SUBACCOUNTS OF THE COLLECTION**
19 **ACCOUNT REFERRED TO ABOVE.**

20 A. The general subaccount is the subaccount in which the Trustee deposits storm
21 recovery charge remittances it receives from the servicer. Monies in this
22 subaccount will be applied by the Trustee on a periodic basis to make payments
23 according to a prescribed order (or "waterfall"), which generally includes the

1 payment of SPE expenses required to maintain the operations of the transaction,
2 then interest on the storm recovery bonds, and then principal on the storm
3 recovery bonds. An illustrative draft of a form of the indenture between the
4 SPE as Bond Issuer and the Trustee, is included with the testimony of witness
5 Heath as Heath Exhibit 2c.

6 The capital subaccount represents the equity capital of the SPE and is
7 funded by an amount contributed by DEC and DEP at issuance that is at least
8 equal to 0.50 percent of the initial principal amount of each storm recovery bond
9 transaction. If that subaccount is drawn upon, it is replenished from storm
10 recovery charges through the true-up and any available excess storm recovery
11 charge collections. The Companies' proposed equity investment of 0.50
12 percent has been derived from guidance from the Internal Revenue Service
13 ("IRS") through its Revenue Procedure 2005-62 (Atkins Exhibit 2). The
14 testimony of witness Heath addresses the Companies' return on this capital
15 contribution at a rate equivalent to the interest rate on the longest-dated tranche
16 of bonds issued in each transaction. The fact that the Companies receive a
17 return on their respective capital contributions contributes to the "equity
18 investment" characterization of these funds. The IRS Revenue Procedure sets
19 forth the way an investor-owned utility may treat, for federal income tax
20 purposes, the issuance of a financing order by a state regulatory agency and the
21 securitization of the rights created by each financing order. Having an equity
22 investment in the SPE of at least 0.50 percent is within the safe harbor provided
23 in the IRS Revenue Procedure and helps to ensure that the Companies will not

1 recognize in their taxable income the cash proceeds received from the sale of
2 storm recovery property or the issuance of the storm recovery bonds. Rather,
3 the storm recovery bonds will be considered borrowings of the Companies for
4 federal income tax purposes. Again, IRS Revenue Procedure 2005-62 is
5 included in my testimony as Atkins Exhibit 2.

6 The excess funds subaccount is where any monies on deposit in the
7 general account that are not required to meet the scheduled interest and
8 principal obligations of the storm recovery bonds will be deposited. The initial
9 balance is zero, and the target ongoing balance is also zero. To the extent there
10 are funds on deposit in this subaccount, those amounts will be considered in the
11 next available true-up process and the subaccount value will again be generally
12 targeted to be zero. Stated differently, to the extent storm recovery charge
13 collections are higher than expected in any given true-up calculation period,
14 those amounts do not pay down the principal balance of the storm recovery
15 bonds beyond the scheduled principal payment for that period. Rather, the
16 amounts on deposit in the general subaccount above and beyond the scheduled
17 obligations will be moved to the excess funds subaccount. Those amounts will
18 then reduce the amount of storm recovery charge collections needed in the
19 subsequent true-up calculation period. This is how the debt service coverage is
20 targeted to remain at 1.0 times debt service and on-going financing costs, which
21 is quite unique compared to other types of structured debt.

1 **Q. PLEASE DESCRIBE THE TREATMENT OF ANY FUNDS**
2 **REMAINING IN THE VARIOUS SUBACCOUNTS AT THE FINAL**
3 **MATURITY OF EACH TRANSACTION.**

4 A. Funds remaining in the general subaccount and the excess funds subaccount
5 will be returned to the SPE upon final payment in full of the storm recovery
6 bonds and all other financing costs, and equivalent amounts will be credited to
7 customers' electricity bills as part of the next DEC and DEP rate proceedings.
8 Monies remaining in the DEC and DEP-funded capital subaccounts along with
9 the authorized return, will be returned to the Companies through the SPEs
10 without any equivalent credit to customers' electric bills, since the capital
11 subaccount was funded at issuance with the Companies' own funds.

12 **III. DESCRIPTION OF PROPOSED TRANSACTIONS**

13 ***A. Transaction Structures***

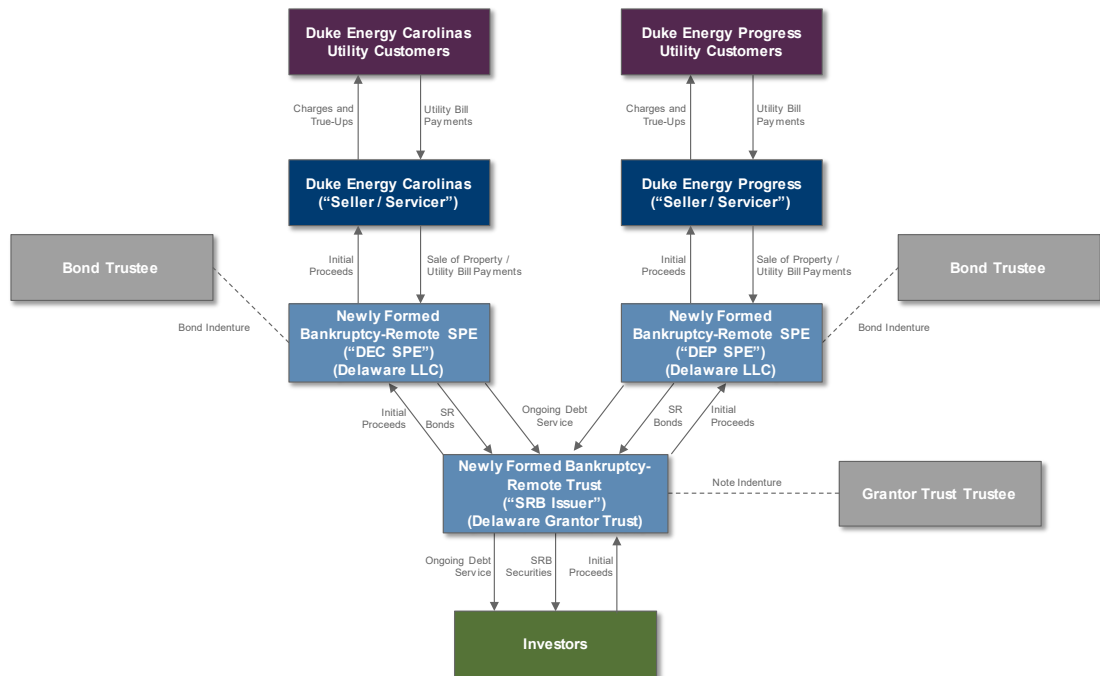
14 **Q. PLEASE DESCRIBE THE PRELIMINARY STRUCTURE OF THE**
15 **COMPANIES' PROPOSED STORM RECOVERY BONDS.**

16 A. The preliminary structure for the DEC and DEP transactions involves separate
17 SPEs, wholly-owned by their respective Company, that each issue storm
18 recovery bonds. The DEC and DEP bonds are to be issued to a third SPE, a
19 grantor trust that is wholly-owned by Duke Energy ("SRB Issuer"). SRB Issuer
20 issues to the market secured pass-through securities (the "SRB Securities") that
21 are backed by the separate storm recovery bonds issued by DEC and DEP. The
22 structure of the DEC and DEP storm recovery bonds, and the SRB Securities
23 are to be designed to be identical, with respect to tranching, payment dates,

1 scheduled and legal maturities. The true-up adjustment effective dates for the
2 DEC and DEP bonds are also to be the same dates. The debt service payments
3 from the DEC and DEP bonds are to be passed through to service the debt
4 service on the SRB Securities.

5 This proposed structure, utilizing an SRB Issuer is intended to have
6 several benefits for DEC and DEP customers. First, the storm recovery bond
7 tranches will have the same interest rates, since those interest rates will be set
8 by the interest rates on the SRB Securities. There will be a single marketing
9 process for the SRB Securities, and there will be one pricing. Thus, the risk of
10 the DEC and DEP Bonds being priced on different days with different interest
11 rates will be avoided. Moreover, the storm recovery charges paid by customers
12 of DEC and DEP will be based upon the same interest cost of debt, not different
13 costs of debt. Further, both DEC and DEP customers will benefit from interest
14 rates that are set by a single, larger and more liquid issuance. Larger issues
15 typically attract more interest from investors.

16 An illustrative diagram of the recommended single issuance structure
17 provided within the Joint Petition is also included below.



1

2 **Q. ARE THERE ANY OTHER REASONS FOR RECOMMENDING A**
 3 **SINGLE ISSUANCE OF SRB SECURITIES?**

4 Yes. If the DEC and DEP SPEs each issued bonds to the market in separate
 5 transactions, the DEC storm recovery bonds, due to minimum size
 6 requirements, would not qualify for inclusion in the Bloomberg Barclays
 7 Aggregate Bond Index (“Index”). Fixed income securities that are included in
 8 the Index are generally received favorably by investors, since the performance
 9 of fixed income portfolio managers is often assessed by taking the Index into
 10 account. In addition, securities that are included in the Index are considered to
 11 be more liquid and therefore more likely to price at a lower interest rate. A
 12 single larger issue of SRB Securities would meet the minimum issuance size
 13 requirements for the Index. This recommended structure would avoid any

1 potential cost of funds disadvantage that the smaller DEC issuance may have if
2 the DEC and DEP storm recovery bonds were issued to the market separately.

3 **Q. PLEASE PROVIDE MORE DETAILS REGARDING THE PROPOSED**
4 **STRUCTURE OF THE DEC AND DEP STORM RECOVERY BONDS.**

5 A. The preliminary structure for the estimated \$230.8 million DEC storm recovery
6 bond transaction and the estimated \$748.0 million DEP storm recovery bond
7 transaction proposed is presented in Atkins Exhibit 4. Atkins Table-1 below
8 shows on a preliminary, indicative basis, five tranches of bonds, which will
9 amortize in a sequential manner, along with the indicative credit spreads to
10 benchmarks and the associated interest coupons, scheduled final payments and
11 rated legal maturities.

12 I recommend that the initial debt service payment be scheduled for
13 approximately nine months after the closing of the transaction, with debt service
14 payments thereafter occurring on a semiannual basis. While storm recovery
15 charges are to become effective the day following the issuance of the storm
16 recovery bonds, the accrued charges will not be applied to customer bills until
17 the immediately-following billing cycle month. Thus, considering the standard
18 roll-out of customer bills over a 20 business day billing cycle, and given other
19 lags in collections, it will take some time for the full expected cash flow from
20 storm recovery charges to be realized. Therefore, the approximately nine-
21 month initial period allows more time for the full amount of expected storm
22 recovery charge revenues to become available and also provides for a
23 mandatory true-up adjustment prior to the first debt service payment, to mitigate

1 the transaction revenue impact of any unexpected changes in the DEC and DEP
2 customer base or revenues.

3 Please note that these terms are preliminary and estimated based on
4 current market conditions. The final terms and conditions of the storm recovery
5 bonds will not be known until they have been priced in the marketplace.
6 Investor demand at the time of pricing will determine market-clearing interest
7 rates and the final structure offered to investors. Therefore, this preliminary
8 structure and pricing information is illustrative and subject to change, and the
9 actual structure and pricing will differ, and may differ materially from this
10 preliminary structure.

11 As noted in the exhibit, the preliminary structure of the SRB Securities
12 and the underlying storm recovery bonds includes five tranches. Further details
13 are included in Atkins Exhibit 4. The structure shown is designed, as of October
14 9, 2020, to provide an efficient distribution of securities across the maturity
15 spectrum and thus the lowest weighted average cost of funds to the issuer given
16 the targeted approximate 15-year scheduled final payment date. The level of
17 Storm Recovery Charges paid by the Companies' customers is directly affected
18 by interest rates and the principal amortization structure of the storm recovery
19 bonds. Because of the expected size of the transactions, several tranches (*i.e.*,
20 individual bond tranches with different maturities and average lives) can be
21 structured to take advantage of discrete pockets of investor demand across the
22 entire term of the transaction and to maintain large enough tranche sizes to
23 ensure secondary market liquidity for the SRB Securities, which is a

1 consideration for investors during the bond marketing and pricing process.
2 Liquidity in this context refers to the ability of a noteholder to sell the note in
3 the secondary market without having to discount significantly its price.

4 Average life is a measure of the average amount of time it takes to repay
5 in full the principal balance of a bond tranche. Regularly scheduled principal
6 amortization throughout the life of the transaction, as opposed to a single bullet
7 maturity, results in a shorter average life for the financing and lower interest
8 costs, resulting in lower storm recovery charges for customers. Investors have
9 nearly universally seen and accepted semiannual or quarterly amortization in
10 these transactions. I have advised the Companies that the proposed transaction
11 should have a relatively level annual debt service and associated revenue
12 requirement, such that as the Companies' customer populations and customer
13 consumptions may increase, all other things being equal, the storm recovery
14 charges may be adjusted downward over the life of the transaction. Rating
15 agency "AAA" or equivalent stress tests would tend to penalize transactions
16 that use a different structuring approach, particularly one that significantly
17 back-loads debt service.

18 As previously noted, rating agency requirements and investor demand
19 at the time of pricing will determine market-clearing interest rates and the final
20 tranching offered to investors. Therefore, the structure and pricing information
21 presented here are preliminary and subject to change, and the actual structure
22 and pricing can be expected to differ, perhaps materially, from the information
23 provided in Atkins Table-1 and Atkins Exhibit 4.

1 **Q. PLEASE PROVIDE ADDITIONAL DETAILS AROUND THE**
2 **PRELIMINARY STRUCTURE OF THE STORM RECOVERY BONDS**
3 **AND SRB SECURITIES.**

4 A. Further details of the preliminary transaction structure are provided in Atkins
5 Exhibit 4, which outlines some of the structuring assumptions and displays the
6 preliminary annual debt service schedules and annual revenue requirements.

7 **Q. WHAT IS THE DIFFERENCE BETWEEN THE SCHEDULED FINAL**
8 **PAYMENT DATE AND LEGAL MATURITY DATE?**

9 A. I briefly addressed this topic above in the context of the basic discussion of
10 securitization and will address it more fully here. The scheduled final payment
11 date of the tranches of storm recovery bonds and the SRB Securities represents
12 the date at which final payment is expected to be made, but no legal obligation
13 exists to retire the tranche in full by that date. The rated legal maturity date is
14 the date by which the bond principal must be paid, or a default will be declared.
15 The proposed preliminary structure for this transaction utilizes a legal maturity
16 date that is usually 24 months longer than the scheduled final payment date for
17 each bond tranche, known as a “maturity cushion.” The actual maturity cushion
18 will be determined by the final “AAA” stress scenarios required by the rating
19 agencies during the rating process for the underlying storm recovery bonds, and
20 SRB Securities and may be shorter or longer than 24 months. Therefore, it is
21 important that the Financing Orders provide flexibility for the transactions to
22 have the specific maturity cushions required to obtain AAA equivalent ratings,
23 which cannot be determined in advance of the rating agency review process.

1 The difference between the scheduled final payment date and legal maturity
2 date provides additional credit protection by allowing shortfalls in principal
3 payments to be recovered over this additional period due to any unforeseen
4 circumstance. This gap between the two dates is a benefit to the Companies
5 and contributes to the strong credit quality of the transaction, helping lower the
6 cost of funds on the SRB Securities and therefore benefitting customers.
7 Moreover, many investors in utility securitizations are familiar with this
8 concept, which occurs in all utility securitization transactions and most ABS
9 transactions. The ratings on the storm recovery bonds and the SRB Securities
10 are derived in part based on the assumption that the outstanding principal
11 amount of each tranche will be paid in full by its legal maturity date, and
12 investors would price the SRB Securities assuming the SRB Securities and
13 underlying storm recovery bonds make the final scheduled principal payment
14 in full at the scheduled final payment date, which is earlier than the legal
15 maturity date.

16 **Q. SHOULD THE TRANSACTION BE STRUCTURED AS A PUBLIC,**
17 **SEC-REGISTERED TRANSACTION?**

18 A. I recommend that the SRB Securities be marketed via an SEC-registered, public
19 offering. In general, SEC-registered transactions are considered to be more
20 liquid than Rule 144A or other private placement transactions. Publicly offered
21 transactions are not limited to “qualified institutional investors” or “accredited
22 investors” upon initial issuance or resale as privately placed transactions are,
23 and this broader potential investor universe will potentially be more attractive

1 to investors and more likely to obtain lower interest rate coupons on any
2 particular pricing day.

3 **Q. WILL THE STORM RECOVERY BONDS AND SRB SECURITIES PAY**
4 **FIXED OR FLOATING INTEREST RATES?**

5 A. I recommend that the SRB Securities, and therefore the underlying storm
6 recovery bonds, be issued as fixed-rate securities. First, most utility
7 securitizations have been issued as fixed rate bonds to date. Second, fixed
8 interest rates are necessary to maintain predictable revenue requirements over
9 time. Maintaining predictable revenue requirements facilitates the ongoing
10 management of the customer charge adjustment (or “true-up”) process. If
11 floating rate bonds were issued, interest rate swaps would be required to create
12 a fixed rate payment obligation. The use of interest rate swaps would create
13 added risks for customers. For example, a swap incorporated as a part of the
14 securitization structure would require an additional counterparty, so there is a
15 risk of a ratings downgrade or a default by the counterparty providing the swap.

16 **Q. ARE THERE OTHER IMPORTANT CONSIDERATIONS**
17 **REGARDING THE PRELIMINARY STRUCTURE OF THE STORM**
18 **RECOVERY BONDS AND THE SRB SECURITIES?**

19 A. Yes. I reiterate that it will be beneficial for the storm recovery bonds to be
20 structured to have substantially level annual debt service. This is important
21 because it will facilitate a modest decline in the aggregate storm recovery
22 charges over the life of the storm recovery bonds, assuming actual load growth.

1 **Q. PLEASE DESCRIBE THE MECHANICS OF HOW THE SRB**
2 **SECURITIES ARE PRICED.**

3 A. The starting point for how each tranche is priced is the corresponding
4 benchmark rate. In the preliminary structure included as Atkins Exhibit 4, U.S.
5 Treasury benchmarks are listed. These benchmark rates are matched with the
6 weighted average life of each tranche. Average life is a measure of the average
7 amount of time it is expected to take to repay the principal balance of a tranche
8 in full. The U.S. Treasury benchmark reflects the “risk-free” yield investors
9 generally associate with securities issued by the U.S. Treasury. Some investors,
10 particularly ABS investors, may evaluate the transaction from the perspective
11 of swap benchmarks. Swap benchmarks reflect the yield demanded by
12 investors for non-U.S. Treasury securities of similar terms, without regard to
13 any further credit spread. Yields demanded by investors in the interest rate
14 swap market for different terms are the basis for the swap benchmarks for
15 similar terms. Investors in the ABS market generally use swap rates as
16 benchmarks, whereas investors in the corporate bond market typically use U.S.
17 Treasury rates as benchmarks. An effective marketing strategy for each
18 Company transaction should enable investors to evaluate the transaction from
19 the perspective of either or both benchmarks.

20 The next consideration is the credit spread, which is generally the
21 amount of yield above the given benchmark that is required by the marketplace
22 to invest in the given bond tranche. This credit spread, the yield above the
23 benchmark rate, is an indication of the market’s view of the incremental credit

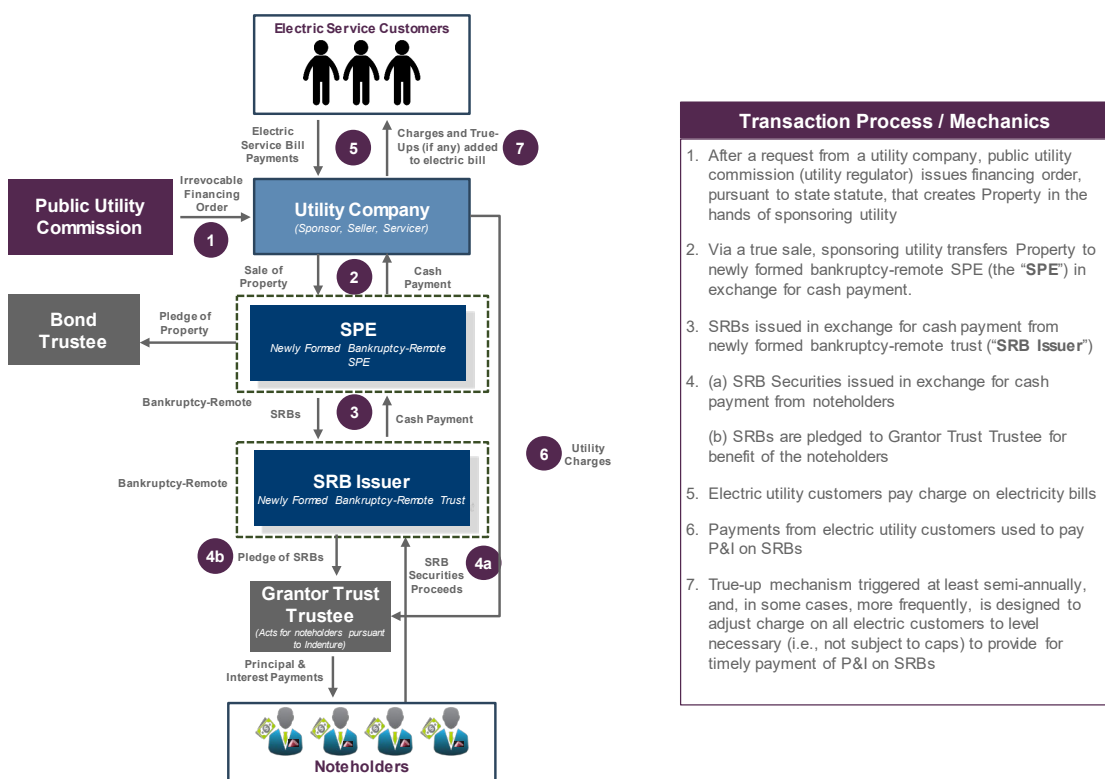
1 risk associated with each bond tranche. To state the obvious, issuers would like
2 this credit spread to be as small, or tight, as possible to the underlying
3 benchmark (thereby lowering the coupon), and investors would like it to be
4 higher, or wider, versus the underlying benchmark, all else being equal. While
5 corporate investors assessing the attractiveness of a utility securitization may
6 readily convert swap benchmarks to U.S. Treasury benchmarks, and thereby
7 adjust proposed credit spreads accordingly, for investor convenience,
8 underwriters sometimes give proposed price guidance to investors reflecting
9 both benchmarks. I recommend that the underwriters provide price guidance
10 to potential investors reflecting both benchmarks. The pricing credit spread is
11 ultimately determined by market-clearing rates at the conclusion of the
12 marketing process.

13 ***B. Storm Recovery Charge Collection***

14 **Q. PLEASE DESCRIBE THE ONGOING BILLING, COLLECTING, AND**
15 **REMITTING OF THE STORM RECOVERY CHARGES OVER THE**
16 **LIFE OF THE TRANSACTION.**

17 A. The Companies, as servicers, will be responsible for billing and collecting storm
18 recovery charges from customers. The procedures for remitting storm recovery
19 charges to the Trustee will be established through a Servicing Agreement, a
20 draft form of which is attached to witness Heath's testimony. Storm recovery
21 charges will be remitted by the Companies to the Trustee each business day
22 (based on estimated amounts collected), with cash held no more than two
23 business days prior to remittance. The Trustee will then hold the amounts

remitted to it by each Company until the next payment date. These payment dates will generally occur twice a year, as is customary in utility securitizations. An illustrative diagram for the storm recovery bonds (“SRBs”) is included below. This structure would be applicable for both issuances of storm recovery bonds by DEC and DEP into the SPE Issuer Trust, which in turn will issue SRB Securities to investors):



Further, while it is my understanding that North Carolina law does not currently authorize third-party energy providers to provide public utility services, it is important that the Financing Orders ensure that such third-parties – in the event there is any change in utility regulation – bill and collect the storm recovery charges in a manner that will not cause any of the then-current credit

1 ratings of the storm recovery bonds to be suspended, withdrawn, or
2 downgraded.

3 While the rating agency requirements may change from time to time, it
4 is expected that the rating agencies' requirements, in general, will consist of the
5 following:

- 6 • Any third-party energy provider must provide DEC and DEP, acting as
7 servicer, (or any successor servicer) with total monthly kilowatt-hour usage
8 information in a timely manner for the servicer to fulfill its obligations, as
9 such information is the basis of such remittance.
- 10 • The utility, or any successor servicer, will be entitled, within seven days
11 after a default by the third-party energy provider in remitting any storm
12 recovery charges billed, to assume responsibility for billing all charges for
13 services provided by DEC or DEP, as applicable, or any successor servicer,
14 including the storm recovery charges, or to switch responsibility to a third-
15 party, which must meet the criteria herein described.
- 16 • If and so long as a third-party energy provider does not maintain at least a
17 triple-B long-term unsecured credit rating from Moody's Investors Service,
18 S&P Global Ratings or Fitch Ratings, such third-party energy provider shall
19 maintain, with the servicer or as directed by the servicer, a cash deposit or
20 comparable security equal to at least one month's maximum estimated
21 collections of storm recovery charges, in a form and manner as agreed upon
22 by the servicer, or any successor servicer, and the third-party energy
23 provider. In the event of a default in the remittance of storm recovery

1 charges by a third-party energy provider, such amount will be included in
2 the true-up adjustments.

- 3 • The third-party energy provider must agree to remit the full amount of storm
4 recovery charges it bills to retail customers, regardless of whether payments
5 are received from such retail customers, within 15 days of its or the utility's,
6 or any successor servicer's, bill for such charges.
- 7 • The foregoing requirements may be modified in accordance with the terms
8 of the storm recovery bond financing documents, subject to approval by the
9 Commission, and confirmation (or deemed confirmation) by the applicable
10 rating agencies that such change will not result in a suspension, reduction,
11 or withdrawal of the then current credit ratings for the storm recovery bonds.

12 ***C. Key True-Up Adjustment Considerations***

13 **Q. PLEASE DISCUSS KEY ASPECTS OF THE TRUE-UP ADJUSTMENT**
14 **PROCESS.**

15 A. One of the fundamental utility securitization features that enables "AAA"
16 ratings is the statutorily mandated periodic true-up adjustment process. The
17 true-up process involves the adjustment of the customer charges on a periodic
18 basis, to ensure that the scheduled securitization debt service and on-going
19 financing costs are paid on a timely basis. True-up adjustments are also
20 designed to minimize any over-collections and target the low 1.0 times debt
21 service coverage. True-ups are to be implemented by the servicer, and by the
22 terms of the Securitization Statute, any reviews by the Commission focus only
23 on potential mathematical or clerical errors present in the true-up submission.

1 We recommend that true-ups take place on a semi-annual basis, that the
2 true-up calculations occurring in each period take into account actual
3 collections received during months since the prior true-up, as well as scheduled
4 debt service and financing costs projected to be due over the two upcoming debt
5 service payments. The true-up calculation methodology will take into account
6 updated energy usage and revenue forecasts, any changes in the Commission-
7 approved customer rate allocations, as well as updated customer payment aging,
8 delinquency and uncollectibles data.

9 I recommend that the initial bond payment date be set approximately
10 nine months from the closing date, so that there will be a true-up adjustment
11 effective prior to the first bond payment date. I also recommend that the true-
12 up adjustments become effective in the approximate middle of the bond
13 payment periods, such that generally there are two or three months of customer
14 charges, based upon the adjusted rates, collected prior to the upcoming bond
15 payment date. Setting true-up adjustment dates on such a schedule provides
16 time for charges based upon adjusted rates to be collected prior to upcoming
17 bond payments and is designed to minimize and stabilize charges on an ongoing
18 basis throughout the life of the transaction.

19 In addition to the required true-ups, it is important for the servicer to
20 have the option to conduct an optional true-up at any time to ensure that debt
21 service and on-going financing costs are paid on time. Witness Angers provides
22 more detail concerning the true-up process in her testimony.

1 **Q. IN YOUR VIEW WILL THE BROAD-BASED NATURE OF THE**
2 **PROPOSED TRUE-UP ADJUSTMENT MECHANISM AND THE**
3 **STATE PLEDGE IN THE SECURITIZATION STATUTE SERVE TO**
4 **MINIMIZE CREDIT RISK ASSOCIATED WITH THE STORM**
5 **RECOVERY BONDS?**

6 **A.** Yes. I agree that these features serve to minimize credit risk associated with
7 the storm recovery bonds (*i.e.* that sufficient funds will be available and paid to
8 discharge the principal and interest when due).

9 **IV. DISCUSSION OF THE EXECUTION PROCESS**

10 ***A. Rating Agency Process***

11 **Q. PLEASE DESCRIBE THE RATING AGENCY PROCESS.**

12 **A.** An important element of preparing for the marketing and pricing of the SRB
13 Securities is obtaining the highest ratings on the storm recovery bonds and the
14 SRB Securities from the rating agencies. The Companies and the structuring
15 advisors and lead underwriter for the Companies will prepare written
16 presentations and may meet with rating agency personnel to discuss the credit
17 framework and credit strengths of the proposed storm recovery bonds, and the
18 structure of the SRB Securities with each hired rating agency, in compliance
19 with SEC Rule 17g-5. It is important to note that rating agencies are completely
20 independent institutions, and each rating agency has its own method of
21 reviewing a utility securitization and will request certain data and information
22 that will facilitate such a review process. Rating agencies may update or amend
23 their rating criteria at any time. The Companies' structuring advisors and lead

1 underwriter will work with the Companies to draft presentations that contain
2 the required data and information. Additionally, the rating agencies may
3 require a diligence review of the servicer's billing and collecting processes.
4 Whether this review is done on-site or via the telephone depends on several
5 factors and is ultimately up to each rating agency. Each rating agency will
6 follow-up with additional questions.

7 The ratings process also entails a review of the cash flows of the
8 proposed structure. As part of this phase, each rating agency will ask for
9 various cash flow stress scenarios based on its requirements and the details of
10 the particular transaction to ensure that the storm recovery bonds and the SRB
11 Securities will be repaid under extremely stressful cash flow projections. These
12 rating agency cash flow stress scenarios may include assumptions that zero out
13 revenues each year during the peak consumption months, that assume that all
14 industrial customers leave the service territory, assume that the widest historical
15 variance between actual consumption and forecasted consumption is multiplied
16 five or more times over the life of the transaction, as well as other stress
17 assumptions regarding write-offs and delinquencies.

18 Important rating elements include:

- 19 • Legal and regulatory framework;
- 20 • Political and regulatory environment;
- 21 • Transaction structure;
- 22 • Servicing review and capabilities;
- 23 • Service area analysis;

- 1 • Cash flow stress analysis; and
- 2 • Size of the storm recovery charge during stress scenarios as a percentage
- 3 of the average residential customer bill.

4 **Q. IN YOUR PREVIOUS ANSWER, YOU MENTIONED SEC RULE 17G-**

5 **5. PLEASE EXPLAIN WHAT IT IS AND HOW IT WILL PERTAIN TO**

6 **THIS EXECUTION PROCESS.**

7 A. In December 2009, the SEC amended, as part of its mandate under the Dodd-

8 Frank reform legislation, its rules regulating ratings on structured finance

9 securities where the issuer, sponsor, or underwriter pays for the ratings on the

10 securities. In short, the amended regulation, which I refer to here as “Rule 17g-

11 5” is intended to provide access to ratings-related information to non-hired

12 rating agencies so that they, if desired, could issue unsolicited ratings. In

13 practice, however, actual unsolicited ratings are very rare.

14 The rule has been in effect since June 2010. Although Rule 17g-5 only

15 directly applies to a hired rating agency, the rule requires the agency to obtain

16 commitments from the issuer to facilitate this process, effectively passing on

17 the requirements to issuers. Those requirements generally include the

18 maintenance of a password-protected website containing rating-related

19 information used to providing a rating on the securities. Each hired rating

20 agency is then required to maintain its own password-protected website listing

21 each structured finance security for which it is in the process of determining a

22 rating. If a non-hired rating agency desires to gain access to the ratings-related

23 information, it can request it of the issuer. Please note, an issuer will be aware

1 of such a request because it will be the one to grant access to the non-hired
2 rating agency.

3 Utility securitizations have been subject to Rule 17g-5 since its
4 implementation, and issuers and their underwriters have managed the process
5 by maintaining most communication via email and/or recorded or transcribed
6 phone communication. Therefore, it is important that issuers and their
7 underwriters have specific procedures in place to document and record all
8 materials provided to the rating agencies during the rating agency process. In
9 summary, Rule 17g-5 changes the technical nature of how communication takes
10 place during the ratings process, but it has not changed the fundamental nature
11 of that process (*i.e.*, utility securitizations and all other transactions subject to
12 the rule are still rated).

13 ***B. Marketing Process***

14 **Q. PLEASE DESCRIBE THE SRB SECURITIES MARKETING PROCESS.**

15 A. The marketing process entails several different phases, each uniquely tailored
16 to the asset class, market conditions and the specifics of this contemplated
17 transaction. The underwriters will work with and make recommendations to
18 the Companies throughout the process. Described below are the general steps
19 in a typical marketing process, but the actual process for the SRB Securities
20 could vary based on the market environment at the time of marketing. Each
21 step below should be conducted consistent with the proposed issuance advice
22 letter procedure described in paragraph C below, as well as with SEC rules and

1 regulations regarding publicly registered securities offerings, including an
2 investor suitability analysis:

3 **1. Pre-marketing.** Once a preliminary prospectus for the transaction is on file
4 with the SEC, the underwriters will work together with the Companies to
5 bring the transaction to the attention of investors, to inform them of its
6 structure and term, and to answer directly any questions they may have.
7 Extensive education will be provided to investors regarding the storm
8 recovery bonds, particularly investors who may be new to the asset class.
9 A wide range of corporate and ABS investors will be contacted, including
10 investment managers, insurance companies, corporate treasury and other
11 investors. This process is generally referred to as pre-marketing. It may
12 include an electronic roadshow, one-on-one conference calls with
13 significant potential investors, and open conference calls, which several
14 investors may join. The purpose of this process is to stimulate broad
15 investor demand for the issue, so that the pricing process will obtain the
16 lowest possible interest rates reasonably consistent with market conditions
17 at the time of pricing resulting in the lowest storm recovery charges
18 consistent with market conditions at the time the SRB Securities are priced,
19 the interest rates for the storm recovery bond tranches are set and the terms
20 set for in the Financing Orders.

21 The timing of this process and the specifics of the new issue process are
22 also important factors. Typically, after an extensive pre-marketing process,
23 new transactions in this sector are announced to the market on Monday

1 mornings. As one could expect, the new issue calendar may be busy at that
2 time, so in order to get the attention of investors as they may be considering
3 several competing new issues, the pre-marketing period will be determined
4 by the Companies and the lead underwriter taking the likely new issue
5 calendar into account. Most transactions that announce on Monday
6 morning will target a pricing by Wednesday or Thursday (as issuers do not
7 want to take the risk of an intervening event over a weekend); thus, a pre-
8 marketing start date is designed to gain the attention of investors when they
9 may not be busy reviewing other active new issue pricings.

10 **2. Announcement.** Following pre-marketing, the transaction is officially
11 announced to the market, which is typically done toward the start of the
12 week (again, as mentioned above, the timing of the announcement is to
13 ensure that a transaction prices during the same week in which it is officially
14 announced; otherwise, issuers may be subject to unforeseen risk over a
15 weekend). During this phase of marketing, the SRB Securities will be
16 offered for sale to investors through the underwriters. The underwriters, in
17 conjunction with the issuer, will begin to discuss informally with investors
18 the coupons at which the SRB Securities will be offered at initial issuance,
19 stated as a credit spread relative to the benchmark rates for each tranche. In
20 response, investors will provide initial indications of interest, generally
21 specifying how much of the tranche for which they intend to submit an order
22 at a given pricing level. The underwriters will be charged with keeping the
23 master record (known as “the book”) in which all indications of interest

1 received by the underwriters from potential investors are recorded. The
2 next phase of the transaction – price guidance – will be based on the
3 aggregated amount of indications of interest received from investors.

4 **3. Price guidance.** At this stage, the underwriters will send out a notice to
5 investors with price guidance, again typically stated as a range of credit
6 spreads stated against the given benchmark. Thereafter, investors will be
7 invited to place firm indications through the underwriters for the amount
8 and specific tranches of SRB Securities they are willing to purchase, at
9 certain prices and bond coupon rates. At a certain point in time, when the
10 book has sufficient interest from investors, the underwriters will stop taking
11 orders (generally referred to as going “subject” to pricing and
12 confirmation). The timing of this step will depend on the specifics of each
13 transaction; however, it will obviously occur only when the book has at least
14 an equal amount of orders for the SRB Securities as the anticipated
15 aggregate principal amount of each proposed tranche (generally referred to
16 as “fully subscribed”). There is no specific threshold beyond that, and it
17 will depend on market conditions, the speed at which orders came in from
18 investors and the composition of investor types in the book, to name a few
19 factors. The underwriters will exercise professional judgment in making a
20 recommendation to take the book subject to final order confirmations, based
21 on all relevant factors. Conversely, if the tranche is undersubscribed, the
22 underwriters may need to increase the coupon or restructure the tranching
23 to attract sufficient investor orders to sell the entire tranche.

1 **4. Determining pricing levels.** Having exercised professional judgment and
2 taken the transaction subject to pricing and final confirmation of orders, the
3 underwriters and the Companies will then work to refine the pricing levels.
4 Based on the strength of the book, the underwriters may adjust the pricing
5 levels lower (or tighter). This process is generally referred to as testing the
6 pricing levels. It is done to ensure maximum distribution of the SRB
7 Securities at the lowest bond yields reasonably consistent with market
8 conditions. If a tranche is oversubscribed, the underwriters may continue
9 to lower the pricing level (thus improving execution for the Issuer and
10 customers), provided that this adjustment does not decrease the aggregate
11 investor interest below the size of the tranche. If this adjustment is not done
12 correctly, the transaction may fail, which could negatively affect a
13 subsequent attempt. If a tranche is undersubscribed, the pricing level may
14 be adjusted higher until the tranche is fully subscribed. The underwriters
15 will use professional judgment with respect to the recommendation to the
16 Companies for the amount of tightening and number of testing attempts.

17 **5. Launch.** Once the pricing levels have been determined for each tranche in
18 the transaction, and the registration statement for the transaction has been
19 declared effective by the SEC, the transaction will be launched at a specific
20 pricing level. The intention of this stage is to declare to investors at which
21 pricing levels, or credit spreads, the transaction will be issued. This will be
22 the market-clearing pricing level, subject only to movements in the
23 underlying benchmark rates.

1 **6. Allocations.** At this stage, the market-clearing pricing level has been
2 determined by the marketing process, but the final book – how much each
3 investor will purchase – has yet to be determined. Here, the lead
4 underwriters will work to recommend to the Companies a specific amount
5 of SRB Securities to be sold to each investor. Each allocation depends on
6 several factors; *e.g.*, the size of each investor’s indication of preliminary
7 orders, when the investor submitted its indication, its experience in the
8 sector, its flexibility for the pricing process, the investor type, etc.
9 Ultimately, each investor will purchase its final allocations for the
10 transaction.

11 **7. Pricing.** Once the market-clearing pricing level and the book has been
12 finalized, the transaction can be priced. At this stage, the underwriters will
13 price the transaction by spotting the underlying benchmark rates and adding
14 the credit spread to determine the coupons for each tranche. Soon after the
15 pricing, the investor orders will be confirmed, and the final prospectus will
16 be provided to investors.

17 **8. Closing.** At the conclusion of the pricing, the Companies, with its
18 underwriters and legal team, will work toward finalizing the transaction
19 documents and close the transaction, typically approximately five business
20 days after pricing.

21 In summary, it is through this marketing and pricing discovery process
22 that the actual investor market-clearing interest rates for the SRB Securities are
23 determined. The interest rates for each tranche of the underlying storm recovery

1 bonds will be determined by the interest rates for each tranche of the SRB
2 Securities. It should be noted again that this determination will be specific to
3 the SRB Securities, based on the actual investor orders on the actual day of
4 pricing.

5 ***C. Key Issuance Advice Letter Considerations***

6 **Q. PLEASE EXPLAIN THE PURPOSE OF THE ISSUANCE ADVICE**
7 **LETTER.**

8 A. The Issuance Advice Letter (“IAL”) is prepared by each Company and
9 delivered to the Commission or its designated Commissioner or Commission
10 Staff member (“Designated Member”) after pricing the storm recovery bonds.
11 Each IAL will contain the final pricing terms, updated estimates of the up-front
12 and on-going financing costs and certifications from each Company to
13 demonstrate that the issuance of storm recovery bonds satisfies the Statutory
14 Cost Objectives.

15 **Q. PLEASE DISCUSS KEY ASPECTS OF THE ISSUANCE ADVICE**
16 **LETTER PROCEDURE.**

17 A. Each Company has provided the Commission forms of the IAL and True-Up
18 Advice Letter (“TUAL,” and together with the IAL, the “IAL/TUAL”) as
19 Appendices to the draft Financing Orders. The purpose of the combined
20 IAL/TUAL is because the actual structure and pricing of the storm recovery
21 bonds are unknown as of the time of the issuance of the Financing Orders.
22 Following determination of the final terms of the storm recovery bonds and
23 before issuance of the storm recovery bonds, each Company will provide a

1 combined IAL/TUAL to a Commissioner or Commission Staff member (the
2 Designated Member), for each series of storm recovery bonds, for Commission
3 review. The recommended forms of the IAL/TUAL include issuance standards
4 that if satisfied, demonstrate that the issuance of storm recovery bonds is
5 consistent with the applicable Financing Order within the meaning of the
6 Securitization Statute, prior to the Companies' implementation of the initial
7 storm recovery charges pursuant to the Securitization Statute.

8 The actual details of the transaction, including certifications from the
9 applicable Company, included with the IAL/TUAL shall be provided no later
10 than the first business day after pricing (unless the Commission, acting through
11 its Designated Member agrees to a longer time). The transaction proceeds
12 without any further action of the Commission, unless the Commission issues an
13 order stopping the storm recovery bond issuance before noon on the third
14 business day after pricing, because the Commission determines (i) that the
15 IAL/TUAL and all required certifications have not been delivered or (ii) the
16 transaction does not comply with the Standards set forth in the Financing Orders
17 as defined therein. After pricing, views concerning the market conditions
18 affecting the pricing of the SRB Securities should not be a reason to cancel or
19 stop the transaction.

20 Prior to the filing of the IAL/TUAL and through the period ending with
21 the issuance of the storm recovery bonds, the applicable Company will, to the
22 extent requested by the Commission, provide the Commission or its Designated
23 Member with timely information so that the Commission acting for itself, or

1 through its Designated Member, can participate fully and in advance regarding
2 all material aspects relating to the structuring and pricing of, and financing costs
3 relating to the storm recovery bonds.

4 **V. DISCUSSION OF THE FINANCING ORDERS**

5 **Q. ARE THE TERMS OF A FINANCING ORDER CRITICAL TO**
6 **ACHIEVING A SUCCESSFUL STORM RECOVERY TRANSACTION?**

7 A. Yes. A financing order, when taken together with applicable provisions of the
8 Securitization Statute, establishes in strong and definitive terms the legal right
9 of investors to receive, in the form of storm recovery charges, those amounts
10 necessary to pay the interest and principal on the storm recovery bonds and
11 other ongoing expenses in full and on a timely basis. Proposed drafts of the
12 Financing Orders are provided as Exhibits B and C to the Joint Petition.

13 As mentioned earlier, each Financing Order specifies the mechanisms
14 and structures for payments of bond interest, principal, and ongoing expenses
15 in a manner that minimizes the amount of additional credit enhancements
16 required by the rating agencies to achieve the highest possible ratings. The
17 highest possible ratings will allow the financing to achieve the desired results.
18 In addition, each Financing Order, when taken together with applicable
19 provisions of the Securitization Statute, will enable the relevant Companies to
20 structure the financing in a manner reasonably consistent with investor
21 preferences and rating agency considerations at the time of pricing, which is
22 also necessary for the financing to achieve the desired results.

1 **Q. WHAT ARE THE KEY ELEMENTS OF EACH FINANCING ORDER**
2 **THAT ARE ESSENTIAL TO ACHIEVING THE DESIRED RESULT**
3 **FOR THE TRANSACTION?**

4 A. The Securitization Statute sets out several key elements for each Financing
5 Order. Once the storm recovery property is created, one of the most important
6 elements is insulating the transaction from the risk of any potential bankruptcy
7 risk of the Companies, which is accomplished via a legal “true sale” of the storm
8 recovery property to each SPE. The structure utilized with this transaction,
9 along with other securitizations, relies on features that allow the rating agencies
10 and investors to conclude that the issuer of the securitization, each SPE, is
11 highly unlikely to become the subject of a bankruptcy proceeding in the
12 unlikely event of a bankruptcy of one or both of the Companies. Under the
13 Federal bankruptcy code, payments on the debt obligations of an issuer in a
14 bankruptcy proceeding become subject to an automatic stay – *i.e.*, the payments
15 are suspended until the courts decide which creditors of the issuer are to be paid,
16 when they will be paid, and whether they are to be paid in whole or in part.
17 Unless the risk of an automatic stay in the unlikely event of a bankruptcy of the
18 Companies is essentially removed from the rating agencies’ credit analysis, the
19 financing cannot achieve the highest possible ratings, since the Companies’
20 secured debt obligations are rated below “AAA.”

21 In addition, the creation of a bankruptcy-remote SPE, which is legally
22 distinct from the utility, is designed to limit the ability of such SPE to be
23 included with the Company in the unlikely event of a Company bankruptcy.

1 Therefore, even if the Company were to declare bankruptcy, the SPE would not
2 become the subject of the Company's bankruptcy proceeding, and the SPE's
3 debt service payments to investors would not be subject to the Company
4 automatic stay. The transaction, as structured and reflected in the Financing
5 Orders, is intended to achieve this important element. This legal structure is
6 supported by true sale and non-consolidation legal opinions from experienced
7 legal counsel.

8 **Q. ARE THERE ANY OTHER COMPONENTS OF EACH FINANCING**
9 **ORDER THAT ARE ESSENTIAL TO ESTABLISHING THE LEGAL**
10 **FOUNDATION FOR THE TRANSACTION?**

11 A. There are several provisions in each Financing Order that ensure that each SPE
12 will be deemed to be bankruptcy-remote in addition to the elements mentioned
13 above, including that each SPE will have at least one independent manager
14 whose approval will be required for certain organizational changes or major
15 actions of such SPE, such as a voluntarily filing for bankruptcy by that SPE.
16 Each Financing Order will also enable the transfer of the storm recovery
17 property from the Company to the SPE to be a "true sale." As discussed above,
18 a true sale is a sale that a bankruptcy court should not overturn in the case of
19 any Company bankruptcy. Each Financing Order will allow its SPE to issue
20 the storm recovery bonds, pledging the storm recovery property as security for
21 payment on the storm recovery bonds.

1 **Q. DOES EACH FINANCING ORDER PROVIDE FOR ANY CREDIT**
2 **ENHANCEMENT TO THE TRANSACTION?**

3 A. Yes, in a number of forms. The primary form of credit enhancement is the
4 True-up Mechanism. Each Financing Order, together with Securitization
5 Statute, ensures that the collection of storm recovery charges arising from the
6 storm recovery property is expected to be sufficient to pay all amounts owed on
7 the storm recovery bonds on a timely basis and in full, even in the face of
8 dramatic reductions in electricity usage by the relevant Company's customers
9 or dramatic increases of delinquencies and losses on payments from such
10 Company's customers. The True-up Mechanism represents the most
11 fundamental component of credit enhancement to investors and is a cornerstone
12 of utility securitizations. True-ups are to be incorporated so that storm recovery
13 charges may be adjusted on a periodic basis to correct for any over- or under-
14 collection of nonbypassable storm recovery charges for any reason and to
15 ensure that the expected collection of future storm recovery charges is in
16 accordance with the payment terms of the storm recovery bonds. True-up
17 adjustments will be made on a periodic basis, at least semi-annually, throughout
18 the life of the storm recovery bonds in accordance with the objective of
19 achieving the highest credit ratings per rating agency requirements and investor
20 expectations, except that beginning 12 months prior to the scheduled final
21 payment date for the latest maturing tranche of each series of storm recovery
22 bonds, the true-up adjustments must be conducted at least quarterly. In
23 addition, I recommend that optional adjustments be authorized to be conducted

1 at any time. The frequency of true-up adjustments throughout the life of the
2 storm recovery bonds will be described in the final offering document for the
3 transaction and will be consistent with rating agency considerations for
4 achieving the highest credit ratings. It is also important to note that pursuant to
5 the Financing Orders, the True-up Mechanism provides for cross-
6 collateralization across customer groups. This means that the revenue declines
7 in one customer group will be made up by storm recovery charge adjustments
8 within that customer group, as well as the other customer groups.

9 It is critical for rating agency purposes that, insofar as Commission
10 action is required, true-up adjustments are automatic and implemented on an
11 immediate basis subject only to mathematical and clerical error review. True-
12 up adjustments will consider on-going financing costs as well as anticipated
13 debt service requirements, updated electricity usage and customer count
14 forecasts, the then-current Commission-approved customer charge allocation
15 methodologies, in addition to forecasted projections of customer uncollectibles
16 and delinquencies. Pursuant to the Securitization Statute, the True-up
17 Mechanism shall remain in effect until the storm recovery bonds and all
18 associated financing costs have been fully paid and any under-collection is
19 recovered from customers and any over-collection is returned to customers.

20 The capital subaccount at each SPE funded with an amount equal to 0.50
21 percent of the initial principal amounts of each respective storm recovery bond
22 transaction will also serve as credit enhancement of the transaction. Also, it is
23 important that the Financing Orders provide for flexibility to include other

1 forms of credit enhancement and other mechanisms (*e.g.*, letters of credit,
2 additional amounts of overcollateralization or reserve accounts, or surety
3 bonds) to improve the marketability of the storm recovery bonds. None are
4 anticipated but it is important to have such built-in flexibility.

5 **Q. PLEASE EXPAND ON YOUR USE OF THE TERM**
6 **“NONBYPASSABLE” IN YOUR PREVIOUS ANSWER.**

7 A. The Securitization Statute and Financing Orders provide that storm recovery
8 charges shall be paid by all existing or future retail customers receiving
9 transmission or distribution service, or both, from the public utility or its
10 successors or assignees under Commission-approved rate schedules or under
11 special contracts, even if a customer elects to purchase electricity from an
12 alternative electricity supplier following a fundamental change in regulation of
13 public utilities in North Carolina. This is another important element of each
14 Financing Order, both for the rating agency process and for investor
15 considerations.

16 **Q. IN THAT CONTEXT, HOW WOULD THE STORM RECOVERY**
17 **CHARGE BE AFFECTED IN THE CASE WHERE THE COMPANY IS**
18 **NO LONGER THE UTILITY IN THE SERVICE AREA?**

19 A. Each Financing Order, upon the issuance of the storm recovery bonds, creates
20 a binding obligation for each respective Company, its successors or assignees
21 to collect the storm recovery charges for a servicing fee and allows that
22 obligation to be performed by a replacement servicer appointed by the Trustee,
23 if the relevant servicer does not so perform. Thus, the binding obligation to

1 collect and account for storm recovery charges will survive any adverse event
2 to the servicer. This obligation is binding upon any other entity that provides
3 service in the service territory or any other entity responsible for billing and
4 collecting the storm recovery charges on each Company's behalf.

5 **Q. PLEASE DISCUSS THE IRREVOCABLE NATURE OF EACH**
6 **FINANCING ORDER.**

7 A. Each Financing Order is irrevocable, and the storm recovery charges are not
8 subject to reduction, alteration or impairment by any further action of the
9 Commission, except for the mathematical and clerical error review as part of
10 the formulaic true-up adjustment process. Thus, so long as the storm recovery
11 bonds are outstanding, rights and benefits arising from the storm recovery
12 property created by each Financing Order may be definitively relied upon by
13 investors and the rating agencies.

14 Equally important, pursuant to N.C. Gen. Stat § 62-172(k), the State of
15 North Carolina and its agencies, including the Commission, pledge and agree
16 not to (i) alter the provisions of the Securitization Statute, which authorize the
17 Commission to create an irrevocable contract right or chose in action by the
18 issuance of the Financing Orders, to create storm recovery property, and make
19 the storm recovery charges imposed by each Financing Order irrevocable and
20 binding, or nonbypassable; (ii) take or permit any action that impairs or would
21 impair the value of storm recovery property or the security for the storm
22 recovery bonds or revises the storm recovery costs for which recovery is
23 authorized; (iii) in any way impair the rights and remedies of the bondholders,

1 assignees, and other financing parties; or (iv) except for changes made pursuant
2 to the True-up Mechanism, reduce, alter, or impair the storm recovery charges
3 that are to be imposed, billed, charged, collected, and remitted for the benefit
4 of the bondholders, any assignee, and any other financing party until any and
5 all principal, interest, premium, financing costs and other fees, expenses, or
6 charges, incurred, and any contracts to be performed in connection with the
7 related storm recovery bonds have been paid and performed in full (the “State
8 Pledge”). Investors generally perceive that one of the greatest risks to them is
9 that there is a change in law that affects the storm recovery property, thereby
10 adversely affecting their rights under the Securitization Statute or the Financing
11 Orders.

12 Pursuant to the Securitization Statute, the SRB Issuer and Securities
13 Holders, as financing parties to the storm recovery bonds, will have the full
14 rights and benefits of the State Pledge. The Commission’s affirmation in the
15 Financing Orders of the State Pledge will enhance investor understanding that
16 the risk of an adverse change in law or regulation is remote and will permit
17 counsel to deliver important legal opinions that such adverse changes would not
18 be legally valid.

19 **Q. PLEASE DESCRIBE THE SECTIONS OF THE FINANCING ORDER**
20 **ENTITLED, “FINDINGS OF FACT,” “DISCUSSIONS AND**
21 **CONCLUSIONS” AND “ORDERING PARAGRAPHS.”**

22 **A.** The Findings of Fact, Discussions and Conclusions, and the Ordering
23 Paragraphs of the Financing Orders constitute the means by which the

1 Commission definitively affirms the conformity of the financing with the
2 applicable provisions of the Securitization Statute. With these findings and
3 conclusions, counsel will have the basis that they need for the highly technical
4 and specialized legal opinions they must issue in connection with the
5 securitization financing, and upon which the rating agencies will rely in
6 assigning the highest possible ratings for the storm recovery bonds. I emphasize
7 that the provisions of the Financing Orders have been drafted with a view
8 toward providing the basis that counsel will need for these essential opinions.
9 With the structure authorized thereby, the stability of the cash flows securing
10 the storm recovery bonds will be maximized. The combination of maximized
11 cash flow stability and highest possible ratings will allow the storm recovery
12 bonds to be structured and priced to meet the Statutory Cost Objectives.

13 **Q. ARE THERE ANY OTHER KEY ELEMENTS OF THE FINANCING**
14 **ORDER UPON WHICH YOU WISH TO ELABORATE?**

15 A. Yes. In addition, in the Ordering Paragraphs of the Financing Orders, the
16 Commission recognizes the need for, and affords the Companies the flexibility
17 to establish, the final terms and conditions of the storm recovery bonds. This
18 flexibility will allow the Companies to achieve the structure and pricing that
19 will meet the Statutory Cost Objectives, including the lowest storm recovery
20 charge, consistent with market conditions on the day of pricing, rating agency
21 considerations, and the terms of each Financing Order.

1 **VI. DISCUSSION OF THE SERVICING AGREEMENT**

2 **Q. PLEASE DESCRIBE THE CONTENTS AND PURPOSE OF THE**
3 **SERVICING AGREEMENT.**

4 A. Each Servicing Agreement is an agreement among the respective Company (in
5 its capacity as the servicer of the storm recovery bonds), the Trustee, and the
6 SPE. The agreement sets forth the responsibilities and obligations of the
7 servicer, including, among other things, billing and collecting of storm recovery
8 charges, responding to customer inquiries, terminating electric service, filing
9 for true-up adjustments and remitting collections to the Trustee for distribution
10 to bondholders. The Servicing Agreement prohibits the initial servicer's ability
11 to resign as servicer unless (i) it is unlawful for the initial servicer to continue
12 in such a capacity, or (ii) the Commission consents and the rating agencies
13 confirm the resignation would not impact the ratings on the bonds. Its
14 resignation would not be effective until a replacement servicer has assumed its
15 obligations to continue servicing the storm recovery bonds without interruption.
16 The servicer may also be terminated from its responsibilities in certain cases
17 upon a majority vote of bondholders, such as the failure to remit collections
18 within a specified period. Any merger or consolidation of the servicer with
19 another entity would require the merged entity to assume the servicer's
20 responsibility under the Servicing Agreement. The terms of the Servicing
21 Agreement are critical to the rating agency analysis of the storm recovery bonds
22 and the ability to achieve credit ratings in the highest categories.

As compensation for its role as initial servicer, the servicer is entitled to earn a servicing fee payable out of storm recovery charge collections. It is important to the rating agencies and the bankruptcy-remote analysis of the transaction that each Company receives an arm's-length fee as servicer of the storm recovery property, and for its services as Administrator of the SPE. Utility securitizations to date have also required an increase in the servicing fee in the unlikely event the Company is no longer able to perform the servicing role, and a replacement servicer must be brought on board. Rating agencies expect that the Company will be the servicer but assume that a replacement servicer may require additional compensation to perform these services, without access to the Company's existing infrastructure and customer relationships. Illustrative draft forms of both the Servicing and Administration Agreements are included with the testimony of witness Heath as Heath Exhibits 2b and 2d.

VII. CONCLUSION

Q. PLEASE SUMMARIZE YOUR TESTIMONY.

A. I believe the Financing Orders, as proposed, will enable each Company to structure a transaction that can achieve the highest possible ratings, and consistent with investor preferences, will enable the Companies to price at the lowest market-clearing interest costs reasonably consistent with investor demand and market conditions at the time of pricing.

Q. DOES THIS COMPLETE YOUR DIRECT TESTIMONY?

A. Yes, it does. Thank you.

CHARLES N. ATKINS II

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New York, New York 10128**

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ATKINS CAPITAL STRATEGIES LLC

2020 - Present

Chief Executive Officer

Strategic consultant to companies and regulatory commissions in the utility, power and energy sectors, as well as investment banking and financial sponsor institutions. Focus on utility, contract monetization, whole business and other non-traditional securitizations. Corporate and structured credit analysis, rating agency negotiations. Currently serving Duke Energy as a co-financial advisor in connection with 2 utility securitizations in North Carolina

GUGGENHEIM SECURITIES, LLC

2017 - 2020

Senior Advisor, Structured Products Origination Group, Investment Banking Division

Focus on utility, power and energy securitizations and recapitalizations, as well as new structured product development across industry sectors. Serving as an expert witness, testified before the New Mexico utility commission in connection with a proposed utility securitization

ATKINS CAPITAL STRATEGIES LLC / MAROON CAPITAL GROUP LLC

2013 – 2017

Chief Executive Officer/Partner

Strategic consultant to investment banking and financial sponsor institutions, power, utility, service and industrial companies, as well as emerging U.S. and U.K. enterprises. Testified as an expert witness 3 times before utility commissions in Louisiana and West Virginia in connection with utility securitizations

- Utility securitizations
- Wireless spectrum securitizations
- Recapitalization and capital allocation
- Balance sheet optimization
- Corporate and structured credit analysis, rating agency negotiations
- Enhanced capital markets access
- Emerging enterprise business plan development and execution

MORGAN STANLEY & CO. LLC

1990 - 2013

Executive Director, Global Capital Markets, Securitization Group

Principal focus on improving corporate capital structures, creating equity value by recapitalizing, enhancing access to the debt capital markets and lowering capital costs

Charles N. Atkins II**Page 2**

- Team leader for the development of legal and credit structures for first-time structured solutions for financial sponsor and corporate clients
- Industry's leading utility securitization and corporate reorganization (ring-fencing) banker, serving as advisor and/or a lead underwriter for 24 transactions since 1997 totaling \$22.6 BN for AEP, CenterPoint, Entergy, Constellation Energy, Baltimore Gas and Electric, Oncor, West Penn, Atlantic City Electric, SDG&E and PG&E.
- Testified 11 times as a utility company expert witness before regulatory commissions in Arkansas, Louisiana, Maryland, New Mexico, Texas and West Virginia
- Structured five International Financing Review "Deal of the Year" transactions
 - \$965.4MM Louisiana Utilities Restoration Corporation (Entergy) – 2008 (off-balance sheet, off-credit electric system capital cost recovery)
 - \$1.9BN Crown Castle – 2005 (wireless tower company recapitalization)
 - \$418MM Global Signal – 2004 (wireless tower company recapitalization)
 - \$800MM PPL Electric – 2001 (off-credit reorganization/recapitalization)
 - \$290MM Arby's Franchise – 2000 (restaurant company recapitalization)

Developed and executed significant recapitalizations, reorganizations and acquisition financings for financial sponsor and corporate clients including

- Corporate reorganization of Constellation Energy in connection with the \$4.5 BN nuclear JV with Electricite de France, uplifting subsidiary Baltimore Gas and Electric's (BGE) ratings, removing BGE's debt from Constellation's rating agency credit ratios (off-credit)
- Restructuring and \$838MM debt recapitalization of leading security business Monitronics International, uplifting debt ratings from B1/B+ to Baa2/BBB-, lowering capital costs (an Abry Partners portfolio company)
- Restructuring and \$290MM debt recapitalization of restaurant business Arby's, uplifting ratings from B1/B+ to A3/BBB-, lowering capital costs (a Triam portfolio company)
- Restructurings and \$1.9BN, \$418MM debt recapitalizations of wireless tower businesses, Crown Castle and Global Signal, uplifting debt ratings from B1/B+ to as high as Aaa/AAA, lowering capital costs (Global Signal - a Fortress portfolio company)
- Restructuring and \$800MM debt recapitalization of PPL, issuing incremental electric transmission and distribution subsidiary debt, taking \$3BN of subsidiary debt off-credit for parent rating purposes, without changing subsidiary or parent ratings
- Structuring and executing \$800MM permanent acquisition financing for TimberStar Southwest, obtaining debt ratings to as high as Aaa/AAA/AAA, lowering capital costs (an I-Star Financial/Perry Capital/MSD Capital/York Capital portfolio company)
- Structuring and executing \$315MM permanent financing for the Staples Center arena, based upon sports team and arena revenue contracts, obtaining A ratings and lowering capital costs (an Anschutz Entertainment Group subsidiary)
- Structuring a \$33 BN student loan industry-sponsored ABCP conduit utilizing credit and liquidity support from the U.S. Government, to finance existing and newly originated federally guaranteed student loans (Straight-A Funding, LLC)

PREVIOUS EXPERIENCE:**LEHMAN BROTHERS INC. / E.F. HUTTON INC.****1985 - 1990**

Senior Vice President

OFFICE OF U.S. SENATOR DAVID L. BOREN (D-OK)**1983, 1985**

Legislative Counsel

Charles N. Atkins II**Page 3**

MONDALE-FERRARO PRESIDENTIAL CAMPAIGN Deputy National Campaign Manager, VP Campaign	1984
DEMOCRATIC NATIONAL COMMITTEE Deputy Director, Platform Committee	1983 - 1984
THE WHITE HOUSE Associate Assistant to the President	1980
AKIN, GUMP, STRAUSS, HAUER & FELD Attorney, Washington, D.C. Office	1978 -79, 1981 - 83

OTHER:

METROPOLITAN MUSEUM OF ART Board of Trustees, Elective Trustee Audit Committee External Affairs Committee Director Search Committee (Search Completed) Digital, Education, Publications, Imaging, Libraries and Live Arts Committee Diversity Committee Digital Visiting Committee Modern and Contemporary Visiting Committee American Wing Visiting Committee	2013-Present
AMERICAN FOLK ART MUSEUM Board of Trustees, Member	2014-2018
AMERICAN SECURITIZATION FORUM Board of Directors, Alternate Board Member	2003 - 2006
U. S. EXPORT-IMPORT BANK Presidential Appointment, Advisory Committee	1997 -1998
PRESIDENTIAL TRANSITION COMMITTEE U.S. Department of Housing and Urban Development	1992 -1993
DISTRICT OF COLUMBIA BAR Member (Inactive)	1978 - Present
HOWARD UNIVERSITY Board of Trustees, Undergraduate Trustee	1974-1975

Charles N. Atkins II

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EDUCATION:

HARVARD LAW SCHOOL, J.D. 1978

- Class of 1978 Committee Representative, elected by classmates

HOWARD UNIVERSITY, College of Arts and Sciences B.A. 1975

- *Magna Cum Laude*
- Honors Program
- Phi Beta Kappa (Junior year)
- Major: Political Science / Double Minor: Math and Economics
- Howard University Board of Trustees, Undergraduate Trustee, elected by the several Undergraduate College student bodies
- College of Arts and Sciences Student Council, elected Sophomore Representative

Part III. Administrative, Procedural, and Miscellaneous

26 CFR 601.201: Rulings and determination letters.
(Also: §§ 61, 451 and 1001.)

Rev. Proc. 2005-61

SECTION 1. PURPOSE

This revenue procedure amplifies Rev. Proc. 2005-3, 2005-1 I.R.B. 118, which sets forth areas of the Internal Revenue Code in which the Internal Revenue Service will not issue advance rulings or determination letters.

SECTION 2. BACKGROUND

.01 Section 3 of Rev. Proc. 2005-3 sets forth a list of those areas of the Internal Revenue Code under the jurisdiction of the Associate Chief Counsel (Corporate), the Associate Chief Counsel (Financial Institutions & Products), the Associate Chief Counsel (Income Tax & Accounting), the Associate Chief Counsel (Passthroughs & Special Industries), the Associate Chief Counsel (Procedure and Administration), and the Division Counsel/Associate Chief Counsel (Tax Exempt and Government Entities) relating to issues on which the Internal Revenue Service will not issue letter rulings or determination letters.

.02 In Rev. Proc. 2005-62, page 507, this Bulletin, the Service provides a safe harbor with respect to the tax treatment of certain cost recovery transactions by regulated investor owned utility companies.

SECTION 3. PROCEDURE

Rev. Proc. 2005-3 is amplified by adding the following to section 3.01: Sections 61, 451 and 1001. Gross Income Defined; General Rule for Taxable Year of Inclusion; Determination of Amount and Recognition of Gain or Loss. Whether, under authorization by an appropriate State agency to recover certain costs pursuant to State specified cost recovery legislation, any investor-owned utility company realizes income upon: (1) the creation of an intangible property right; (2) the transfer of that intangible property right; or (3) the securitization of the intangible property right.

SECTION 4. EFFECT ON OTHER DOCUMENTS

Rev. Proc. 2005-3 is amplified.

SECTION 5. EFFECTIVE DATE

This revenue procedure applies to all ruling requests pending or submitted after September 12, 2005.

SECTION 6. DRAFTING INFORMATION

The principal author of this revenue procedure is Thomas M. Preston of the Office of Associate Chief Counsel (Financial Institutions & Products). For further information regarding this revenue procedure, contact Mr. Preston at (202) 622-3970 (not a toll-free call).

26 CFR 601.105: Examination of returns and claims for refund, credit, or abatement; determination of correct tax liability.
(Also: Part I, §§ 61, 451, 1001.)

Rev. Proc. 2005-62

SECTION 1. PURPOSE

This revenue procedure sets forth the manner in which a public utility company may treat the issuance of a financing order by a State agency authorizing the recovery of certain specified costs incurred by the utility and the securitization of the rights created by that financing order.

SECTION 2. BACKGROUND

Revenue Procedure 2002-49, 2002-2 C.B. 172, provides a safe-harbor regarding the treatment of legislatively authorized transactions entered into by investor-owned electric utilities to recover transition costs resulting from the restructuring of the electric utility industry and the institution of a competitive marketplace. Some States enacted legislation to allow the recovery of these transition costs through a non-bypassable surcharge to customers within a utility's historic service area.

Utilities continue to operate in wholly or partially regulated environments and

maintain exclusive distribution networks for customers in their historic service areas. Rates charged for these operations are determined by local authorities to allow for the recovery of costs and an appropriate return on capital. Some States have enacted legislation that allows utilities to recover certain specified costs through a surcharge based on consumption by customers within the utilities' historic service areas and also authorizes securitization of the surcharge. These statutes are unique to regulated utilities. Accordingly, the tax treatment allowed by this revenue procedure for these transactions is peculiar to this situation. See Revenue Procedure 2005-61, page 507, this Bulletin, which adds certain related issues to areas in which rulings or determination letters will not be issued.

SECTION 3. CHANGES

The scope of Revenue Procedure 2002-49 was limited to transition costs that resulted from the deregulation of the generation operations of electric utility companies. This revenue procedure expands the scope of Revenue Procedure 2002-49 to all public utility companies, and costs that are recoverable through a securitization mechanism are not limited to transition costs. Additionally, this revenue procedure eliminates certain requirements in section 4.04(3) of Revenue Procedure 2002-49 relating to level payments and now requires that payments be made on a quarterly or semiannual basis.

SECTION 4. SCOPE

This revenue procedure applies to investor-owned public utility companies that, pursuant to specified cost recovery legislation, receive an irrevocable financing order from an appropriate State agency that determines the amount of certain specified costs the utility will be permitted to recover through qualifying securitization of an intangible property right created by the special legislation.

SECTION 5. DEFINITIONS

.01 PUBLIC UTILITY

For purposes of this revenue procedure, the terms “public utility” or “utility” refer to any investor owned utility company (electric or non-electric) that is subject to the regulatory authority of a State public utility commission or other appropriate State agency.

.02 SPECIFIED COST RECOVERY LEGISLATION

For purposes of this revenue procedure, specified cost recovery legislation is legislation that—

(1) Is enacted by a State to facilitate the recovery of certain specified costs incurred by a public utility company;

(2) Authorizes the utility to apply for, and authorizes the public utility commission or other appropriate State agency to issue, a financing order determining the amount of specified costs the utility will be allowed to recover;

(3) Provides that pursuant to the financing order, the utility acquires an intangible property right to charge, collect, and receive amounts necessary to provide for the full recovery of the specified costs determined to be recoverable, and assures that the charges are non-bypassable and will be paid by customers within the utility’s historic service territory who receive utility goods or services through the utility’s transmission and distribution system, even if those customers elect to purchase these goods or services from a third party;

(4) Guarantees that neither the State nor any of its agencies has the authority to rescind or amend the financing order, to revise the amount of specified costs, or in any way to reduce or impair the value of the intangible property right, except as may be contemplated by periodic adjustments authorized by the specified cost recovery legislation;

(5) Provides procedures assuring that the sale, assignment, or other transfer of the intangible property right from the utility to a financing entity that is wholly owned, directly or indirectly, by the utility will be perfected under State law as an absolute transfer of the utility’s right, title, and interest in the property; and

(6) Authorizes the securitization of the intangible property right to recover the fixed amount of specified costs through the issuance of bonds, notes, other evidences of indebtedness, or certificates of participation or beneficial interest that are issued pursuant to an indenture, contract, or other agreement of a utility or a financing entity that is wholly owned, directly or indirectly, by the utility.

.03 SPECIFIED COSTS

For purposes of this revenue procedure, specified costs are those costs identified by the State legislature as appropriate for recovery through the securitization mechanism of the specified cost recovery legislation.

.04 QUALIFYING SECURITIZATION

For purposes of this revenue procedure, a qualifying securitization is an issuance of any bonds, notes, other evidences of indebtedness, or certificates of participation or beneficial interests that—

(1) Is secured by the intangible property right to collect charges for the recovery of specified costs and such other assets, if any, of the financing entity that is wholly owned, directly or indirectly, by the utility;

(2) Is issued by a financing entity that is wholly owned, directly or indirectly, by the utility that is initially capitalized by the utility in such a way that equity interests in the financing entity are at least 0.5 percent of the aggregate principal amount of the non-equity instruments issued; and

(3) Provides for payments on a quarterly or semiannual basis.

SECTION 6. APPLICATION

.01 The utility will be treated as not recognizing gross income upon—

(1) The receipt of a financing order that creates an intangible property right in the amount of the specified costs that may be recovered through securitization;

(2) The receipt of cash or other valuable consideration in exchange for the transfer of that property right to a financing entity that is wholly owned, directly or indirectly, by the utility; or

(3) The receipt of cash or other valuable consideration in exchange for securitized instruments issued by the financing entity that is wholly owned, directly or indirectly, by the utility.

.02 The securitized instruments described in Section 5.04 will be treated as obligations of the utility.

.03 The non-bypassable charges are gross income to the utility recognized under the utility’s usual method of accounting.

SECTION 7. EFFECT ON OTHER DOCUMENTS

This document modifies, amplifies, and supersedes Rev. Proc. 2002–49.

SECTION 8. EFFECTIVE DATE

This revenue procedure is effective September 12, 2005.

SECTION 9. DRAFTING INFORMATION

The principal author of this revenue procedure is Thomas M. Preston of the Office of Associate Chief Counsel (Financial Institutions & Products). For further information regarding this revenue procedure, contact Mr. Preston at (202) 622–3970 (not a toll-free call).

Utility Securitization Transactions, 1997 – 2019

#	Issuer	Deal Amount (\$)	Pricing Date
1	AEP Texas Restoration Funding LLC	\$235,282,000	9/11/2019
2	Public Service New Hampshire Funding Llc.	635,663,200	5/1/2018
3	Duke Energy Florida Project Finance LLC	1,294,290,000	6/15/2016
4	Entergy New Orleans Storm Recovery Funding I	98,730,000	7/14/2015
5	Dept. of Business, Economic Development, and Tourism / Hawaii Electric	150,000,000	11/13/2014
6	Louisiana Utilities Restoration Corporation Project/ELL	243,850,000	7/29/2014
7	Louisiana Local Government System Restoration/EGSL	71,000,000	7/29/2014
8	Consumers 2014 Securitization Funding LLC	378,000,000	7/14/2014
9	Appalachian Consumer Rate Relief Funding LLC	380,300,000	11/6/2013
10	Ohio Phase-In-Recovery Funding LLC	267,408,000	7/23/2013
11	FirstEnergy Ohio PIRB Special Purpose Trust	444,922,000	6/12/2013
12	AEP Texas Central Funding III	800,000,000	3/7/2012
13	Centerpoint Energy Transmission Bond Co. IV	1,695,000,000	1/11/2012
14	Entergy Louisiana Investment Recovery Funding I, LLC	207,156,000	9/15/2011
15	Entergy Arkansas Energy Restoration Funding LLC	124,100,000	8/11/2010
16	Louisiana Utilities Restoration Corporation Project/ELL	468,900,000	7/15/2010
17	Louisiana Utilities Restoration Corporation Project/EGSL	244,100,000	7/15/2010
18	MP Environmental Funding LLC	64,380,000	12/16/2009
19	PE Environmental Funding LLC	21,510,000	12/16/2009
20	CenterPoint Energy Restoration Bond	664,859,000	11/18/2009
21	Entergy Texas Restoration Funding	545,900,000	10/29/2009
22	Louisiana Public Facilities Authority	278,400,000	8/20/2008
23	Louisiana Public Facilities Authority	687,700,000	7/22/2008
24	Cleco Katrina/Rita Hurricane Recovery Funding LLC 2008	180,600,000	2/28/2008
25	CenterPoint Energy Transition Bond Company III	488,472,000	1/29/2008
26	Entergy Gulf States Reconstruction Funding I, LLC	329,500,000	6/22/2007
27	RSB BondCo LLC (BG&E sponsor)	623,200,000	6/22/2007
28	FPL Recovery Funding LLC	652,000,000	5/15/2007
29	MP Environmental Funding LLC	344,475,000	4/3/2007
30	PE Environmental Funding, LLC	114,825,000	4/3/2007
31	AEP Texas Central Transition Funding II	1,739,700,000	10/4/2006
32	JCP&L Transition Funding II	182,400,000	8/4/2006
33	Centerpoint Energy Series A	1,851,000,000	12/9/2005
34	PG&E Energy Recovery Funding LLC Series 2005-2	844,461,000	11/3/2005
35	West Penn Power	115,000,000	9/22/2005
36	PSE&G 2005-1	102,700,000	9/9/2005
37	Massachusetts RRB Special Purpose Trust 2005-1	674,500,000	2/15/2005

#	Issuer	Deal Amount (\$)	Pricing Date
38	PG&E Energy Recovery Funding LLC Series 2005-1	1,887,864,000	2/3/2005
39	Rockland Electric Company	46,300,000	7/28/2004
40	Oncor (TXU) 2004-1	789,777,000	5/28/2004
41	Atlantic City Electric	152,000,000	12/18/2003
42	Oncor 2003-1	500,000,000	8/14/2003
43	Atlantic City Electric	440,000,000	12/11/2002
44	JCP&L Transition Funding LLC	320,000,000	6/4/2002
45	CPL Transition Funding LLC	797,334,897	1/31/2002
46	PSNH Funding LLC 2	50,000,000	1/16/2002
47	Consumers Funding LLC	468,592,000	10/31/2001
48	CenterPoint Energy Transition Bond Company I	748,987,000	10/17/2001
49	Western Mass Electric	155,000,000	5/14/2001
50	PSNH Funding LLC	525,000,000	4/20/2001
51	CL&P Funding LLC	1,438,400,000	3/27/2001
52	Detroit Edison 2001-1	1,750,000,000	3/2/2001
53	PECO 2001-A	805,500,000	2/15/2001
54	PSE&G 2001-A	2,525,000,000	1/25/2001
55	PECO 2000-A	1,000,000,000	4/27/2000
56	West Penn Power	600,000,000	11/3/1999
57	Pennsylvania Power & Light	2,420,000,000	7/29/1999
58	Boston Edison	725,000,000	7/27/1999
59	Sierra Pacific Power	24,000,000	4/8/1999
60	PECO Energy	4,000,100,000	3/18/1999
61	Montana Power	64,000,000	12/22/1998
62	Illinois Power	864,000,000	12/10/1998
63	Commonwealth Edison	3,400,000,000	12/7/1998
64	San Diego Gas & Electric	657,900,000	12/4/1997
65	Southern California Edison	2,463,000,000	12/4/1997
66	Pacific Gas & Electric	2,901,000,000	11/25/1997
Total		\$50,763,038,097	

Source: Guggenheim Securities; SEC Registration Statements

Preliminary Transaction Structures

DEC Assumptions	
Total Debt	\$230,800,000
Scheduled Maturity (year)	14.7
Legal Final (year)	16.7
Annual Servicing Fee	\$115,400
Ongoing Expenses	\$266,379
Allocated Trust Expenses	\$52,937
Payment Frequency	Semi-Annual

DEC Capital Structure ⁽¹⁾⁽²⁾⁽³⁾									
Class	Balance (\$)	Benchmark	Benchmark Rate ⁽⁴⁾	Spread	Coupon	WAL (yrs)	Prin Wind. (yrs)	Sch Mat (yrs)	Legal Final (yrs)
A-1	\$24,200,000	1yr UST	0.13%	+20	0.33%	1.4	0.7 - 2.2	2.2	4.2
A-2	30,700,000	3yr UST	0.19%	+40	0.59%	3.2	2.2 - 4.2	4.2	6.2
A-3	71,800,000	7yr UST	0.54%	+55	1.09%	6.5	4.2 - 8.7	8.7	10.7
A-4	52,400,000	10yr UST	0.78%	+70	1.48%	10.4	8.7 - 11.7	11.7	13.7
A-5	51,700,000	10yr UST	0.78%	+85	1.63%	13.5	11.7 - 14.7	14.7	16.7
Total / WA	\$230,800,000		0.56%	+59	1.15%	8.0	0.7 - 14.7	14.7	16.7

DEC Revenues (\$mm) ⁽⁵⁾⁽⁶⁾	Yr 1	Yr 2	Yr 3	Yr 4	Yr 5	Yr 6	Yr 7	Yr 8	Yr 9	Yr 10	Yr 11	Yr 12	Yr 13	Yr 14	Yr 15
Revenue Requirement (Debt Svc & Expenses)	18.1	18.1	18.1	18.1	18.1	18.1	18.1	18.1	18.1	18.1	18.1	18.1	18.1	18.1	9.0
Actual Collections	18.2	18.2	18.1	18.1	18.1	18.1	18.1	18.1	18.1	18.1	18.1	18.1	18.1	18.1	9.2
Less: Servicing Fee Paid	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Less: Ongoing Expenses Paid	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.1
Less: Trust Notes Expenses Paid	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.03
Less: Excess Funds Subaccount Deposit / (Withdrawal)	0.1	0.1	0.0	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.2)
Cash Flow Available for Debt Service	17.6	17.6	17.6	17.6	17.6	17.6	17.6	17.6	17.6	17.6	17.6	17.6	17.6	17.6	9.2

DEC Cash Flow (\$mm)	Yr 1	Yr 2	Yr 3	Yr 4	Yr 5	Yr 6	Yr 7	Yr 8	Yr 9	Yr 10	Yr 11	Yr 12	Yr 13	Yr 14	Yr 15
Class A-1 Beginning Balance	24.2	9.7	-	-	-	-	-	-	-	-	-	-	-	-	-
Class A-1 Interest	0.1	0.0	-	-	-	-	-	-	-	-	-	-	-	-	-
Class A-1 Principal	14.5	9.7	-	-	-	-	-	-	-	-	-	-	-	-	-
Class A-1 Ending Balance	9.7	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Class A-2 Beginning Balance	30.7	30.7	25.3	10.2	-	-	-	-	-	-	-	-	-	-	-
Class A-2 Interest	0.2	0.2	0.1	0.0	-	-	-	-	-	-	-	-	-	-	-
Class A-2 Principal	-	5.4	15.1	10.2	-	-	-	-	-	-	-	-	-	-	-
Class A-2 Ending Balance	30.7	25.3	10.2	-	-	-	-	-	-	-	-	-	-	-	-
Class A-3 Beginning Balance	71.8	71.8	71.8	71.8	66.8	51.5	36.0	20.3	4.5	-	-	-	-	-	-
Class A-3 Interest	0.9	0.8	0.8	0.8	0.7	0.5	0.4	0.2	0.0	-	-	-	-	-	-
Class A-3 Principal	-	-	-	5.0	15.3	15.5	15.7	15.8	4.5	-	-	-	-	-	-
Class A-3 Ending Balance	71.8	71.8	71.8	66.8	51.5	36.0	20.3	4.5	-	-	-	-	-	-	-
Class A-4 Beginning Balance	52.4	52.4	52.4	52.4	52.4	52.4	52.4	52.4	52.4	40.8	24.6	8.1	-	-	-
Class A-4 Interest	0.9	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.7	0.5	0.3	0.1	-	-	-
Class A-4 Principal	-	-	-	-	-	-	-	-	11.6	16.3	16.5	8.1	-	-	-
Class A-4 Ending Balance	52.4	52.4	52.4	52.4	52.4	52.4	52.4	52.4	40.8	24.6	8.1	-	-	-	-
Class A-5 Beginning Balance	51.7	51.7	51.7	51.7	51.7	51.7	51.7	51.7	51.7	51.7	51.7	51.7	43.0	26.0	8.7
Class A-5 Interest	1.0	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.6	0.4	0.1
Class A-5 Principal	-	-	-	-	-	-	-	-	-	-	-	8.7	17.0	17.3	8.7
Class A-5 Ending Balance	51.7	51.7	51.7	51.7	51.7	51.7	51.7	51.7	51.7	51.7	51.7	43.0	26.0	8.7	-
Total DS	17.6	17.6	17.6	17.6	17.6	17.6	17.6	17.6	17.6	17.6	17.6	17.6	17.6	17.6	8.8

Note: Collections less expenses and excess funds subaccount deposits / (withdrawals) may not equal Cash Flow Available for Debt Service due to rounding.

DEP Assumptions	
Total Debt	\$748,000,000
Scheduled Maturity (year)	14.7
Legal Final (year)	16.7
Annual Servicing Fee	\$374,000
Ongoing Expenses	\$359,496
Allocated Trust Expenses	\$171,563
Payment Frequency	Semi-Annual

DEP Capital Structure ⁽¹⁾⁽²⁾⁽³⁾									
Class	Balance (\$)	Benchmark	Benchmark Rate ⁽⁴⁾	Spread	Coupon	WAL (yrs)	Prin Wind. (yrs)	Sch Mat (yrs)	Legal Final (yrs)
A-1	\$78,500,000	1yr UST	0.13%	+20	0.33%	1.4	0.7 - 2.2	2.2	4.2
A-2	99,500,000	3yr UST	0.19%	+40	0.59%	3.2	2.2 - 4.2	4.2	6.2
A-3	232,600,000	7yr UST	0.54%	+55	1.09%	6.5	4.2 - 8.7	8.7	10.7
A-4	169,800,000	10yr UST	0.78%	+70	1.48%	10.4	8.7 - 11.7	11.7	13.7
A-5	167,600,000	10yr UST	0.78%	+85	1.63%	13.5	11.7 - 14.7	14.7	16.7
Total / WA	\$748,000,000		0.56%	+59	1.15%	8.0	0.7 - 14.7	14.7	16.7

DEP Revenues (\$mm) ⁽⁵⁾⁽⁶⁾	Yr 1	Yr 2	Yr 3	Yr 4	Yr 5	Yr 6	Yr 7	Yr 8	Yr 9	Yr 10	Yr 11	Yr 12	Yr 13	Yr 14	Yr 15
Revenue Requirement (Debt Svc & Expenses)	58.1	58.1	58.1	58.1	58.1	58.1	58.1	58.1	58.1	58.1	58.1	58.1	58.1	58.1	29.0
Actual Collections	58.7	58.4	58.1	58.0	58.1	58.1	58.1	58.1	58.1	58.1	58.1	58.1	58.1	58.1	29.7
Less: Servicing Fee Paid	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.2
Less: Ongoing Expenses Paid	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.2
Less: Trust Notes Expenses Paid	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.1
Less: Excess Funds Subaccount Deposit / (Withdrawal)	0.6	0.3	0.0	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	0.0	(0.0)	(0.0)	(0.0)	(0.9)
Cash Flow Available for Debt Service	57.2	57.2	57.2	57.2	57.2	57.2	57.2	57.2	57.2	57.2	57.2	57.2	57.2	57.2	30.1

DEP Bond Cash Flow (\$mm)	Yr 1	Yr 2	Yr 3	Yr 4	Yr 5	Yr 6	Yr 7	Yr 8	Yr 9	Yr 10	Yr 11	Yr 12	Yr 13	Yr 14	Yr 15
Class A-1 Beginning Balance	78.5	31.4	-	-	-	-	-	-	-	-	-	-	-	-	-
Class A-1 Interest	0.3	0.1	-	-	-	-	-	-	-	-	-	-	-	-	-
Class A-1 Principal	47.1	31.4	-	-	-	-	-	-	-	-	-	-	-	-	-
Class A-1 Ending Balance	31.4	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Class A-2 Beginning Balance	99.5	99.5	82.1	33.2	-	-	-	-	-	-	-	-	-	-	-
Class A-2 Interest	0.7	0.6	0.4	0.1	-	-	-	-	-	-	-	-	-	-	-
Class A-2 Principal	-	17.4	49.0	33.2	-	-	-	-	-	-	-	-	-	-	-
Class A-2 Ending Balance	99.5	82.1	33.2	-	-	-	-	-	-	-	-	-	-	-	-
Class A-3 Beginning Balance	232.6	232.6	232.6	232.6	216.5	166.8	116.6	65.8	14.4	-	-	-	-	-	-
Class A-3 Interest	3.0	2.5	2.5	2.5	2.2	1.7	1.1	0.6	0.1	-	-	-	-	-	-
Class A-3 Principal	-	-	-	16.1	49.7	50.2	50.8	51.4	14.4	-	-	-	-	-	-
Class A-3 Ending Balance	232.6	232.6	232.6	216.5	166.8	116.6	65.8	14.4	-	-	-	-	-	-	-
Class A-4 Beginning Balance	169.8	169.8	169.8	169.8	169.8	169.8	169.8	169.8	169.8	132.3	79.6	26.1	-	-	-
Class A-4 Interest	2.9	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.4	1.8	1.0	0.2	-	-	-
Class A-4 Principal	-	-	-	-	-	-	-	-	37.5	52.7	53.5	26.1	-	-	-
Class A-4 Ending Balance	169.8	169.8	169.8	169.8	169.8	169.8	169.8	169.8	132.3	79.6	26.1	-	-	-	-
Class A-5 Beginning Balance	167.6	167.6	167.6	167.6	167.6	167.6	167.6	167.6	167.6	167.6	167.6	167.6	139.5	84.4	28.4
Class A-5 Interest	3.2	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.0	1.1	0.2
Class A-5 Principal	-	-	-	-	-	-	-	-	-	-	-	-	28.1	55.1	28.4
Class A-5 Ending Balance	167.6	167.6	167.6	167.6	167.6	167.6	167.6	167.6	167.6	167.6	167.6	139.5	84.4	28.4	-
Total DS	57.2	57.2	57.2	57.2	57.2	57.2	57.2	57.2	57.2	57.2	57.2	57.2	57.2	57.2	28.6

Note: Collections less expenses and excess funds subaccount deposits / (withdrawals) may not equal Cash Flow Available for Debt Service due to rounding.

SRB Securities Assumptions	
Total Debt	\$978,800,000
Scheduled Maturity (year)	14.7
Legal Final (year)	16.7
Annual Servicing Fee	\$0
Ongoing Expenses	\$224,500
Payment Frequency	Semi-Annual

SRB Securities Capital Structure ⁽¹⁾⁽²⁾⁽³⁾									
Class	Balance (\$)	Benchmark	Benchmark Rate ⁽⁴⁾	Spread	Coupon	WAL (yrs)	Prin Wind. (yrs)	Sch Mat (yrs)	Legal Final (yrs)
A-1	\$102,700,000	1yr UST	0.13%	+20	0.33%	1.4	0.7 - 2.2	2.2	4.2
A-2	130,200,000	3yr UST	0.19%	+40	0.59%	3.2	2.2 - 4.2	4.2	6.2
A-3	304,400,000	7yr UST	0.54%	+55	1.09%	6.5	4.2 - 8.7	8.7	10.7
A-4	222,200,000	10yr UST	0.78%	+70	1.48%	10.4	8.7 - 11.7	11.7	13.7
A-5	219,300,000	10yr UST	0.78%	+85	1.63%	13.5	11.7 - 14.7	14.7	16.7
Total / WA	\$978,800,000		0.56%	+59	1.15%	8.0	0.7 - 14.7	14.7	16.7

SRB Securities Revenues (\$mm) ⁽⁵⁾⁽⁶⁾	Yr 1	Yr 2	Yr 3	Yr 4	Yr 5	Yr 6	Yr 7	Yr 8	Yr 9	Yr 10	Yr 11	Yr 12	Yr 13	Yr 14	Yr 15
DEC Collections (Debt Svc & Expenses)	17.7	17.7	17.7	17.7	17.7	17.7	17.7	17.7	17.7	17.7	17.7	17.7	17.7	17.7	8.8
DEP Collections (Debt Svc & Expenses)	57.3	57.3	57.3	57.3	57.3	57.3	57.3	57.3	57.3	57.3	57.3	57.3	57.3	57.3	28.7
Less: Ongoing Expenses Paid	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.1
Cash Flow Available for Debt Service	74.8	74.8	74.8	74.8	74.8	74.8	74.8	74.8	74.8	74.8	74.8	74.8	74.8	74.8	37.4

SRB Securities Cash Flow (\$mm)	Yr 1	Yr 2	Yr 3	Yr 4	Yr 5	Yr 6	Yr 7	Yr 8	Yr 9	Yr 10	Yr 11	Yr 12	Yr 13	Yr 14	Yr 15
Class A-1 Beginning Balance	102.7	41.0	-	-	-	-	-	-	-	-	-	-	-	-	-
Class A-1 Interest	0.3	0.1	-	-	-	-	-	-	-	-	-	-	-	-	-
Class A-1 Principal	61.7	41.0	-	-	-	-	-	-	-	-	-	-	-	-	-
Class A-1 Ending Balance	41.0	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Class A-2 Beginning Balance	130.2	130.2	107.4	43.4	-	-	-	-	-	-	-	-	-	-	-
Class A-2 Interest	0.9	0.8	0.5	0.2	-	-	-	-	-	-	-	-	-	-	-
Class A-2 Principal	-	22.8	64.1	43.4	-	-	-	-	-	-	-	-	-	-	-
Class A-2 Ending Balance	130.2	107.4	43.4	-	-	-	-	-	-	-	-	-	-	-	-
Class A-3 Beginning Balance	304.4	304.4	304.4	304.4	283.3	218.3	152.5	86.1	18.9	-	-	-	-	-	-
Class A-3 Interest	3.9	3.3	3.3	3.3	2.9	2.2	1.5	0.8	0.1	-	-	-	-	-	-
Class A-3 Principal	-	-	-	21.1	65.0	65.7	66.5	67.2	18.9	-	-	-	-	-	-
Class A-3 Ending Balance	304.4	304.4	304.4	283.3	218.3	152.5	86.1	18.9	-	-	-	-	-	-	-
Class A-4 Beginning Balance	222.2	222.2	222.2	222.2	222.2	222.2	222.2	222.2	222.2	173.1	104.2	34.2	-	-	-
Class A-4 Interest	3.8	3.3	3.3	3.3	3.3	3.3	3.3	3.3	3.2	2.3	1.3	0.3	-	-	-
Class A-4 Principal	-	-	-	-	-	-	-	-	49.1	68.9	70.0	34.2	-	-	-
Class A-4 Ending Balance	222.2	222.2	222.2	222.2	222.2	222.2	222.2	222.2	173.1	104.2	34.2	-	-	-	-
Class A-5 Beginning Balance	219.3	219.3	219.3	219.3	219.3	219.3	219.3	219.3	219.3	219.3	219.3	219.3	182.5	110.4	37.1
Class A-5 Interest	4.2	3.6	3.6	3.6	3.6	3.6	3.6	3.6	3.6	3.6	3.6	3.6	2.7	1.5	0.3
Class A-5 Principal	-	-	-	-	-	-	-	-	-	-	-	-	36.8	72.1	37.1
Class A-5 Ending Balance	219.3	219.3	219.3	219.3	219.3	219.3	219.3	219.3	219.3	219.3	219.3	182.5	110.4	37.1	-
Total DS	74.8	74.8	74.8	74.8	74.8	74.8	74.8	74.8	74.8	74.8	74.8	74.8	74.8	74.8	37.4

Note: Collections less expenses may not equal Cash Flow Available for Debt Service due to rounding.

Notes:

- (1) Structure is preliminary and subject to change based on market conditions and rating agency requirements at the time of pricing.
- (2) Structure is based in part upon information supplied by the Company, which is believed to be reliable but has not been verified.
No representation or warranty is being made relating to this structure. Estimates of future performance are based on assumptions that may not be realized. Actual events may differ from those assumed and changes to any assumptions may have a material impact on any projections or estimates. Other events not taken into account may occur and may significantly affect the projections or estimates. Certain assumptions may have been made for modeling purposes only to simplify the presentation and/or calculation of any projections or estimates. No assurance can be given that any such assumptions will reflect actual future events.
- (3) Assumes “AAAsf” ratings.
- (4) Benchmark rates as of October 9, 2020.

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

DOCKET NO. E-7, SUB 1243

DOCKET NO. E-2, SUB 1262

In the Matter of:)	
	)	DIRECT TESTIMONY OF
Petition of Duke Energy Carolinas, LLC	)	MELISSA ABERNATHY
And Duke Energy Progress, LLC for	)	FOR DUKE ENERGY
Issuance of Storm Cost Recovery Financing	)	CAROLINAS, LLC AND DUKE
Orders	)	ENERGY PROGRESS, LLC

I. INTRODUCTION

1 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

2 A. My name is Melissa Abernathy, and my business address is 550 South Tryon
3 Street, Charlotte, North Carolina.

4 **Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

5 A. I am a Director of Rates & Regulatory Planning for North Carolina and South
6 Carolina, employed by Duke Energy Carolinas, LLC (“DEC”), testifying on
7 behalf of DEC and Duke Energy Progress, LLC (“DEP”) (each a “Company”
8 or collectively “the Companies”).

9 **Q. PLEASE BRIEFLY SUMMARIZE YOUR EDUCATIONAL**
10 **BACKGROUND AND PROFESSIONAL EXPERIENCE.**

11 A. I graduated from the University of North Carolina at Chapel Hill with a
12 Bachelor of Science degree in Business Administration and Master of
13 Accountancy degree. I am a Certified Public Accountant licensed in the State
14 of North Carolina. My work experience prior to Duke Energy Corporation
15 (“Duke Energy”) was with Deloitte and Touche, LLP as an Audit Manager,
16 primarily serving clients in the energy industry. I began my employment with
17 Duke Energy in 2009 in the Corporate Audit Services Department and I joined
18 Asset Accounting in March 2015. In 2020, I moved to my current position in
19 the Rates Department as Director of Rates & Regulatory Planning and am
20 responsible for managing general rate cases, storm securitization and other
21 deferral reporting.

1 **Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE NORTH**
2 **CAROLINA UTILITIES COMMISSION (“COMMISSION”)?**

3 A. No.

4 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS**
5 **PROCEEDING?**

6 A. The purpose of my testimony is to support the calculation of the DEC and DEP
7 revenue requirements for the proposed charges to customers necessary to pay
8 the storm recovery costs and financing costs of each Company, the “storm
9 recovery charges,” as a result of Hurricanes Florence, Michael, Dorian, and
10 Winter Storm Diego (“Storms”). The storm recovery costs consist of each
11 Company’s incremental operation and maintenance (“O&M”) expenses
12 deferred as regulatory assets as originally requested in each Storm Deferral
13 Docket (as defined below), as well as the associated capital investments
14 incurred during the Storms and accrued carrying charges.

15 The incremental O&M expenses and capital investments were the
16 subject of DEC’s Petition for An Accounting Order to Defer Incremental Storm
17 Damage Expenses Incurred filed in Docket No. E-7, Sub 1187 and DEP’s
18 Docket No. E-2, Sub 1193 (each, a “Storm Deferral Docket”). The Storm
19 Deferral Dockets for DEC and DEP were then consolidated into each
20 Company’s 2019 general rate cases in DEC Docket No. E-7, Sub 1214 and DEP
21 Docket No. E-2, Sub 1219 (“2019 Rate Cases”). In each Company’s
22 Agreement and Stipulation of Partial Settlement with the North Carolina

1 Utilities Commission—Public Staff (“Public Staff”) (each, a “Stipulation”),¹
2 DEC and DEP agreed to remove capital investments and incremental O&M
3 expenses and accrued carrying charges associated with the Storms from the
4 2019 Rate Cases, and begin the process to seek recovery of the storm recovery
5 costs in accordance with approved securitization financing orders under N.C.
6 Gen. Stat. § 62-172 (the “Securitization Statute”). In addition, the Public Staff,
7 through the 2019 Rate Cases, reviewed the costs of the Storms and filed
8 testimony stating that the costs were prudently incurred.² At this time, the
9 Company is still awaiting an order in the 2019 Rate Cases with the
10 determination that the storm costs were reasonable and prudent and will not
11 proceed with securitizing until such an order is received and the Commission
12 approves DEC and DEP’s proposed Financing Orders provided as exhibits to
13 the Companies’ Joint Petition for Financing Orders (“Joint Petition”).

14 The proposed storm recovery charges are independent of and
15 incremental to DEC and DEP’s North Carolina retail base rates. The proposed
16 storm recovery charges are usage-based charges that under the Securitization
17 Statute, would be required to be paid by all existing or future retail customers
18 receiving transmission or distribution service, or both, from DEC or DEP or its
19 successors or assignees under Commission-approved rate schedules or under

¹ The Stipulations for DEC and DEP were filed on March 25, 2020 and June 2, 2020, respectively.

² See Direct Testimony of Michelle M Boswell on Behalf of the Public Staff, at 27-28, Docket No. E-7, Sub 1214 (filed Feb. 18, 2020); Direct Testimony of Shawn L. Dorgan on Behalf of the Public Staff, at 32, Docket No. E-2, Sub 1219 (filed Apr. 13, 2020); Supplemental Direct Testimony of Shawn L. Dorgan on Behalf of the Public Staff, at 9, Docket No. E-2, Sub 1219 (filed Apr. 23, 2020).

1 special contracts. The testimony of witness Jonathan Byrd discusses the
2 calculation of the storm recovery charges by rate class.

3 As discussed in witness Thomas J. Heath, Jr.'s testimony, each
4 Company is proposing the use of the proceeds from the sale of a series of storm
5 recovery bonds as the recommended method of recovering storm related
6 deferred expenses, capital investments, accrued carrying charges and financing
7 costs after considering the traditional method of recovering such costs. Based
8 on current market conditions, I will demonstrate that the issuance of storm
9 recovery bonds and the imposition of the relevant storm recovery charges are
10 expected to provide quantifiable benefits to customers of each Company as
11 compared with the traditional method of financing and recovering storm
12 recovery costs (the "Traditional Recovery Method" which is discussed later in
13 my testimony).

14 **Q. WHAT IS THE SCOPE OF YOUR TESTIMONY?**

15 A. My testimony is principally devoted to: (i) identifying and estimating the
16 revenue requirement necessary to recover the storm recovery costs that each
17 Company proposes to finance using storm recovery bonds and recover through
18 storm recovery charges; (ii) providing a comparison between the net present
19 value of the costs to customers that are estimated to result from the issuances
20 of storm recovery bonds and the costs that would result from the application of
21 the Traditional Recovery Method; (iii) describing changes in storm recovery
22 costs since the last update in the 2019 Rate Cases; (iv) describing the allocation

1 methodology for the storm recovery charges; and (v) addressing whether the
2 Companies plan to establish a storm recovery reserve at this time.

3 Barring significant changes in the terms of an issuance of storm
4 recovery bonds, or significant changes in embedded benchmark interest rates
5 or credit spreads of securitization bonds, the results presented in my testimony,
6 including the revenue requirement for the proposed storm recovery charges,
7 should closely approximate the final figures.

8 My testimony addresses the following subject areas:

- 9 • A description of DEC and DEP's storm recovery costs proposed for storm
10 recovery cost financings;
- 11 • Discussion of changes in estimates of the storm recovery costs since the
12 last update in the Companies' 2019 Rate Cases;
- 13 • A description of the allocation methodology used for the storm recovery
14 charges;
- 15 • A calculation demonstrating quantifiable benefits to customers in
16 accordance with N.C. Gen. Stat. § 62-172(b)(1)g. The Companies will
17 show scenarios consistent with the terms agreed to in the Stipulations that
18 the net present value of the costs to customers under the proposed issuance
19 of storm recovery bonds and imposition of storm recovery charges is less
20 than the net present value of the costs that would result under traditional
21 storm cost recovery; and
- 22 • Discussion regarding the application of a storm recovery reserve.

1 **Q. ARE YOU SPONSORING ANY EXHIBITS TO YOUR DIRECT**
2 **TESTIMONY?**

3 A. Yes. The following exhibits are presented in conjunction with my direct
4 testimony for both DEC and DEP:

- 5 • Abernathy Exhibit 1 – Schedule of NC Retail Total Revenue Requirement
6 for Storm Recovery Charges
- 7 • Abernathy Exhibit 2 – Reconciliation of Rate Case Storm Recovery Costs
8 to Projected Storm Recovery Costs to be Securitized
- 9 • Abernathy Exhibit 3 – Allocation of Storm Recovery Charge to Customer
10 Classes
- 11 • Abernathy Exhibit 4 – Actual Storm Cost Recovery Charges Annual
12 Revenue Requirement - Storm Recovery Charge Model
- 13 • Abernathy Exhibit 5 –Traditional Recovery Model versus Storm Recovery
14 Charge Model - Quantifiable Benefit to Customers
- 15 • Abernathy Exhibit 6 – Annual Revenue Requirement - Traditional
16 Recovery Model, with supporting schedules
- 17 • Abernathy Exhibit 7 – Annual Revenue Requirement - Traditional
18 Recovery Model, with supporting schedules

19 Each of these exhibits were prepared under my direction and control, and
20 to the best of my knowledge all factual matters contained therein are true and
21 accurate.

1 **Q. DO THE COST AMOUNTS CONTAINED IN DEC AND DEP’S STORM**
2 **RECOVERY COSTS, AS DEFINED IN DIRECT TESTIMONY FILED**
3 **IN EACH COMPANY’S 2019 RATE CASES, MEET THE DEFINITION**
4 **OF STORM RECOVERY COSTS PURSUANT TO THE**
5 **SECURITIZATION STATUTE?**

6 A. Yes, for several reasons. First, the costs incurred by each Company that
7 comprise the storm recovery costs are related to the incremental O&M expense
8 and capital investments associated with the Storms. These costs include each
9 Company’s cost of capital, from the date of the storms to the date the storm
10 recovery bonds are issued, using weighted average cost of capital (“WACC”) as
11 defined in the most recent base rate case, net of applicable income tax savings
12 related to the interest component. Also, all storm recovery costs are net of
13 applicable insurance proceeds. Finally, the costs eligible for recovery pursuant
14 to the Securitization Statute that are included in the storm recovery costs are
15 reduced by the highest amount within the normal range of fluctuation included
16 in each Company’s 2019 Rate Case at the time of the Storms.

17 **Q. PLEASE DESCRIBE THE COSTS THAT MAKE UP THE DEC AND**
18 **DEP STORM RECOVERY COSTS TO BE SECURITIZED.**

19 A. The DEC and DEP storm recovery costs to be securitized are made up of the
20 components presented for each Company in their respective 2019 Rate Case
21 dockets. As I mentioned previously, the Public Staff found the storm recovery
22 costs to be prudently incurred in each Company’s 2019 Rate Case.

1 Consequently, in each Company's Stipulation, the parties agreed to remove
2 deferred incremental O&M expenses, accrued carrying charges and storm
3 capital investments from DEC and DEP's respective rate cases. The following
4 balances were removed from the rate cases per each Company's Stipulation: a
5 projected balance as of July 31, 2020 for DEC of approximately \$213 million
6 and a projected balance as of August 31, 2020 for DEP of approximately \$714
7 million. Abernathy Exhibit 2 attached to my direct testimony in this filing
8 provides the breakdown of these amounts between incremental O&M expenses,
9 capital investments, and accrued carrying charges. Abernathy Exhibit 2 also
10 provides a reconciliation of storm recovery costs as of the date of the last update
11 in each Company's 2019 Rate Case to the storm recovery costs projected
12 through May 31, 2021 to be recovered using storm recovery bonds. This
13 includes a reduction to the estimates included in the 2019 Rate Cases, which is
14 discussed later in my testimony. The storm recovery costs to be securitized also
15 include carrying charges to the date of the bond issuance, which is expected to
16 be June 1, 2021. The total projected storm recovery costs to be financed using
17 storm recovery bonds through May 31, 2021 are included in Abernathy Exhibit
18 2 attached to my direct testimony in this filing. Abernathy Exhibit 1 attached
19 to my direct testimony includes the upfront financing costs that will also be
20 financed using storm recovery bonds.

1 **Q. WERE ANY OF THE STORM RECOVERY COSTS THAT WERE**
2 **INCLUDED IN THE 2019 RATE CASES CONSIDERED TO BE**
3 **ESTIMATES WITH STORM RECOVERY ACTIVITIES STILL BEING**
4 **UNDERTAKEN, BUT NOT COMPLETED?**

5 A. Yes. The storm recovery cost estimates have continued to be refined after the
6 Stipulation was reached in each Company's 2019 Rate Case, primarily for
7 DEP's 2019 Hurricane Dorian. In addition, there were small adjustments
8 related to the 2018 Storms as the cost estimates and remaining invoices were
9 finalized and the 2018 storm projects were closed. These adjustments are
10 included in the amounts included in this Joint Petition. Accordingly, the
11 incremental O&M estimate for DEP decreased approximately \$11 million since
12 the last update in DEP's 2019 Rate Case. The incremental O&M estimate for
13 DEC has decreased by approximately \$31 thousand. Each Company's storm
14 recovery costs to be recovered through the storm recovery bonds has been
15 adjusted since the Stipulations were filed to reflect the refinement of these
16 estimates, which is reflected in Exhibit 2, attached to my direct testimony, for
17 DEC and DEP. No further adjustments to incremental O&M or capital costs
18 included in this securitization financing are expected.

1 **Q. PLEASE INDICATE WHETHER EACH COMPANY PROPOSES TO**
2 **FINANCE ALL OR A PORTION OF ITS STORM RECOVERY COSTS**
3 **INCLUDED IN THE 2019 RATE CASE REQUESTS USING STORM**
4 **RECOVERY BONDS.**

5 A. DEC and DEP propose to finance the entire balance of their respective storm
6 recovery costs. It should be noted that the storm recovery cost balances as of
7 the Joint Petition date, October 26, 2020, include increases for estimated
8 carrying charges through May 31, 2021 (the expected issuance date of the storm
9 recovery bonds).

10 **Q. PLEASE DESCRIBE OTHER COSTS THAT ARE INCLUDED IN THE**
11 **SECURITIZABLE BALANCE OF THE STORM RECOVERY BONDS**
12 **AND THE REVENUE REQUIREMENT FOR THE STORM**
13 **RECOVERY CHARGES.**

14 A. Up-Front financing costs are added to the projected storm recovery costs to
15 arrive at the total Securitizable Balance for the storm recovery bonds. These
16 amounts are quantified and described by witness Heath and are included in
17 Abernathy Exhibit 1 to arrive at the total Securitizable Balance for the storm
18 recovery bonds of approximately \$230.8 million for DEC and \$748.0 million
19 for DEP. Estimates of on-going financing costs are also included in the revenue
20 requirement for the storm recovery charges. These amounts are also quantified
21 and described by witness Heath and are included in Abernathy Exhibit 1.
22 Including the estimates of on-going financing costs, Abernathy Exhibit 1

1 calculates the total revenue requirement related to storm securitization to be
2 approximately \$262.1 million for DEC and \$842.0 million for DEP. Abernathy
3 Exhibit 4 shows this revenue requirement by year for the 15-year amortization
4 period.

5 **Q. PLEASE DESCRIBE EACH COMPANY'S REQUIREMENTS UNDER**
6 **THE STIPULATIONS TO FINANCE THE STORM RECOVERY**
7 **COSTS.**

8 A. DEC and DEP are required to demonstrate quantifiable benefits to its customers
9 in accordance with N.C. Gen. Stat. § 62-172(b)(1)g. Specifically, each
10 Company must show that the net present value of the costs to its customers from
11 an issuance of storm recovery bonds is less than the net present value of the
12 costs that would result under the Traditional Recovery Method. To achieve
13 this, for the storm recovery costs related to these Storms only, each Company
14 agreed in their respective Stipulations that when conducting this comparison,
15 the following assumptions with respect to new rates that would be imposed in
16 connection with the Traditional Recovery Method and in the absence of the
17 issuance of storm recovery bonds shall be made:

- 18 • For the Traditional Recovery Method, 12 months of amortization for each
19 Storm was expensed prior to the new rates going into effect;
- 20 • For the Traditional Recovery Method, no capital costs incurred due to the
21 Storms during the 12-month period were included in the deferred balance;
- 22 • For the Traditional Recovery Method, no carrying charges were accrued

1 on the deferred balance during the 12-month period following the date(s)
2 of the Storm(s);

- 3 • For the Traditional Recovery Method, the amortization period for the
4 Storms is a minimum of 10 years for DEC and 15 years for DEP; and
- 5 • For securitization, the imposition of the storm recovery charge begins nine
6 months after the new rates go into effect

7 **Q. WHAT AMORTIZATION PERIOD IS EACH COMPANY PROPOSING**
8 **UNDER THE STORM RECOVERY MODEL?**

9 A. Each Company is proposing a 15-year amortization period under the Storm
10 Recovery Model.

11 **Q. HOW DO THE COMPANIES PROPOSE TO TREAT CARRYING**
12 **CHARGES ON THE STORM RECOVERY COSTS?**

13 A. Given that each Company will incur carrying charges until the date of the bond
14 issuance, each Company will reflect the actual carrying charges at the time of
15 its bond issuance in its bond issuance amount. The carrying charges include
16 each Company's cost of capital from the date of the applicable storm to the date
17 the storm recovery bonds are issued, calculated using each Company's most
18 recently approved WACC, net of applicable income tax savings related to the
19 interest component. The WACC rates for DEC and DEP last approved by the
20 Commission in Docket Nos. E-7, Sub 1146 and E-2, Sub 1142 are 6.84 percent
21 and 6.64 percent, respectively. These rates will be used until the Commission
22 issues orders in the 2019 Rate Cases approving new WACCs. At that time,

1 each Company will update the WACC rates to those approved. The updated
2 WACC rates will be used to calculate projected carrying charges on the balance
3 of the storm recovery costs as of the expected new rates effective date for each
4 Company. For purposes of calculating total expected carrying costs, DEC has
5 assumed an expected new rates effective date of January 1, 2021 and DEP has
6 assumed an expected new rates effective date of February 1, 2021. If the
7 expected new rates effective dates change, the carrying charges will be updated
8 for each Company after the Commission's Order. Additionally, when
9 estimating total expected carrying charges, DEC and DEP used WACC rates of
10 6.56 percent and 6.48 percent, respectively, based on the Second Partial
11 Stipulation Agreements with the Public Staff filed as part of the 2019 Rate
12 Cases starting at the assumed new rates effective dates stated above. The
13 carrying charges will be updated for each Company if the approved WACC
14 rates differ from these assumptions.

15 **Q. HAVE THE COMPANIES INCLUDED ESTIMATED CARRYING**
16 **CHARGES BEYOND MAY 2021 FOR PURPOSES OF CALCULATING**
17 **REVENUE REQUIREMENTS AND CUSTOMER RATE IMPACTS IN**
18 **THIS FILING?**

19 A. No. All of the calculations of revenue requirements and rate impacts under the
20 proposed imposition of storm recovery charges do not include any carrying
21 charges beyond May 31, 2021. As further explained in witness Heath's
22 testimony, the Company will work to issue the storm recovery bonds as soon

1 as practicable and prior to May 31, 2021. Since the issuance date is not certain,
2 carrying charges beyond May 31, 2021 have not been estimated. However, the
3 storm recovery costs will continue to increase until the financing is complete.
4 Any delays in the debt issuance past May 31, 2021 will result in higher accrued
5 carrying charges and an ultimately higher bond issuance amount than the
6 amounts that have been included in the Joint Petition and relevant exhibits. For
7 DEC, the balance will increase by approximately \$1 million per month from the
8 projected \$226 million balance of storm recovery costs as of May 31, 2021. For
9 DEP, the balance will increase by approximately \$4 million per month from the
10 projected \$739 million balance of storm recovery costs as of May 31, 2021.

11 **Q. PLEASE DESCRIBE THE TRUE-UP MECHANISM FOR THE**
12 **ESTIMATES OF UP-FRONT AND ON-GOING FINANCING FEES, AS**
13 **OF THE DATE OF THE JOINT PETITION, THAT WILL IMPACT**
14 **THE REVENUE REQUIREMENT FOR THE COMPANIES, AND**
15 **SPECIFICALLY HOW TRUE-UPS TO THE ESTIMATES ARE**
16 **RECOVERED BY THE COMPANIES OR RETURNED TO**
17 **CUSTOMERS.**

18 A. The proceeds of the storm recovery bond issuance will be used to pay (or
19 reimburse) the Companies for the actual up-front financing costs incurred. Up-
20 front and on-going financing costs are discussed in more detail in witness
21 Heath's direct testimony. Since actual up-front financing costs will not be
22 known until after the Commission issues the Financing Orders and the storm

1 recovery bonds have been issued, if the actual up-front financing costs are
2 below the amount appearing in the issuance advice letter filed with the
3 Commission, then the difference will be credited back to customers in the true-
4 up adjustment letter as discussed in the proposed Financing Orders.
5 Conversely, if the actual up-front financing costs are in excess of the amounts
6 appearing in the issuance advice letter, the Companies have no ability to collect
7 this excess amount through the storm recovery charge. Therefore, in the Joint
8 Petition, the Companies are seeking permission to establish a regulatory asset
9 to defer any prudently incurred excess amounts of up-front financing costs to
10 preserve for later recovery in their next respective general rate case proceeding.

11 Witness Shana Angers discusses in her direct testimony the true-up
12 mechanism to ensure the recovery of revenues associated with the on-going
13 financing costs payable in connection with the storm recovery bonds.

14 **III. STORM RECOVERY RESERVE**

15 **Q. AS ALLOWED BY THE SECURITIZATION STATUTE, DO THE**
16 **COMPANIES PROPOSE TO ESTABLISH OR FUND A LEVEL OF**
17 **STORM RECOVERY RESERVE TO BE RECOVERED THROUGH**
18 **THE STORM RECOVERY BONDS?**

19 **A.** No, not at this time.

1 **IV. ALLOCATION METHODOLOGY OF THE STORM**
2 **RECOVERY CHARGE**

3 **Q. HOW DO DEC AND DEP PROPOSE TO ALLOCATE THE COSTS**
4 **RECOVERABLE BY THE PROPOSED ISSUANCE OF STORM**
5 **RECOVERY BONDS AND IMPOSITION OF THE STORM**
6 **RECOVERY CHARGES TO THE RATE CLASSES?**

7 A. Each Company proposes to allocate the costs recoverable through the issuance
8 of storm recovery bonds in the same manner the costs were allocated in DEC
9 and DEP's most recent pending 2019 Rate Cases before the costs were
10 removed. Specifically, the distribution-related costs are allocated based on a
11 composite distribution plant allocator and the transmission-related costs are
12 allocated based on a transmission demand factor, both from the 2019 Rate
13 Cases. Abernathy Exhibit 3, which is attached to my direct testimony in this
14 filing, provides details of how the storm recovery charge will be allocated to
15 each of the customer classes.

1 **V. COMPARISON OF THE STORM RECOVERY CHARGE**
2 **MODEL TO THE TRADITIONAL RECOVERY METHOD AND**
3 **QUANTIFIABLE BENEFITS TO CUSTOMERS**

4 **Q. PLEASE DESCRIBE HOW STORM CHARGES TYPICALLY PASS TO**
5 **CUSTOMERS THROUGH A TRADITIONAL RECOVERY MODEL.**

6 A. While the Public Staff and the Company disagree³ on how storm costs should
7 be treated under the Traditional Recovery Model during a deferral period, prior
8 to the first rate case following a storm, the two parties do not disagree on the
9 treatment in or after that first rate case. Typically, in a Traditional Recovery
10 Model, a utility would request permission to defer storm costs to a regulatory
11 asset on the balance sheet to be amortized over an approved multi-year
12 amortization period. Both the unamortized regulatory asset and the
13 undepreciated capital assets are included in rate base. Accordingly, customers
14 pay a return on these balances at the utility's WACC. The WACC is comprised
15 of the utility's return on equity, embedded debt cost and capital structure
16 approved in the utility's most recent general rate case. In a Traditional
17 Recovery Model, the utility would receive from its customers a monthly
18 payment over the life of the regulatory asset and over the life of the capital
19 assets, which includes a revenue requirement for the amortization expense of
20 the regulatory asset, depreciation expense for the capital assets, and the return
21 component as described above.

1 **Q. DESCRIBE HOW STORM CHARGES PASS TO CUSTOMERS**
2 **THROUGH A STORM RECOVERY CHARGE MODEL?**

3 A. As explained more fully in witness Charles N. Atkins II's testimony, in a storm
4 recovery charge model, or financing of storm costs, the utility seeks to
5 accelerate the recovery of storm costs by issuing storm recovery bonds and
6 receiving one lump sum of cash upon issuance. The benefit to customers is that
7 the carrying charges are reduced to the sum of the carrying charges through the
8 date of the issuance of storm recovery bonds and not over the life or
9 amortization period of the associated assets. The revenue requirement for the
10 customer in a storm recovery charge model is for the debt service payments,
11 which would include principal, interest and various financing costs. Typically,
12 the interest expense on the AAA-rated securitization bonds in a storm recovery
13 charge model results in a much lower rate to customers than in the Traditional
14 Recovery Model that includes a WACC return over the life of the regulatory
15 and capital assets. Customer benefits or savings are driven by the difference
16 between the Company's WACC and the interest rate on AAA-rated
17 securitization bonds.

³ These differences are documented in parties' comments from DEP's 2016 rate case, Docket No. E-2, Sub 1142, as well as each Company's 2018 storm deferral petitions, Docket No. E-7, Sub 1187 and Docket No. E-2, Sub 1193.

1 **Q. PLEASE DESCRIBE HOW THE STIPULATIONS WITH THE PUBLIC**
2 **STAFF FOR EACH COMPANY IMPACTS THE CALCULATION OF**
3 **THE REVENUE REQUIREMENT UNDER THE TRADITIONAL**
4 **RECOVERY MODEL.**

5 A. As I mentioned earlier, the Public Staff and the Companies have different
6 perspectives on how the storm costs should be treated prior to the first rate case
7 following the Storms. In the Stipulations, to resolve these differences, for the
8 purpose of showing a comparison to traditional cost recovery in this
9 securitization petition, the parties agreed in the Traditional Recovery Model to
10 expense and not defer 12-months of amortization expense prior to the first rate
11 case, and agreed to expense and not defer 12-months of capital costs prior to
12 the first rate case. The parties also agreed that the 12-months of expenses would
13 not be reflected in the revenue requirement under the Traditional Recovery
14 Model. The parties also agreed to show the rate case rates effective date 12
15 months after the date of the 2018 storms and show the date of the securitization
16 9 months after that. Abernathy Exhibit 6 attached to my direct testimony shows
17 the calculation of the revenue requirement for the Traditional Recovery Model
18 consistent with the terms of the Stipulations.

19 **Q. PLEASE DESCRIBE THE KEY DATES AND ASSUMPTIONS IN THE**
20 **TRADITIONAL RECOVERY MODEL CALCULATION.**

21 A. First, for purposes of adhering to the Stipulations, the dates of the Storms were
22 assumed to be December 31, 2018, with a new rates effective date in the

1 ongoing 2019 Rate Cases of January 1, 2020 and an issuance of storm recovery
2 bonds on October 1, 2020. Additionally, each Company assumed a projected
3 pre-tax WACC and composite tax rate from its 2019 Rate Case proceeding
4 consistent with the Second Stipulations of Partial Settlement with the Public
5 Staff. For incremental O&M storm costs, the amortization period is assumed
6 to be 15 years for each Company, which is the same amortization period that is
7 to be used for the issuance of storm recovery bonds. For storm capital
8 investments, the depreciation rate was assumed to be 2.5 percent over a 40-year
9 life.

10 **Q. IF ACTUAL DATES HAD BEEN USED, WOULD EACH COMPANY**
11 **HAVE MORE OR LESS ANNUAL REVENUE REQUIREMENT AS A**
12 **RESULT AND DO THESE ASSUMPTIONS IMPACT SAVINGS TO**
13 **CUSTOMERS?**

14 A. Temporary rates in the pending 2019 Rate Cases were effective August 24,
15 2020 for DEC and September 1, 2020 for DEP. The actual expected date for
16 the securitization financing is June 1, 2021, approximately nine months after
17 the 2019 Rate Case temporary rates effective date. In addition, for DEP, one of
18 the storms, Hurricane Dorian, occurred in late 2019, not late 2018. If these
19 actual dates were used in the comparative analysis and, consistent with the
20 Stipulations, up to 12-months of amortization expense and capital costs were
21 excluded from the revenue requirements if occurring before the first rate case,
22 the revenue requirement for both models would have increased, primarily due

1 to more accrued carrying charges, but the comparison of the two models would
2 still show savings to customers by using the storm recovery charge model as
3 compared to the Traditional Recovery Model.

4 **Q. PLEASE DESCRIBE HOW ACCUMULATED DEFERRED INCOME**
5 **TAXES (“ADIT”) ARE A COMPONENT OF THE CALCULATION OF**
6 **QUANTIFIABLE BENEFITS TO CUSTOMERS IN THE**
7 **TRADITIONAL RECOVERY MODEL AND THE STORM RECOVERY**
8 **CHARGE MODEL.**

9 A. ADIT are deferred tax assets or liabilities resulting from timing differences
10 between the method of computing taxable income for reporting to the Internal
11 Revenue Service and the method of computing taxable income for accounting
12 purposes. The deferred expenses in the regulatory asset for storms creates an
13 ADIT liability. As shown in Abernathy Exhibits 6 and 7, under both the
14 Traditional Recovery Model and the storm recovery charge model, this ADIT
15 liability is a reduction to rate base, reducing the amount of return included in a
16 revenue requirement. In the storm recovery charge model, once storm recovery
17 bonds are issued and cash is received by each Company, the regulatory asset is
18 removed from each Company’s balance sheet. However, the ADIT credit
19 associated with the regulatory asset remains on the Company’s books and
20 continues to be a reduction to rate base for the customer.

1 **Q. USING THE ASSUMPTIONS AGREED TO IN THE STIPULATIONS,**
2 **WHAT IS THE TOTAL ESTIMATED NET PRESENT VALUE OF THE**
3 **COSTS TO CUSTOMERS THAT RESULT FROM THE ISSUANCE OF**
4 **STORM RECOVERY BONDS AND THOSE THAT RESULT FROM**
5 **THE APPLICATION OF THE TRADITIONAL RECOVERY**
6 **METHOD?**

7 A. The total estimated net present value (“NPV”) of the costs to customers is
8 provided in Abernathy Exhibit 5. For DEC, by using the storm recovery charge
9 model, the estimated NPV is approximately \$122 million based on market
10 conditions that existed as of the date of the Joint Petition. By contrast, under
11 the Traditional Recovery Method, the estimated NPV is approximately \$180
12 million. The difference is approximately \$58 million, or 32%. For DEP, under
13 the storm recovery charge model, the estimated NPV is \$400 million based on
14 market conditions that existed as of the date of the Joint Petition. By contrast,
15 the estimated NPV under the Traditional Recovery Method, is \$599 million.
16 The difference is approximately \$199 million, or 33%.

17 **Q. HOW WILL STORM COSTS BE RECOVERED IF THE COMMISSION**
18 **DOES NOT APPROVE FINANCING ORDERS FOR THE ISSUANCE**
19 **OF STORM RECOVERY BONDS OR IF DEC AND DEP ARE NOT**
20 **ABLE TO ISSUE THE STORM RECOVERY BONDS?**

21 A. As stated in each Company’s Stipulation with the Public Staff, a storm recovery
22 rider initially set at \$0 will be established as a result of the 2019 Rate Cases. In

1 the event that the Commission would ultimately reject DEC and DEP's Joint
2 Petition for the issuance of storm recovery bonds, or should the Companies be
3 otherwise unable to recover the costs of the Storms through the Securitization
4 Statute, the Company may request recovery of the costs of the Storms from the
5 Commission by filing a petition requesting an adjustment to this storm recovery
6 rider. In such case, both the Public Staff and each Company reserve the right
7 to argue their respective positions regarding the appropriate ratemaking
8 treatment for recovering the costs of the Storms.

9 **VI. CONCLUSION**

10 **Q. PLEASE SUMMARIZE YOUR TESTIMONY.**

11 A. I have provided support for the storm recovery costs that DEC and DEP each
12 propose to finance using storm recovery bonds, and for the methodology used
13 to allocate these costs by rate class. I have also discussed how the total NPV of
14 the costs to customers that are estimated to result from the issuance of storm
15 recovery bonds compares with the costs that would result from the application
16 of the Traditional Recovery Method under the agreed upon Stipulation
17 assumptions. Last, I have discussed how the imposition of storm recovery
18 charges are expected to provide quantifiable benefits to customers as compared
19 to costs that would be incurred absent the issuance of storm recovery bonds.

20 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

21 A. Yes.

Duke Energy Carolinas, LLC
Docket No. E-7 Sub 1243
Abernathy DEC Exhibit 1
Storm Securitization
NORTH CAROLINA RETAIL

Schedule of NC Retail Total Revenue Requirement for Storm Recovery Charges

Line No.		NC Retail Total Revenue Requirement for Storm Recovery Charges		
		Distribution	Transmission	Total
1	(in Thousands)			
2	<u>Summary of Categories of Costs for Securitization</u>			
3				
4	Storm Recovery Costs, as of May 31, 2021 ^[1]	\$ 218,601	\$ 6,969	\$ 225,570 ^[4]
5				
6	Upfront Financing Costs	5,068	162	5,230 ^{[2][3][4]}
7				
8	Total Costs to be Financed with Storm Recovery Bonds	\$ 223,670	\$ 7,130	\$ 230,800
9				
10	Interest Expense	24,184	771	24,955 ^[2]
11				
12	Ongoing Financing Costs	6,109	195	6,303 ^{[2][3]}
13				
14	NC Retail Total Revenue Requirement (L8 + L10 + L12)	\$ 253,962	\$ 8,096	\$ 262,058

Notes:

- [1] Storm Recovery Costs represent deferred Operation and Maintenance expenses, capital investments and the associated carrying charges from the date of the storms through the expected date of securitization, June 1, 2021. Refer to Abernathy Exhibit 2 for further detail and reconciliation to rate case Docket No. E-7 Sub 1214.
- [2] Interest expense and upfront and ongoing financing costs are allocated to functions based on percentage of storm recovery costs by function to be securitized.
- [3] Upfront and ongoing financing fees are estimates as of the petition date. Details of the estimates are outlined in Heath Exhibit 1.
- [4] Represents components of the storm recovery bonds to be issued

Duke Energy Progress, LLC
Docket No. E-2 Sub 1262
Abernathy DEP Exhibit 1
Storm Securitization
NORTH CAROLINA RETAIL
Schedule of NC Retail Total Revenue Requirement for Storm Recovery Charges

Abernathy DEP Exhibit 1
Page 1 of 1

Line No.	(in Thousands)	NC Retail Total Revenue Requirement for Storm Recovery Charges				
		Distribution [1]	Transmission [1]	Production [1]	General [1]	Total
1						
2	Summary of Categories of Costs for Securitization					
3						
4	Storm Recovery Costs, as of May 31, 2021 ^[1]	\$ 695,794	\$ 39,356	\$ 3,605	\$ 253	\$ 739,008 ^[4]
5						
6	Upfront Financing Costs	8,466	479	44	3	8,992 ^{[2][3][4]}
7						
8	Total Costs to be Financed with Storm Recovery Bonds	\$ 704,259	\$ 39,835	\$ 3,649	\$ 256	\$ 748,000
9						
10	Interest Expense	76,147	4,307	# 395	28	80,876 ^[2]
11						
12	Ongoing Financing Costs	12,356	699	64	4	13,123 ^{[2][3]}
13						
14	NC Retail Total Revenue Requirement (L8 + L10 + L12)	\$ 792,762	\$ 44,841	\$ 4,108	\$ 288	\$ 841,999

Notes:

[1] Storm Recovery Costs represent deferred Operation and Maintenance expenses, capital investments and the associated carrying charges from the date of the storms through the expected date of securitization, June 1, 2021. Refer to Abernathy Exhibit 2 for further detail and reconciliation to rate case Docket No. E-2 Sub 1219.

[2] Interest expense and upfront and ongoing financing costs are allocated to functions based on percentage of storm recovery costs by function to be securitized.

[3] Upfront and ongoing financing fees are estimates as of the petition date. Details of the estimates are outlined in Heath Exhibit 1.

[4] Represents components of the storm recovery bonds to be issued

Duke Energy Carolinas, LLC
Docket No. E-7 Sub 1243
Abernathy DEC Exhibit 2
Storm Securitization
NORTH CAROLINA RETAIL

Comparison of Rate Case Storm Recovery Costs to Projected Storm Recovery Costs to be Securitized

Line No.	(in Thousands)	Storm Recovery Costs presented in rate case Docket No. E 7 Sub 1214 with carrying charges through July 31, 2020 [1]			Changes to Storm Recovery Cost estimates and carrying charges through date of securitization [2][4]			Storm Recovery Costs Projected to be Securitized - As of May 31, 2021 [3][4]		
		Distribution	Transmission	Total	Distribution	Transmission	Total	Distribution	Transmission	Total
1	Summary of Categories of Costs for Securitization									
2	Deferred Incremental O&M costs	\$ 164,021	\$ 5,809	\$ 169,830	\$ (35)	\$ 4	\$ (32)	\$ 163,986	\$ 5,813	\$ 169,799
3										
4	Deferred Capital Investment costs									
5	Capital investments, net of depreciation	17,929	-	17,929	(340)	-	(340)	17,589	-	17,589
6	Deferred Depreciation expense	646	-	646	340	-	340	986	-	986
7	Deferred Cost of Capital - Debt - Pre-Tax	653	-	653	315	-	315	968	-	968
8	Deferred Cost of Capital - Equity - Pre-Tax	1,992	-	1,992	979	-	979	2,971	-	2,971
9	Deferred Cost of capital (L5 through L8)	21,221	-	21,221	1,294	-	1,294	22,514	-	22,514
10										
11	After-Tax Debt Return	5,253	192	5,445	2,635	92	2,727	7,888	284	8,172
12	After-Tax Equity Return	16,012	586	16,598	8,200	286	8,486	24,213	872	25,085
13										
14										
15	Storm Recovery Costs (L2 + L9 + L11 + L12)	\$ 206,507	\$ 6,587	\$ 213,094	\$ 12,094	\$ 381	\$ 12,476	\$ 218,601	\$ 6,969	\$ 225,570

Notes:

[1] Represents storm recovery costs, including accrued carrying charges, presented in rate case Docket No. E-7, Sub 1214 that were expected to be deferred through July 31, 2020. August 1, 2020 was expected to be the new rates effective date in the rate case. Per Public Staff Partial Settlement and Stipulation in Docket No. E-7 Sub 1214, these costs were removed from the rate case to pursue securitization.

[2] Represents changes in estimates to storm recovery costs and additional carrying charges, including deferred depreciation, in rate case Docket No. E-7, Sub 1214. The storm projects for Hurricanes Florence and Michael and Winter Storm Diego were closed in June 2020. The additional carrying charges represent monthly return accruals between August 1, 2020 through expected date of securitization of June 1, 2021.

[3] Represents Duke Energy Carolinas estimate of total expected storm recovery costs (including carrying charges) as of May 31, 2021.

[4] Carrying charges are calculated using the weighted average cost of capital approved in the last rate case. Duke Energy Carolinas is assuming that the rates effective date related to the rate case (Docket No. E-7 Sub 1214) will be January 1, 2021 and as such for purposes of estimating carrying charges, as of January 1, 2021, the debt and equity return components were calculated using the weighted average cost of capital that was agreed upon in Public Staff Second Settlement and Stipulation in Docket No. E-7 Sub 1214.

Duke Energy Progress, LLC
Docket No. E-2 Sub 1262
Abernathy DEP Exhibit 2
Storm Securitization
NORTH CAROLINA RETAIL

Comparison of Rate Case Storm Recovery Costs to Projected Storm Recovery Costs to be Securitized

Line No.	(in Thousands)	Storm Recovery Costs presented in rate case Docket No. E-2 Sub 1219 with carrying charges through August 31, 2020 [1]					Changes to Storm Recovery Cost estimates and carrying charges through date of securitization [2][4]					Storm Recovery Costs Projected to be Securitized - As of May 31, 2021 [3][4]				
		Distribution	Transmission	Production [1]	General [1]	Total	Distribution	Transmission	Production [1]	General [1]	Total	Distribution	Transmission	Production [1]	General [1]	Total
1	Summary of Categories of Costs for Securitization															
2	Deferred Incremental O&M costs	\$ 523,883	\$ 40,403	\$ 3,015	\$ -	\$ 567,301	\$ (2,972)	\$ (7,773)	\$ -	\$ -	\$ (10,745) [5]	\$ 520,912	\$ 32,630	\$ 3,015	\$ -	\$ 556,556
3																
4	Deferred Capital Investment costs															
5	Capital investments, net of depreciation	65,132	659	-	199	65,989	(1,242)	(10)	-	(8)	(1,259)	63,890	649	-	191	64,729
6	Deferred Depreciation expense	2,617	19	-	13	2,649	1,242	10	-	8	1,259	3,858	28	-	21	3,908
7	Deferred Cost of Capital - Debt - Pre-Tax	2,096	21	-	6	2,122	940	10	-	3	952	3,036	30	-	8	3,074
8	Deferred Cost of Capital - Equity - Pre-Tax	7,223	71	-	19	7,312	3,198	32	-	10	3,241	10,421	103	-	29	10,553
9	Deferred Cost of capital (L5 through L8)	77,067	768	-	236	78,071	4,139	42	-	12	4,193	81,205	810	-	249	82,264
10																
11	After-Tax Debt Return	14,317	1,028	94	0	15,439	6,819	307	39	1	7,166	21,136	1,335	133	1	22,605
12	After-Tax Equity Return	49,347	3,543	324	1	53,215	23,193	1,039	134	2	24,368	72,541	4,582	457	3	77,583
13																
14																
15	Storm Recovery Costs (L2 + L9 + L.11 + L.12)	\$ 664,615	\$ 45,742	\$ 3,432	\$ 238	\$ 714,027	\$ 31,179	\$ (6,386)	\$ 173	\$ 15	\$ 24,981	\$ 695,794	\$ 39,356	\$ 3,605	\$ 253	\$ 739,008

Notes:

[1] Represents storm recovery costs, including accrued carrying charges, presented in rate case Docket No. E-2 Sub 1219 that were expected to be deferred through August 31, 2020. September 1, 2020 was expected to be the new rates effective date in the rate case. Per Public Staff Partial Settlement and Stipulation in Docket No. E-2 Sub 1219, these costs were removed from the rate case to pursue securitization.

[2] Represents changes in estimates to storm recovery costs and additional carrying charges, including deferred depreciation, in rate case Docket No. E-2 Sub 1219. The storm projects for Hurricanes Florence and Michael and Winter Storm Diego were closed in June 2020. Hurricane Dorian storm costs were updated through September 30, 2020 and are not expected to change. The additional carrying charges represent monthly return accruals between September 1, 2020 through expected date of securitization of June 1, 2021.

[3] Represents Duke Energy Progress' estimate of expected storm recovery costs (including carrying charges) as of May 31, 2020.

[4] Carrying charges are calculated using the weighted average cost of capital approved in the last rate case. Duke Energy Progress is assuming that the rates effective date related to the rate case (Docket No. E-2 Sub 1219) will be February 1, 2021 and as such for purposes of estimating carrying charges, as of February 1, 2021, the debt and equity return components were calculated using the weighted average cost of capital that was agreed upon in Public Staff Second Settlement and Stipulation in Docket No. E-2 Sub 1219.

[5] The decrease in incremental O&M primarily represents continued refinements in Hurricane Dorian estimates.

Duke Energy Carolinas, LLC
Docket No. E-7 Sub 1243
Abernathy DEC Exhibit 3
Storm Securitization
NORTH CAROLINA RETAIL
Allocation of Storm Recovery Charge to Customer Classes

Abernathy DEC Exhibit 3
Page 1 of 1

Line No.			NC	NC	NC	NC	NC	NC	NC	NC	NC	NC	NC	NC	NC	NC	NC	NC	NC	NC	NC
	(\$ in Thousands)		RETAIL	NCRS	NCRT	NCRE	NCSGS	NCLGS	NCOL	NCNL	NCGL	NCPL	NCTS	NCI	OPTVSecSmall	OPTVSecMed	OPTVSecLg	OPTVPriSmall	OPTVPriMed	OPTVPriLg	OPTVTransm
1	Distribution	[1]	\$ 253,962	\$ 98,308	\$ 251	\$ 79,887	\$ 25,195	\$ 8,952	\$ 12,099	\$ 8	\$ 148	\$ 750	\$ 366	\$ 4,451	\$ 9,869	\$ 2,711	\$ 2,770	\$ 431	\$ 611	\$ 7,098	\$ 57
2	Transmission	[1]	8,096	2,392	8	1,321	805	751	-	-	-	-	1	251	947	265	296	45	68	845	102
3	Total		\$ 262,058	\$ 100,700	\$ 259	\$ 81,208	\$ 26,000	\$ 9,703	\$ 12,099	\$ 8	\$ 148	\$ 750	\$ 367	\$ 4,703	\$ 10,815	\$ 2,975	\$ 3,066	\$ 476	\$ 679	\$ 7,943	\$ 158
4																					
5	Year 1	[2]	\$ 18,073	\$ 6,945	\$ 18	\$ 5,601	\$ 1,793	\$ 669	\$ 834	\$ 1	\$ 10	\$ 52	\$ 25	\$ 324	\$ 746	\$ 205	\$ 211	\$ 33	\$ 47	\$ 548	\$ 11
6																					
7	Rate Class Allocation Factors:																				
8	Gross Dist. Overhead Line Investment	[3]	100.0000%	38.7097%	0.0990%	31.4563%	9.9207%	3.5249%	4.7640%	0.0032%	0.0581%	0.2954%	0.1442%	1.7528%	3.8859%	1.0674%	1.0908%	0.1696%	0.2407%	2.7949%	0.0223%
9	Transmission Demand Allocator	[3]	100.0000%	29.5487%	0.0937%	16.3132%	9.9466%	9.2798%	0.0000%	0.0000%	0.0000%	0.0000%	0.0108%	3.1020%	11.6926%	3.2677%	3.6541%	0.5615%	0.8368%	10.4364%	1.2561%

Notes:

[1] Storm Securitization - Abernathy Exhibit 1, NC Retail Revenues per Line 14

[2] Storm Securitization - Abernathy Exhibit 4, NC Retail Revenues per Line 10, Year 1

[3] Allocation factors by rate class per Duke Energy Carolinas cost of service study filed in Docket No. E-7, Sub 1214, E1 Item 45A under 1 summer CP allocation:
Storm related distribution costs allocated based on the allocation of Gross Dist. Overhead Line Investment (All - Dist Plt OH - CC) across rate classes.
Transmission costs allocated based on Transmission Demands (All - Transmission Demand - CC) by rate class.

Duke Energy Progress, LLC
Docket No. E-2 Sub 1262
Abernathy DEP Exhibit 3
Storm Securitization
NORTH CAROLINA RETAIL
Allocation of Storm Recovery Charge to Customer Classes

Line No.	(in Thousands)		NC RETAIL	NC RES	NC SGS	NC SGSCLR	NC MGS	NC LGS	NC SI	NC TSS	NC ALS	NC SLS	NC SFL
1	Distribution	[1]	792,762	637,429	78,996	2,483	59,123	10,747	1,568	323	1,001	955	136
2	Transmission	[1]	44,841	22,241	2,738	23	12,637	7,169	32	3	-	-	-
3	Production	[1]	4,108	2,037	251	2	1,158	657	3	0	0	0	0
4	General	[1]	288	177	21	0	49	25	1	0	8	8	0
5	Total		841,999	661,884	82,006	2,508	72,966	18,597	1,603	327	1,009	963	136
6	Year 1	[2]	\$ 58,069	\$ 45,647	\$ 5,656	\$ 173	\$ 5,032	\$ 1,283	\$ 111	\$ 23	\$ 70	\$ 66	\$ 9
7	Rate Class Allocation Factors:	[3]											
8	Gross Dist. Overhead Line Investment	[3]	100.0000%	80.4061%	9.9646%	0.3132%	7.4579%	1.3557%	0.1978%	0.0408%	0.1263%	0.1205%	0.0172%
9	Transmission Demand Allocator	[3]	100.0000%	49.5990%	6.1054%	0.0503%	28.1807%	15.9864%	0.0709%	0.0073%	0.0000%	0.0000%	0.0000%
10	Production Demand Allocator	[3]	100.0000%	49.5990%	6.1054%	0.0503%	28.1807%	15.9864%	0.0709%	0.0073%	0.0000%	0.0000%	0.0000%
11	Gross General Plant Investment	[3]	100.0000%	61.4480%	7.4129%	0.1688%	16.8739%	8.5053%	0.1798%	0.0193%	2.7501%	2.6318%	0.0101%

Notes:

- [1] Storm Securitization - Abernathy Exhibit 1, NC Retail Revenues per Line 14
- [2] Storm Securitization - Abernathy Exhibit 4, NC Retail Revenues per Line 10, Year 1, allocated across rate classes at combined Storm Recovery allocations in line 5 above.
- [3] Allocation factors by rate class per Duke Energy Progress cost of service study filed in E1 Item 45A under 1 summer CP allocation:
Storm related distribution costs allocated based on the allocation of Gross Dist. Overhead Line Investment (RB_PLT_O_DI_OH_LN) across rate classes.
Transmission costs allocated based on Transmission Demands (DTALL) by rate class.
Production costs allocated based on Production Demand (DPALL) across rate class.
General plant costs allocated based on the allocation of Gross General Plant Investment (RB_PLT_O_GN) across rate classes.

Duke Energy Carolinas, LLC
Docket No. E-7 Sub 1243
Abernathy DEC Exhibit 4
Storm Securitization
NORTH CAROLINA RETAIL

Actual Storm Cost Recovery Charges Annual Revenue Requirement - Storm Recovery Charge^[1]

Line No.	(in Thousands)	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11	Year 12	Year 13	Year 14	Year 15
1	Storm Recovery Bonds ^[2]															
2	Beginning Balance	\$ 230,800	\$ 216,255	\$ 201,218	\$ 186,107	\$ 170,907	\$ 155,572	\$ 140,070	\$ 124,397	\$ 108,553	\$ 92,528	\$ 76,274	\$ 59,779	\$ 43,040	\$ 26,033	\$ 8,748
3	Principal Payment	(14,545)	(15,037)	(15,111)	(15,200)	(15,335)	(15,503)	(15,673)	(15,844)	(16,025)	(16,254)	(16,495)	(16,740)	(17,007)	(17,285)	(8,748)
4	Ending Balance	216,255	201,218	186,107	170,907	155,572	140,070	124,397	108,553	92,528	76,274	59,779	43,040	26,033	8,748	-
5																
6	Storm Recovery Bonds ^[2]															
7	Principal Payment	14,545	15,037	15,111	15,200	15,335	15,503	15,673	15,844	16,025	16,254	16,495	16,740	17,007	17,285	8,748
8	Interest on Bonds	3,093	2,601	2,528	2,438	2,304	2,136	1,966	1,794	1,613	1,384	1,143	899	631	354	71
9	Ongoing Costs	435	435	435	435	435	435	435	435	435	435	435	435	435	435	217
10	Total Storm Recovery Charge	\$ 18,073	\$ 18,073	\$ 18,073	\$ 18,073	\$ 18,073	\$ 18,073	\$ 18,073	\$ 18,073	\$ 18,073	\$ 18,073	\$ 18,073	\$ 18,073	\$ 18,073	\$ 18,073	\$ 9,036
11																
12	Total Revenue Requirement - Storm Recovery Charge														\$	262,058
																-

Notes:

[1] Amounts above actual storm recovery charges to repay storm recovery bonds and financing costs, not those calculated in the quantifiable benefits to customers in Abernathy Exhibit 7.

[2] Source: Witness Atkins testimony

Duke Energy Progress, LLC
Docket No. E-2 Sub 1262
Abernathy DEP Exhibit 4
Storm Securitization
NORTH CAROLINA RETAIL

Actual Storm Cost Recovery Charges Annual Revenue Requirement - Storm Recovery Charge^[1]

Line No.	(in Thousands)	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11	Year 12	Year 13	Year 14	Year 15
1	Storm Recovery Bonds ^[2]															
2	Beginning Balance	\$ 748,000	\$ 700,861	\$ 652,127	\$ 603,154	\$ 553,892	\$ 504,194	\$ 453,952	\$ 403,158	\$ 351,808	\$ 299,873	\$ 247,196	\$ 193,738	\$ 139,487	\$ 84,369	\$ 28,351
3	Principal Payment	(47,139)	(48,734)	(48,973)	(49,263)	(49,698)	(50,242)	(50,793)	(51,350)	(51,935)	(52,677)	(53,458)	(54,251)	(55,118)	(56,018)	(28,351)
4	Ending Balance	700,861	652,127	603,154	553,892	504,194	453,952	403,158	351,808	299,873	247,196	193,738	139,487	84,369	28,351	-
5																
6	Storm Recovery Bonds ^[2]															
7	Principal Payment	47,139	48,734	48,973	49,263	49,698	50,242	50,793	51,350	51,935	52,677	53,458	54,251	55,118	56,018	28,351
8	Interest on Bonds	10,025	8,430	8,191	7,901	7,466	6,921	6,371	5,814	5,229	4,487	3,706	2,913	2,046	1,146	231
9	Ongoing Costs	905	905	905	905	905	905	905	905	905	905	905	905	905	905	453
10	Total Storm Recovery Charge	\$ 58,069	\$ 58,069	\$ 58,069	\$ 58,069	\$ 58,069	\$ 58,069	\$ 58,069	\$ 58,069	\$ 58,069	\$ 58,069	\$ 58,069	\$ 58,069	\$ 58,069	\$ 58,069	\$ 29,034
11																
12	Total Revenue Requirement - Storm Recovery Charge														\$	841,999

-

Notes:

[1] Amounts above represent actual storm recovery charges to be financed using storm recovery bonds, not those calcuated in the quantifiable benefits to customers in Abernathy Exhibit 7.

[2] Source: Witness Atkins testimony

Duke Energy Carolinas, LLC
Docket No. E-7 Sub 1243
Abernathy DEC Exhibit 5
Storm Securitization
NORTH CAROLINA RETAIL

Traditional Recovery Model versus Storm Recovery Charge Model - Quantifiable Benefit to Customers

Line No.	ANNUAL REVENUE REQUIREMENT										
1		2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
2	Storm Recovery Charge Model ^[1]	3,124	12,212	12,511	12,754	13,000	13,249	13,501	13,755	14,013	14,273
3	Traditional Recovery Model ^[1]	23,736	22,953	22,171	21,388	20,605	19,823	19,040	18,257	17,474	16,692
4											
5											
6		2030	2031	2032	2033	2034	2035	2036	2037	2038	2039
7	Storm Recovery Charge Model ^[1]	14,537	14,803	15,073	15,345	15,567	11,762	-	-	-	-
8	Traditional Recovery Model ^[1]	15,909	15,126	14,344	13,561	1,458	1,419	1,379	1,339	1,299	1,260
9											
10											
11		2040	2041	2042	2043	2044	2045	2046	2047	2048	2049
12	Storm Recovery Charge Model ^[1]	-	-	-	-	-	-	-	-	-	-
13	Traditional Recovery Model ^[1]	1,220	1,180	1,140	1,101	1,061	1,021	981	942	902	862
14											
15											
16		2050	2051	2052	2053	2054	2055	2056	2057	2058	Total
17	Storm Recovery Charge Model ^[1]	-	-	-	-	-	-	-	-	-	209,479
18	Traditional Recovery Model ^[1]	822	782	743	703	663	623	584	544	504	285,611
19											
20											
21		Net Present Value [2]	Nominal Value	Net of Tax Weighted Average Cost of Capital							
22	Storm Recovery Charge Model ^[1]	\$ 122,094	\$ 209,479	6.56%							
23	Traditional Recovery Model ^[1]	180,132	285,611								
24											
25	Relative cost (benefit) of securitization	(58,038)									
26	% savings to customers	-32.2%									

Notes:
[1] For purposes of calculating the annual revenue requirement under the Traditional Recovery Model and the Storm Recovery Bonds Model, Duke Energy Carolinas used assumptions that were agreed upon in the Public Staff Partial Settlement and Stipulation in Docket No. E-7 Sub 1214. Refer to Abernathy Exhibit 6 and Exhibit 7.
[2] For the purposes of calculating net present value, Duke Energy Carolinas used the agreed upon WACC rate per the Public Staff Second Settlement and Stipulation in Docket No. E-7 Sub 1214.

Duke Energy Progress, LLC
Docket No. E-2 Sub 1262
Abernathy DEP Exhibit 5
Storm Securitization
NORTH CAROLINA RETAIL

Traditional Recovery Model versus Storm Recovery Charge Model - Quantifiable Benefit to Customers

Line No.	ANNUAL REVENUE REQUIREMENT										
1		2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
2	Storm Recovery Charge Model ^[1]	10,168	39,935	40,882	41,651	42,428	43,214	44,009	44,813	45,627	46,450
3	Traditional Recovery Model ^[1]	78,147	75,597	73,046	70,496	67,945	65,394	62,844	60,293	57,743	55,192
4											
5											
6		2030	2031	2032	2033	2034	2035	2036	2037	2038	2039
7	Storm Recovery Charge Model ^[1]	47,283	48,125	48,977	49,839	50,598	38,356	-	-	-	-
8	Traditional Recovery Model ^[1]	52,642	50,091	47,541	44,990	5,336	5,191	5,047	4,902	4,757	4,612
9											
10											
11		2040	2041	2042	2043	2044	2045	2046	2047	2048	2049
12	Storm Recovery Charge Model ^[1]	-	-	-	-	-	-	-	-	-	-
13	Traditional Recovery Model ^[1]	4,467	4,322	4,178	4,033	3,888	3,743	3,598	3,454	3,309	3,164
14											
15											
16		2050	2051	2052	2053	2054	2055	2056	2057	2058	Total
17	Storm Recovery Charge Model ^[1]	-	-	-	-	-	-	-	-	-	682,355
18	Traditional Recovery Model ^[1]	3,019	2,874	2,730	2,585	2,440	2,295	2,150	2,006	1,861	951,923
19											
20											
21		Net Present Value [2]	Nominal Value	Net of Tax Weighted Average Cost of Capital							
22	Storm Recovery Charge Model ^[1]	\$ 400,243	\$ 682,355	6.5%							
23	Traditional Recovery Model ^[1]	599,263	951,923								
24											
25	Relative cost (benefit) of securitization	(199,019)									
26	% savings to customers	-33.2%									

Notes:

[1] For purposes of calculating the annual revenue requirement under the Traditional Recovery Model and the Storm Recovery Bonds Model, Duke Energy Progress used assumptions that were agreed upon in Public Staff Partial Settlement and Stipulation in Docket No. E-2 Sub 1219. Refer to Abernathy Exhibit 6 and Exhibit 7.

[2] For the purposes of calculating net present value, Duke Energy Progress used the agreed upon WACC rate per the Public Staff Second Settlement and Stipulation in Docket No. E-2 Sub 1219.

Duke Energy Carolinas, LLC
Docket No. E-7 Sub 1243
Abernathy DEC Exhibit 6
Storm Securitization
NORTH CAROLINA RETAIL
Annual Revenue Requirement - Traditional Recovery Model [1]

Line No.		2019		2020		2021		2022		2023		2024		2025		2026		2027		2028
1	Storm Incremental O&M																			
2	Amortization expense	\$	-	\$	11,320	\$	11,320	\$	11,320	\$	11,320	\$	11,320	\$	11,320	\$	11,320	\$	11,320	11,320
3	Return on Rate Base		-		10,401		9,658		8,915		8,172		7,429		6,686		5,943		5,200	4,458
4	Storm Capital Investments																			
5	Depreciation expense		-		464		464		464		464		464		464		464		464	464
6	Return on Rate Base		-		1,551		1,511		1,471		1,431		1,392		1,352		1,312		1,272	1,233
7	Annual Revenue Requirement	\$	-	\$	23,736	\$	22,953	\$	22,171	\$	21,388	\$	20,605	\$	19,823	\$	19,040	\$	18,257	17,474
8																				
9																				
10		2029		2030		2031		2032		2033		2034		2035		2036		2037		2038
11	Storm Incremental O&M																			
12	Amortization expense	\$	11,320	\$	11,320	\$	11,320	\$	11,320	\$	11,320	\$	-	\$	-	\$	-	\$	-	-
13	Return on Rate Base		3,715		2,972		2,229		1,486		743		-		-		-		-	-
14	Storm Capital Investments																			
15	Depreciation expense		464		464		464		464		464		464		464		464		464	464
16	Return on Rate Base		1,193		1,153		1,113		1,074		1,034		994		954		915		875	835
17	Annual Revenue Requirement	\$	16,692	\$	15,909	\$	15,126	\$	14,344	\$	13,561	\$	1,458	\$	1,419	\$	1,379	\$	1,339	1,299
18																				
19																				
20		2039		2040		2041		2042		2043		2044		2045		2046		2047		2048
21	Storm Incremental O&M																			
22	Amortization expense	\$	-	\$	-	\$	-	\$	-	\$	-	\$	-	\$	-	\$	-	\$	-	-
23	Return on Rate Base		-		-		-		-		-		-		-		-		-	-
24	Storm Capital Investments																			
25	Depreciation expense		464		464		464		464		464		464		464		464		464	464
26	Return on Rate Base		795		755		716		676		636		596		557		517		477	437
27	Annual Revenue Requirement	\$	1,260	\$	1,220	\$	1,180	\$	1,140	\$	1,101	\$	1,061	\$	1,021	\$	981	\$	942	902
28																				
29																				
30		2049		2050		2051		2052		2053		2054		2055		2056		2057		2058
31	Storm Incremental O&M																			
32	Amortization expense	\$	-	\$	-	\$	-	\$	-	\$	-	\$	-	\$	-	\$	-	\$	-	-
33	Return on Rate Base		-		-		-		-		-		-		-		-		-	-
34	Storm Capital Investments																			
35	Depreciation expense		464		464		464		464		464		464		464		464		464	464
36	Return on Rate Base		398		358		318		278		239		199		159		119		80	40
37	Annual Revenue Requirement	\$	862	\$	822	\$	782	\$	743	\$	703	\$	663	\$	623	\$	584	\$	544	504
38																				
39	Total Revenue Requirement - Traditional Recovery Model																		\$	285,611

Notes:
[1] For purposes of calculating the annual revenue requirement under the Traditional Recovery Model, Duke Energy Carolinas used assumptions that were agreed upon in Public Staff Partial Settlement and Stipulation in Docket No. E-7 Sub 1214. Refer to Abernathy Exhibit 6 pages 2-3.

**Duke Energy Carolinas, LLC
Docket No. E-7 Sub 1243
Abernathy DEC Exhibit 6
Storm Securitization
NORTH CAROLINA RETAIL**

Annual Revenue Requirement - Traditional Recovery Model - Incremental O&M

Line No.	Assumptions	Revenue Requirement									
1	Storm Incremental O&M (less normal amount)	\$	169,799	Storm Incremental O&M (less normal amount)							
2				Deferred Capital ^[2]							
3	Date of storm	Dec 31, 2018		% amortized for Jan 1, 2019-January 1, 2020							
4	Date of rates effective in new rate case	Jan 1, 2020		Amortization amount							
5	Date of securitization	Oct 1, 2020		Return for Jan 1, 2019-September 30, 2020 ^[3]							
6				Amount to include in rates as of January 1, 2020							
7	Pre Tax Weighted Average Cost of Capital ^[5]	8.56%									
8	Composite Tax Rate ^[5]	23.35%									
9	Net of Tax Weighted Average Cost of Capital ^[5]	6.56%									
10	Amortization Period ^[4]	15									
11											
12											
13											
14											
15	Amortization Expense	\$	11,320	\$	11,320	\$	11,320	\$	11,320	\$	11,320
16	Amortization of deferred capital ^[2]	-	-	-	-	-	-	-	-	-	-
17	Unamortized Balance at beginning of year	169,799	158,479	147,159	135,839	124,519	113,199	101,879	90,559	79,239	67,919
18	Deferred Tax on Unamortized Balance	(39,648)	(37,005)	(34,362)	(31,719)	(29,075)	(26,432)	(23,789)	(21,146)	(18,503)	(15,859)
19	Net Rate Base	130,150	121,473	112,797	104,120	95,443	86,767	78,090	69,413	60,737	52,060
20	Pre Tax Weighted Average Cost of Capital %	8.56%	8.56%	8.56%	8.56%	8.56%	8.56%	8.56%	8.56%	8.56%	8.56%
21	Return on Rate Base	-	10,401	9,658	8,915	8,172	7,429	6,686	5,943	5,200	4,458
22											
23	Annual Revenue Requirement	\$	-	\$	21,721	\$	20,978	\$	20,235	\$	19,492
24											
25											
26											
27	Amortization Expense	\$	11,320	\$	11,320	\$	11,320	\$	11,320	\$	11,320
28	Amortization of deferred capital ^[2]	-	-	-	-	-	-	-	-	-	-
29	Unamortized Balance at beginning of year	56,600	45,280	33,960	22,640	11,320					
30	Deferred Tax on Unamortized Balance	(13,216)	(10,573)	(7,930)	(5,286)	(2,643)					
31	Net Rate Base	43,383	34,707	26,030	17,353	8,677					
32	Pre Tax Weighted Average Cost of Capital %	8.56%	8.56%	8.56%	8.56%	8.56%					
33	Return on Rate Base	3,715	2,972	2,229	1,486	743					
34											
35	Annual Revenue Requirement	\$	15,035	\$	14,292	\$	13,549	\$	12,806	\$	12,063
36											
37	Total Revenue Requirement - Traditional Recovery Model - Incremental O&M										\$ 236,486

Notes:

[1] Per Public Staff Partial Settlement and Stipulation in Docket No. E-7 Sub 1214, for traditional storm cost recovery, 12 months of amortization for each Storm was expensed prior to the new rates going into effect;

[2] Per Public Staff Partial Settlement and Stipulation in Docket No. E-7 Sub 1214, for traditional storm cost recovery, no capital costs incurred due to the Storms during the 12-month period were included in the deferred balance;

[3] Per Public Staff Partial Settlement and Stipulation in Docket No. E-7 Sub 1214, for traditional storm cost recovery, no carrying charges were accrued on the deferred balance during the 12-month period following the date(s) of the Storm;

[4] Per Public Staff Partial Settlement and Stipulation in Docket No. E-7 Sub 1214, for traditional cost recovery, the amortization period for the Storms is a minimum of 10 years

[5] For purposes of the calculation, Duke Energy Carolinas used the WACC agreed to in the Public Staff Second Partial Settlement and Stipulation in in Docket No. E-7 Sub 1214.

Duke Energy Carolinas, LLC
Docket No. E-7 Sub 1243
Abernathy DEC Exhibit 6
Storm Securitization
NORTH CAROLINA RETAIL

Annual Revenue Requirement - Traditional Recovery Model - Capital Investments

Line No.	Assumptions	Revenue Requirement									
1	Storm Capital Investments	\$	18,575								
2											
3	Date of storm	Dec 31, 2018									
4	Date of rates effective in new rate case	Jan 1, 2020									
5	Date of securitization	Oct 1, 2020									
6											
7	Pre Tax Weighted Average Cost of Capital ^[2]	8.56%									
8	Composite Tax Rate ^[2]	23.35%									
9	Amortization Period ^[1]	15									
10											
11											
12		2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
13	Depreciation Expense	\$ -	\$ 464	\$ 464	\$ 464	\$ 464	\$ 464	\$ 464	\$ 464	\$ 464	\$ 464
14											
15	Gross Plant at Beginning of the Year	18,575	18,575	18,575	18,575	18,575	18,575	18,575	18,575	18,575	18,575
16	Accumulated Depreciation	(464)	(929)	(1,393)	(1,858)	(2,322)	(2,786)	(3,251)	(3,715)	(4,179)	(4,644)
17	Beginning Net Plant	18,575	18,111	17,646	17,182	16,718	16,253	15,789	15,325	14,860	14,396
18	Pre Tax Weighted Average Cost of Capital %	8.56%	8.56%	8.56%	8.56%	8.56%	8.56%	8.56%	8.56%	8.56%	8.56%
19	Return on Rate Base	-	1,551	1,511	1,471	1,431	1,392	1,352	1,312	1,272	1,233
20											
21	Annual Revenue Requirement	\$ -	\$ 2,015	\$ 1,975	\$ 1,936	\$ 1,896	\$ 1,856	\$ 1,816	\$ 1,777	\$ 1,737	\$ 1,697
22											
23											
24		2029	2030	2031	2032	2033	2034	2035	2036	2037	2038
25	Depreciation Expense	\$ 464	\$ 464	\$ 464	\$ 464	\$ 464	\$ 464	\$ 464	\$ 464	\$ 464	\$ 464
26											
27	Gross Plant at Beginning of the Year	18,575	18,575	18,575	18,575	18,575	18,575	18,575	18,575	18,575	18,575
28	Accumulated Depreciation	(5,108)	(5,573)	(6,037)	(6,501)	(6,966)	(7,430)	(7,894)	(8,359)	(8,823)	(9,288)
29	Beginning Net Plant	13,931	13,467	13,003	12,538	12,074	11,609	11,145	10,681	10,216	9,752
30	Net of Tax Weighted Average Cost of Capital %	8.56%	8.56%	8.56%	8.56%	8.56%	8.56%	8.56%	8.56%	8.56%	8.56%
31	Return on Rate Base	1,193	1,153	1,113	1,074	1,034	994	954	915	875	835
32											
33	Annual Revenue Requirement	\$ 1,657	\$ 1,617	\$ 1,578	\$ 1,538	\$ 1,498	\$ 1,458	\$ 1,419	\$ 1,379	\$ 1,339	\$ 1,299
34											
35											
36		2039	2040	2041	2042	2043	2044	2045	2046	2047	2048
37	Depreciation Expense	\$ 464	\$ 464	\$ 464	\$ 464	\$ 464	\$ 464	\$ 464	\$ 464	\$ 464	\$ 464
38											
39	Gross Plant at Beginning of the Year	18,575	18,575	18,575	18,575	18,575	18,575	18,575	18,575	18,575	18,575
40	Accumulated Depreciation	(9,752)	(10,216)	(10,681)	(11,145)	(11,609)	(12,074)	(12,538)	(13,003)	(13,467)	(13,931)
41	Beginning Net Plant	9,288	8,823	8,359	7,894	7,430	6,966	6,501	6,037	5,573	5,108
42	WACC Return Rate	8.56%	8.56%	8.56%	8.56%	8.56%	8.56%	8.56%	8.56%	8.56%	8.56%
43	Return on Rate Base	795	755	716	676	636	596	557	517	477	437
44											
45	Annual Revenue Requirement	\$ 1,260	\$ 1,220	\$ 1,180	\$ 1,140	\$ 1,101	\$ 1,061	\$ 1,021	\$ 981	\$ 942	\$ 902
46											
47											
48		2049	2050	2051	2052	2053	2054	2055	2056	2057	2058
49	Depreciation Expense	\$ 464	\$ 464	\$ 464	\$ 464	\$ 464	\$ 464	\$ 464	\$ 464	\$ 464	\$ 464
50											
51	Gross Plant at Beginning of the Year	18,575	18,575	18,575	18,575	18,575	18,575	18,575	18,575	18,575	18,575
52	Accumulated Depreciation	(14,396)	(14,860)	(15,325)	(15,789)	(16,253)	(16,718)	(17,182)	(17,646)	(18,111)	(18,575)
53	Beginning Net Plant	4,644	4,179	3,715	3,251	2,786	2,322	1,858	1,393	929	464
54	WACC Return Rate	8.56%	8.56%	8.56%	8.56%	8.56%	8.56%	8.56%	8.56%	8.56%	8.56%
55	Return on Rate Base	398	358	318	278	239	199	159	119	80	40
56											
57	Annual Revenue Requirement	\$ 862	\$ 822	\$ 782	\$ 743	\$ 703	\$ 663	\$ 623	\$ 584	\$ 544	\$ 504
58											
59	Total Revenue Requirement - Traditional Recovery Model - Capital Investments										\$ 49,125

Notes:

[1] Per Public Staff Partial Settlement and Stipulation in Docket No. E-7 Sub 1214, for traditional cost recovery, the amortization period for the Storms is a minimum of 10 years
[2] For purposes of the calculation, Duke Energy Carolinas used the WACC agreed to in the Public Staff Second Partial Settlement and Stipulation in in Docket No. E-7 Sub 1214.

Duke Energy Progress, LLC
Docket No. E-2 Sub 1262
Abernathy DEP Exhibit 6
Storm Securitization
NORTH CAROLINA RETAIL
Annual Revenue Requirement - Traditional Recovery Model [1]

Abernathy DEP Exhibit 6
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Line No.		2019		2020		2021		2022		2023		2024		2025		2026		2027		2028	
1	Storm Incremental O&M																				
2	Amortization expense	\$	-	\$	37,104	\$	37,104	\$	37,104	\$	37,104	\$	37,104	\$	37,104	\$	37,104	\$	37,104	\$	37,104
3	Return on Rate Base		-		33,680		31,274		28,868		26,463		24,057		21,651		19,246		16,840		14,434
4	Storm Capital Investments																				
5	Depreciation expense		-		1,716		1,716		1,716		1,716		1,716		1,716		1,716		1,716		1,716
6	Return on Rate Base		-		5,647		5,503		5,358		5,213		5,068		4,923		4,779		4,634		4,489
7	Annual Revenue Requirement	\$	-	\$	78,147	\$	75,597	\$	73,046	\$	70,496	\$	67,945	\$	65,394	\$	62,844	\$	60,293	\$	57,743
8																					
9																					
10		2029		2030		2031		2032		2033		2034		2035		2036		2037		2038	
11	Storm Incremental O&M																				
12	Amortization expense	\$	37,104	\$	37,104	\$	37,104	\$	37,104	\$	37,104	\$	-	\$	-	\$	-	\$	-	\$	-
13	Return on Rate Base		12,029		9,623		7,217		4,811		2,406		-		-		-		-		-
14	Storm Capital Investments																				
15	Depreciation expense		1,716		1,716		1,716		1,716		1,716		1,716		1,716		1,716		1,716		1,716
16	Return on Rate Base		4,344		4,199		4,055		3,910		3,765		3,620		3,475		3,331		3,186		3,041
17	Annual Revenue Requirement	\$	55,192	\$	52,642	\$	50,091	\$	47,541	\$	44,990	\$	5,336	\$	5,191	\$	5,047	\$	4,902	\$	4,757
18																					
19																					
20		2039		2040		2041		2042		2043		2044		2045		2046		2047		2048	
21	Storm Incremental O&M																				
22	Amortization expense	\$	-	\$	-	\$	-	\$	-	\$	-	\$	-	\$	-	\$	-	\$	-	\$	-
23	Return on Rate Base		-		-		-		-		-		-		-		-		-		-
24	Storm Capital Investments																				
25	Depreciation expense		1,716		1,716		1,716		1,716		1,716		1,716		1,716		1,716		1,716		1,716
26	Return on Rate Base		2,896		2,751		2,607		2,462		2,317		2,172		2,027		1,882		1,738		1,593
27	Annual Revenue Requirement	\$	4,612	\$	4,467	\$	4,322	\$	4,178	\$	4,033	\$	3,888	\$	3,743	\$	3,598	\$	3,454	\$	3,309
28																					
29																					
30		2049		2050		2051		2052		2053		2054		2055		2056		2057		2058	
31	Storm Incremental O&M																				
32	Amortization expense	\$	-	\$	-	\$	-	\$	-	\$	-	\$	-	\$	-	\$	-	\$	-	\$	-
33	Return on Rate Base		-		-		-		-		-		-		-		-		-		-
34	Storm Capital Investments																				
35	Depreciation expense		1,716		1,716		1,716		1,716		1,716		1,716		1,716		1,716		1,716		1,716
36	Return on Rate Base		1,448		1,303		1,158		1,014		869		724		579		434		290		145
37	Annual Revenue Requirement	\$	3,164	\$	3,019	\$	2,874	\$	2,730	\$	2,585	\$	2,440	\$	2,295	\$	2,150	\$	2,006	\$	1,861
38																					
39	Total Revenue Requirement - Traditional Recovery Model																		\$	951,923	

Notes:

[1] For purposes of calculating the annual revenue requirement under the Traditional Recovery Model, Duke Energy Progress used assumptions that were agreed upon in Public Staff Partial Settlement and Stipulation in Docket No. E-2 Sub 1219. Refer to Abernathy Exhibit 6 pages 2-3.

Duke Energy Progress, LLC
Docket No. E-2 Sub 1262
Abernathy DEP Exhibit 6
Storm Securitization
NORTH CAROLINA RETAIL
Annual Revenue Requirement - Traditional Recovery Model - Incremental O&M

Line No.	Assumptions	Revenue Requirement									
1	Storm Incremental O&M (less normal amount)	\$	556,556	Storm Incremental O&M (less normal amount)							
2				Deferred Capital ^[2]							
3	Date of storm	Dec 31, 2018		% amortized for Jan 1, 2019-January 1, 2020							
4	Date of rates effective in new rate case	Jan 1, 2020		Amortization amount							
5	Date of securitization	Oct 1, 2020		Return for Jan 1, 2019-September 30, 2020 ^[3]							
6				Amount to include in rates as of January 1, 2020							
7	Pre Tax Weighted Average Cost of Capital ^[5]	8.44%									
8	Composite Tax Rate ^[5]	23.17%									
9	Net of Tax Weighted Average Cost of Capital ^[5]	6.48%									
10	Amortization Period ^[4]	15									
11											
12											
13											
14		2019 ^[1]	2020	2021	2022	2023	2024	2025	2026	2027	2028
15	Amortization Expense	\$ 37,104	\$ 37,104	\$ 37,104	\$ 37,104	\$ 37,104	\$ 37,104	\$ 37,104	\$ 37,104	\$ 37,104	\$ 37,104
16	Amortization of deferred capital ^[2]	-	-	-	-	-	-	-	-	-	-
17	Unamortized Balance at beginning of year	556,556	519,453	482,349	445,245	408,141	371,038	333,934	296,830	259,726	222,623
18	Deferred Tax on Unamortized Balance	(128,950)	(120,354)	(111,757)	(103,160)	(94,563)	(85,967)	(77,370)	(68,773)	(60,177)	(51,580)
19	Net Rate Base	427,606	399,099	370,592	342,085	313,578	285,071	256,564	228,057	199,550	171,042
20	Pre Tax Weighted Average Cost of Capital %	8.44%	8.44%	8.44%	8.44%	8.44%	8.44%	8.44%	8.44%	8.44%	8.44%
21	Return on Rate Base	-	33,680	31,274	28,868	26,463	24,057	21,651	19,246	16,840	14,434
22											
23	Annual Revenue Requirement	\$ -	\$ 70,784	\$ 68,378	\$ 65,972	\$ 63,567	\$ 61,161	\$ 58,755	\$ 56,349	\$ 53,944	\$ 51,538
24											
25											
26		2029	2030	2031	2032	2033					
27	Amortization Expense	\$ 37,104	\$ 37,104	\$ 37,104	\$ 37,104	\$ 37,104					
28	Amortization of deferred capital ^[2]	-	-	-	-	-					
29	Unamortized Balance at beginning of year	185,519	148,415	111,311	74,208	37,104					
30	Deferred Tax on Unamortized Balance	(42,983)	(34,387)	(25,790)	(17,193)	(8,597)					
31	Net Rate Base	142,535	114,028	85,521	57,014	28,507					
32	Pre Tax Weighted Average Cost of Capital %	8.44%	8.44%	8.44%	8.44%	8.44%					
33	Return on Rate Base	12,029	9,623	7,217	4,811	2,406					
34											
35	Annual Revenue Requirement	\$ 49,132	\$ 46,727	\$ 44,321	\$ 41,915	\$ 39,509					
36											
37	Total Revenue Requirement - Traditional Recovery Model - Incremental O&M					\$ 772,052					

Notes:

- [1] Per Public Staff Partial Settlement and Stipulation in Docket No. E-2 Sub 1219, for traditional storm cost recovery, 12 months of amortization for each Storm was expensed prior to the new rates going into effect;
- [2] Per Public Staff Partial Settlement and Stipulation in Docket No. E-2 Sub 1219, for traditional storm cost recovery, no capital costs incurred due to the Storms during the 12-month period were included in the deferred balance;
- [3] Per Public Staff Partial Settlement and Stipulation in Docket No. E-2 Sub 1219, for traditional storm cost recovery, no carrying charges were accrued on the deferred balance during the 12-month period following the date(s) of the Storm(s);
- [4] Per Public Staff Partial Settlement and Stipulation in Docket No. E-2 Sub 1219, for traditional cost recovery, the amortization period for the Storms is a minimum of 15 years
- [5] For purposes of the calculation, Duke Energy Progress has used the WACC agreed to in the Public Staff Second Partial Settlement and Stipulation in in Docket No. E-2 Sub 1219.

Duke Energy Progress, LLC
Docket No. E-2 Sub 1262
Abernathy DEP Exhibit 6
Storm Securitization
NORTH CAROLINA RETAIL

Abernathy DEP Exhibit 6
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Annual Revenue Requirement - Traditional Recovery Model - Capital Investments

Assumptions

Storm Capital Investments	\$	68,637
Date of storm	Dec 31, 2018	
Date of rates effective in new rate case	Jan 1, 2020	
Date of securitization	Oct 1, 2020	
Pre Tax Weighted Average Cost of Capital ^[2]	8.44%	
Composite Tax Rate ^[2]	23.17%	
Amortization Period ^[1]	15	

Revenue Requirement

Storm Capital Investments	\$	68,637
Depreciation Rate		2.5%
Annual Depreciation Expense	\$	1,716
Plant life expectancy		40 years

	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
Depreciation Expense	\$ 2	\$ 1,716	\$ 1,716	\$ 1,716	\$ 1,716	\$ 1,716	\$ 1,716	\$ 1,716	\$ 1,716	\$ 1,716
Gross Plant at Beginning of the Year	68,637	68,637	68,637	68,637	68,637	68,637	68,637	68,637	68,637	68,637
Accumulated Depreciation	(1,716)	(3,432)	(5,148)	(6,864)	(8,580)	(10,296)	(12,012)	(13,727)	(15,443)	(17,159)
Beginning Net Plant	68,637	66,922	65,206	63,490	61,774	60,058	58,342	56,626	54,910	53,194
Pre Tax Weighted Average Cost of Capital %	8.44%	8.44%	8.44%	8.44%	8.44%	8.44%	8.44%	8.44%	8.44%	8.44%
Return on Rate Base	-	5,647	5,503	5,358	5,213	5,068	4,923	4,779	4,634	4,489
Annual Revenue Requirement	\$ -	\$ 7,363	\$ 7,219	\$ 7,074	\$ 6,929	\$ 6,784	\$ 6,639	\$ 6,495	\$ 6,350	\$ 6,205

	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038
Depreciation Expense	\$ 1,716	\$ 1,716	\$ 1,716	\$ 1,716	\$ 1,716	\$ 1,716	\$ 1,716	\$ 1,716	\$ 1,716	\$ 1,716
Gross Plant at Beginning of the Year	68,637	68,637	68,637	68,637	68,637	68,637	68,637	68,637	68,637	68,637
Accumulated Depreciation	(18,875)	(20,591)	(22,307)	(24,023)	(25,739)	(27,455)	(29,171)	(30,887)	(32,603)	(34,319)
Beginning Net Plant	51,478	49,762	48,046	46,330	44,614	42,898	41,182	39,467	37,751	36,035
Pre Tax Weighted Average Cost of Capital %	8.44%	8.44%	8.44%	8.44%	8.44%	8.44%	8.44%	8.44%	8.44%	8.44%
Return on Rate Base	4,344	4,199	4,055	3,910	3,765	3,620	3,475	3,331	3,186	3,041
Annual Revenue Requirement	\$ 6,060	\$ 5,915	\$ 5,771	\$ 5,626	\$ 5,481	\$ 5,336	\$ 5,191	\$ 5,047	\$ 4,902	\$ 4,757

	2039	2040	2041	2042	2043	2044	2045	2046	2047	2048
Depreciation Expense	\$ 1,716	\$ 1,716	\$ 1,716	\$ 1,716	\$ 1,716	\$ 1,716	\$ 1,716	\$ 1,716	\$ 1,716	\$ 1,716
Gross Plant at Beginning of the Year	68,637	68,637	68,637	68,637	68,637	68,637	68,637	68,637	68,637	68,637
Accumulated Depreciation	(36,035)	(37,751)	(39,467)	(41,182)	(42,898)	(44,614)	(46,330)	(48,046)	(49,762)	(51,478)
Beginning Net Plant	34,319	32,603	30,887	29,171	27,455	25,739	24,023	22,307	20,591	18,875
Pre Tax Weighted Average Cost of Capital %	8.44%	8.44%	8.44%	8.44%	8.44%	8.44%	8.44%	8.44%	8.44%	8.44%
Return on Rate Base	2,896	2,751	2,607	2,462	2,317	2,172	2,027	1,882	1,738	1,593
Annual Revenue Requirement	\$ 4,612	\$ 4,467	\$ 4,322	\$ 4,178	\$ 4,033	\$ 3,888	\$ 3,743	\$ 3,598	\$ 3,454	\$ 3,309

	2049	2050	2051	2052	2053	2054	2055	2056	2057	2058
Depreciation Expense	\$ 1,716	\$ 1,716	\$ 1,716	\$ 1,716	\$ 1,716	\$ 1,716	\$ 1,716	\$ 1,716	\$ 1,716	\$ 1,716
Gross Plant at Beginning of the Year	68,637	68,637	68,637	68,637	68,637	68,637	68,637	68,637	68,637	68,637
Accumulated Depreciation	(53,194)	(54,910)	(56,626)	(58,342)	(60,058)	(61,774)	(63,490)	(65,206)	(66,922)	(68,637)
Beginning Net Plant	17,159	15,443	13,727	12,012	10,296	8,580	6,864	5,148	3,432	1,716
Pre Tax Weighted Average Cost of Capital %	8.44%	8.44%	8.44%	8.44%	8.44%	8.44%	8.44%	8.44%	8.44%	8.44%
Return on Rate Base	1,448	1,303	1,158	1,014	869	724	579	434	290	145
Annual Revenue Requirement	\$ 3,164	\$ 3,019	\$ 2,874	\$ 2,730	\$ 2,585	\$ 2,440	\$ 2,295	\$ 2,150	\$ 2,006	\$ 1,861

Total Revenue Requirement - Traditional Recovery Model - Capital Investments	\$	179,871
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Notes:

[1] Per Public Staff Partial Settlement and Stipulation in Docket No. E-2 Sub 1219, for traditional cost recovery, the amortization period for the Storms is a minimum of 15 years
[2] For purposes of the calculation, Duke Energy Progress has used the WACC agreed to in the Public Staff Second Partial Settlement and Stipulation in in Docket No. E-2 Sub 1219.

Duke Energy Carolinas, LLC
Docket No. E-7 Sub 1243
Abernathy DEC Exhibit 7
Storm Securitization
NORTH CAROLINA RETAIL
Annual Revenue Requirement - Storm Recovery Charge Model

Line No.		2020	2021	2022	2023	2024	2025	2026	2027
1	Storm Incremental O&M ^{[1][2]}	\$ 2,746	\$ 10,703	\$ 11,003	\$ 11,246	\$ 11,492	\$ 11,741	\$ 11,992	\$ 12,247
2	Storm Capital Investments ^{[1][2]}	377	1,508	1,508	1,508	1,508	1,508	1,508	1,508
3	Storm Recovery Charge	\$ 3,124	\$ 12,212	\$ 12,511	\$ 12,754	\$ 13,000	\$ 13,249	\$ 13,501	\$ 13,755
4									
5		2028	2029	2030	2031	2032	2033	2034	2035
6	Storm Incremental O&M ^{[1][2]}	\$ 12,504	\$ 12,765	\$ 13,028	\$ 13,295	\$ 13,564	\$ 13,837	\$ 14,059	\$ 10,631
7	Storm Capital Investments ^{[1][2]}	1,508	1,508	1,508	1,508	1,508	1,508	1,508	1,131
8	Storm Recovery Charge	\$ 14,013	\$ 14,273	\$ 14,537	\$ 14,803	\$ 15,073	\$ 15,345	\$ 15,567	\$ 11,762
9									
10	Total Revenue Requirement - Storm Recovery Charge Model							\$	209,479

Notes:
[1] Refer to Abernathy Exhibit 7 pages 2-3 for details of calculations
[2] Per Public Staff Partial Settlement and Stipulation in Docket No. E-7 Sub 1214, for securitization, the imposition of the storm recovery charge begins nine months after the new rates go into effect.

Duke Energy Carolinas, LLC
Docket No. E-7 Sub 1243
Abernathy DEC Exhibit 7
Storm Securitization
NORTH CAROLINA RETAIL

Annual Revenue Requirement - Storm Recovery Charge Model - Incremental O&M

Line No.	Assumptions		Revenue Requirement				Calculation of Storm Recovery Bond Payment				
1	Storm Incremental O&M (less normal amount)	\$ 169,799	Storm Incremental O&M (less normal amount)		\$ 169,799		Monthly Storm Recovery Bond Payment		\$ 1,181		
2			% amortized for Jan 1, 2019-Dec 31, 2020		0.0%		Annual Storm Recovery Bond Payment		\$ 14,169		
3	Date of storm	Dec 31, 2018	Amortization amount		-		Securitization Bond Rate		1.15%		
4	Date of rates effective in new rate case	Jan 1, 2020	Costs for Return		169,799		Bond Period		15		
5	Date of securitization	Oct 1, 2020	Return for Jan 1, 2019-Dec 31, 2019		11,144						
6			Return for Jan 1, 2019-Sep 30, 2020 ^[1]		20,050						
7	Pre Tax Weighted Average Cost of Capital ^[5]	8.56%	Total storm costs to include in securitization		189,849						
8	Composite Tax Rate ^[5]	23.35%	Upfront financing costs for securitization ^{[3][4]}		5,230						
9	Net of Tax Weighted Average Cost of Capital ^[5]	6.56%	Amount to securitize		\$ 195,079						
10											
11											
12											
13			2020 [2]	2021	2022	2023	2024	2025	2026	2027	
14	Storm recovery bond payment		\$ 3,542	\$ 14,169	\$ 14,169	\$ 14,169	\$ 14,169	\$ 14,169	\$ 14,169	\$ 14,169	
15	Ongoing financing costs ^{[3][4]}		109	435	435	435	435	435	435	435	
16	Storm recovery charge		3,651	14,603	14,603	14,603	14,603	14,603	14,603	14,603	
17											
18	Unrecovered storm incremental O&M		180,942	195,079	180,079	167,923	155,626	143,186	130,602	117,873	
19	ADIT		(42,251)	(45,551)	(42,049)	(39,210)	(36,339)	(33,434)	(30,496)	(27,524)	
20	Pre Tax Weighted Average Cost of Capital %		8.56%	8.56%	8.56%	8.56%	8.56%	8.56%	8.56%	8.56%	
21	Return on ADIT in rate base		(904)	(3,900)	(3,600)	(3,357)	(3,111)	(2,863)	(2,611)	(2,357)	
22	Annual Revenue Requirement		\$ 2,746	\$ 10,703	\$ 11,003	\$ 11,246	\$ 11,492	\$ 11,741	\$ 11,992	\$ 12,247	
23											
24											
25			2028	2029	2030	2031	2032	2033	2034	2035	
26	Storm recovery bond payment		\$ 14,169	\$ 14,169	\$ 14,169	\$ 14,169	\$ 14,169	\$ 14,169	\$ 14,169	\$ 10,627	
27	Ongoing financing costs ^{[3][4]}		435	435	435	435	435	435	380	163	
28	Storm recovery charge		14,603	14,603	14,603	14,603	14,603	14,603	14,549	10,790	
29											
30	Unrecovered storm incremental O&M		104,995	91,969	78,791	65,461	51,976	38,334	24,535	10,576	
31	ADIT		(24,517)	(21,475)	(18,398)	(15,285)	(12,136)	(8,951)	(5,729)	(2,469)	
32	Pre Tax Weighted Average Cost of Capital %		8.56%	8.56%	8.56%	8.56%	8.56%	8.56%	8.56%	8.56%	
33	Return on ADIT in rate base		(2,099)	(1,839)	(1,575)	(1,309)	(1,039)	(766)	(491)	(159)	
34	Annual Revenue Requirement		\$ 12,504	\$ 12,765	\$ 13,028	\$ 13,295	\$ 13,564	\$ 13,837	\$ 14,059	\$ 10,631	
35											
36											
37	Total Revenue Requirement - Storm Recovery Charge Model - Incremental O&M								\$ 186,852		

Notes:

[1] 1.75 years' return, compounded at December 31, 2020

[2] Per Public Staff Partial Settlement and Stipulation in Docket No. E-7 Sub 1214, for securitization, the imposition of the Storm recovery charge begins nine months after the new rates go into effect. In this scenario, the imposition of the storm recovery charge begins October 1, 2020, resulting in three months of activity for 2020.

[3] Upfront financing fees and on-going financing costs are estimates as of the petition date. Details of the estimates are outlined in Heath Exhibit 1.

[4] In consideration of upfront and ongoing financing costs, Duke Energy Carolinas elected to present those amounts with the O&M component of the storm recovery charge calculation.

[5] For purposes of the calculation, Duke Energy Carolinas has used the WACC agreed to in the Public Staff Second Partial Settlement and Stipulation in in Docket No. E-7 Sub 1214.

Duke Energy Carolinas, LLC
DOCKET E-7 Sub 1243
Abernathy DEC Exhibit 7
Storm Securitization
NORTH CAROLINA RETAIL

Annual Revenue Requirement - Storm Recovery Charge Model - Capital Investments

Line No.	Assumptions		Revenue Requirement				Calculation of Storm Recovery Bond Payment						
1	Storm Capital Investments	\$	18,575	Storm Capital Investments				\$	18,575	Monthly Storm Recovery Bond Payment	\$	126	
2				Costs for Return					18,575	Annual Storm Recovery Bond Payment	\$	1,508	
3	Date of storm	Dec 31, 2018		Return for Jan 1, 2019-Sep 30, 2020 ^[1]					2,193	Securitization Bond Rate		1.15%	
4	Date of rates effective in new rate case	Jan 1, 2020		Total storm capital including return					20,769	Bond Period		15	
5	Date of securitization ^[2]	Oct 1, 2020		Amount to securitize				\$	20,769				
6													
7	Net of Tax Weighted Average Cost of Capital % ^[3]	6.56%											
8													
9													
10			2020 [2]	2021	2022	2023	2024	2025	2026	2027			
11	Storm Recovery Charge	\$	377	\$	1,508	\$	1,508	\$	1,508	\$	1,508	\$	1,508
12	Annual Revenue Requirement	\$	377	\$	1,508	\$	1,508	\$	1,508	\$	1,508	\$	1,508
13													
14													
15			2028	2029	2030	2031	2032	2033	2034	2035			
16	Storm Recovery Charge	\$	1,508	\$	1,508	\$	1,508	\$	1,508	\$	1,508	\$	1,131
17	Annual Revenue Requirement	\$	1,508	\$	1,508	\$	1,508	\$	1,508	\$	1,508	\$	1,131
18													
19													
20	Total Revenue Requirement - Storm Recovery Charge Model - Capital Investments										\$	22,626	

Notes

[1] 1.75 years' return, compounded at December 31, 2020

[2] Per Public Staff Partial Settlement and Stipulation in Docket No. E-7 Sub 1214, for securitization, the imposition of the Storm recovery charge begins nine months after the new rates go into effect. In this scenario, the imposition of the storm recovery charge begins October 1, 2020, resulting in three months of activity for 2020.

[3] For purposes of the calculation, Duke Energy Carolinas has used the WACC agreed to in the Public Staff Second Partial Settlement and Stipulation in in Docket No. E-7 Sub 1214.

Duke Energy Carolinas, LLC
Docket No. E-7 Sub 1243
Abernathy DEC Exhibit 7
Storm Securitization
NORTH CAROLINA RETAIL

Annual Revenue Requirement - Storm Recovery Charge Model - Amortization Schedules

Line No.	Calculation of Storm Recovery Bond Payment - O&M						Calculation of Storm Recovery Bond Payment - Capital Investments									
1	Amount to securitize	\$	195,079				Amount to securitize	\$	20,769							
2	Monthly Storm Recovery Bond Payment	\$	1,181				Monthly Storm Recovery Bond Payment	\$	126							
3	Annual Storm Recovery Bond Payment	\$	14,169				Annual Storm Recovery Bond Payment	\$	1,508							
4	Securitization Bond Rate		1.15%				Securitization Bond Rate		1.15%							
5	Bond Period		15				Bond Period		15							
6	Date	Incremental O&M Deferral					Capital Investments					Total				
		Beg Bal	End Bal	Payment	Interest	Net Change	Beg Bal	End Bal	Payment	Interest	Net Change	Beg Bal	End Bal	Payment	Interest	Net Change
7	Oct-20	195,079	194,086	1,181	187	993	20,769	20,663	126	20	106	215,848	214,749	1,306	207	1,099
8	Nov-20	194,086	193,092	1,181	187	994	20,663	20,557	126	20	106	214,749	213,649	1,306	206	1,100
9	Dec-20	193,092	192,096	1,181	186	995	20,557	20,451	126	20	106	213,649	212,547	1,306	205	1,101
10	Jan-21	192,096	191,100	1,181	185	996	20,451	20,345	126	20	106	212,547	211,445	1,306	204	1,102
11	Feb-21	191,100	190,103	1,181	184	997	20,345	20,239	126	20	106	211,445	210,342	1,306	203	1,103
12	Mar-21	190,103	189,105	1,181	183	998	20,239	20,133	126	19	106	210,342	209,238	1,306	202	1,104
13	Apr-21	189,105	188,106	1,181	182	999	20,133	20,026	126	19	106	209,238	208,132	1,306	201	1,105
14	May-21	188,106	187,106	1,181	181	1,000	20,026	19,920	126	19	106	208,132	207,026	1,306	200	1,106
15	Jun-21	187,106	186,105	1,181	180	1,001	19,920	19,813	126	19	107	207,026	205,918	1,306	199	1,107
16	Jul-21	186,105	185,103	1,181	179	1,002	19,813	19,707	126	19	107	205,918	204,810	1,306	198	1,109
17	Aug-21	185,103	184,100	1,181	178	1,003	19,707	19,600	126	19	107	204,810	203,700	1,306	197	1,110
18	Sep-21	184,100	183,097	1,181	177	1,004	19,600	19,493	126	19	107	203,700	202,590	1,306	196	1,111
19	Oct-21	183,097	182,092	1,181	176	1,005	19,493	19,386	126	19	107	202,590	201,478	1,306	195	1,112
20	Nov-21	182,092	181,086	1,181	175	1,006	19,386	19,279	126	19	107	201,478	200,365	1,306	194	1,113
21	Dec-21	181,086	180,079	1,181	174	1,007	19,279	19,172	126	19	107	200,365	199,251	1,306	193	1,114
22	Jan-22	180,079	179,072	1,181	173	1,008	19,172	19,064	126	18	107	199,251	198,136	1,306	191	1,115
23	Feb-22	179,072	178,063	1,181	172	1,009	19,064	18,957	126	18	107	198,136	197,020	1,306	190	1,116
24	Mar-22	178,063	177,053	1,181	171	1,010	18,957	18,850	126	18	107	197,020	195,903	1,306	189	1,117
25	Apr-22	177,053	176,043	1,181	170	1,011	18,850	18,742	126	18	108	195,903	194,785	1,306	188	1,118
26	May-22	176,043	175,031	1,181	169	1,012	18,742	18,634	126	18	108	194,785	193,666	1,306	187	1,119
27	Jun-22	175,031	174,019	1,181	168	1,013	18,634	18,526	126	18	108	193,666	192,545	1,306	186	1,120
28	Jul-22	174,019	173,005	1,181	167	1,013	18,526	18,419	126	18	108	192,545	191,424	1,306	185	1,121
29	Aug-22	173,005	171,991	1,181	166	1,014	18,419	18,311	126	18	108	191,424	190,301	1,306	184	1,122
30	Sep-22	171,991	170,975	1,181	165	1,015	18,311	18,202	126	18	108	190,301	189,178	1,306	183	1,124
31	Oct-22	170,975	169,959	1,181	164	1,016	18,202	18,094	126	17	108	189,178	188,053	1,306	182	1,125
32	Nov-22	169,959	168,942	1,181	163	1,017	18,094	17,986	126	17	108	188,053	186,928	1,306	181	1,126
33	Dec-22	168,942	167,923	1,181	162	1,018	17,986	17,878	126	17	108	186,928	185,801	1,306	180	1,127
34	Jan-23	167,923	166,904	1,181	161	1,019	17,878	17,769	126	17	109	185,801	184,673	1,306	179	1,128
35	Feb-23	166,904	165,883	1,181	160	1,020	17,769	17,660	126	17	109	184,673	183,544	1,306	177	1,129
36	Mar-23	165,883	164,862	1,181	159	1,021	17,660	17,552	126	17	109	183,544	182,414	1,306	176	1,130
37	Apr-23	164,862	163,840	1,181	158	1,022	17,552	17,443	126	17	109	182,414	181,283	1,306	175	1,131
38	May-23	163,840	162,817	1,181	157	1,023	17,443	17,334	126	17	109	181,283	180,150	1,306	174	1,132
39	Jun-23	162,817	161,792	1,181	156	1,024	17,334	17,225	126	17	109	180,150	179,017	1,306	173	1,133
40	Jul-23	161,792	160,767	1,181	155	1,025	17,225	17,116	126	17	109	179,017	177,883	1,306	172	1,134
41	Aug-23	160,767	159,741	1,181	154	1,026	17,116	17,006	126	16	109	177,883	176,747	1,306	171	1,135
42	Sep-23	159,741	158,714	1,181	154	1,027	17,006	16,897	126	16	109	176,747	175,611	1,306	170	1,137
43	Oct-23	158,714	157,685	1,181	153	1,028	16,897	16,788	126	16	109	175,611	174,473	1,306	169	1,138
44	Nov-23	157,685	156,656	1,181	152	1,029	16,788	16,678	126	16	110	174,473	173,334	1,306	168	1,139
45	Dec-23	156,656	155,626	1,181	151	1,030	16,678	16,568	126	16	110	173,334	172,194	1,306	167	1,140
46	Jan-24	155,626	154,595	1,181	150	1,031	16,568	16,459	126	16	110	172,194	171,053	1,306	165	1,141
47	Feb-24	154,595	153,563	1,181	149	1,032	16,459	16,349	126	16	110	171,053	169,911	1,306	164	1,142
48	Mar-24	153,563	152,530	1,181	148	1,033	16,349	16,239	126	16	110	169,911	168,768	1,306	163	1,143
49	Apr-24	152,530	151,495	1,181	147	1,034	16,239	16,129	126	16	110	168,768	167,624	1,306	162	1,144

6	Date	Incremental O&M Deferral					Capital Investments					Total				
		Beg Bal	End Bal	Payment	Interest	Net Change	Beg Bal	End Bal	Payment	Interest	Net Change	Beg Bal	End Bal	Payment	Interest	Net Change
50	May-24	151,495	150,460	1,181	146	1,035	16,129	16,018	126	15	110	167,624	166,479	1,306	161	1,145
51	Jun-24	150,460	149,424	1,181	145	1,036	16,018	15,908	126	15	110	166,479	165,332	1,306	160	1,146
52	Jul-24	149,424	148,387	1,181	144	1,037	15,908	15,798	126	15	110	165,332	164,185	1,306	159	1,148
53	Aug-24	148,387	147,349	1,181	143	1,038	15,798	15,687	126	15	111	164,185	163,036	1,306	158	1,149
54	Sep-24	147,349	146,310	1,181	142	1,039	15,687	15,577	126	15	111	163,036	161,886	1,306	157	1,150
55	Oct-24	146,310	145,270	1,181	141	1,040	15,577	15,466	126	15	111	161,886	160,735	1,306	156	1,151
56	Nov-24	145,270	144,228	1,181	140	1,041	15,466	15,355	126	15	111	160,735	159,583	1,306	154	1,152
57	Dec-24	144,228	143,186	1,181	139	1,042	15,355	15,244	126	15	111	159,583	158,430	1,306	153	1,153
58	Jan-25	143,186	142,143	1,181	138	1,043	15,244	15,133	126	15	111	158,430	157,276	1,306	152	1,154
59	Feb-25	142,143	141,099	1,181	137	1,044	15,133	15,022	126	15	111	157,276	156,121	1,306	151	1,155
60	Mar-25	141,099	140,054	1,181	136	1,045	15,022	14,911	126	14	111	156,121	154,964	1,306	150	1,156
61	Apr-25	140,054	139,008	1,181	135	1,046	14,911	14,799	126	14	111	154,964	153,807	1,306	149	1,158
62	May-25	139,008	137,961	1,181	134	1,047	14,799	14,688	126	14	111	153,807	152,648	1,306	148	1,159
63	Jun-25	137,961	136,913	1,181	133	1,048	14,688	14,576	126	14	112	152,648	151,489	1,306	147	1,160
64	Jul-25	136,913	135,863	1,181	132	1,049	14,576	14,464	126	14	112	151,489	150,328	1,306	146	1,161
65	Aug-25	135,863	134,813	1,181	131	1,050	14,464	14,353	126	14	112	150,328	149,166	1,306	144	1,162
66	Sep-25	134,813	133,762	1,181	130	1,051	14,353	14,241	126	14	112	149,166	148,003	1,306	143	1,163
67	Oct-25	133,762	132,710	1,181	129	1,052	14,241	14,129	126	14	112	148,003	146,838	1,306	142	1,164
68	Nov-25	132,710	131,657	1,181	128	1,053	14,129	14,017	126	14	112	146,838	145,673	1,306	141	1,165
69	Dec-25	131,657	130,602	1,181	127	1,054	14,017	13,904	126	13	112	145,673	144,507	1,306	140	1,166
70	Jan-26	130,602	129,547	1,181	126	1,055	13,904	13,792	126	13	112	144,507	143,339	1,306	139	1,168
71	Feb-26	129,547	128,491	1,181	124	1,056	13,792	13,679	126	13	112	143,339	142,170	1,306	138	1,169
72	Mar-26	128,491	127,434	1,181	123	1,057	13,679	13,567	126	13	113	142,170	141,001	1,306	137	1,170
73	Apr-26	127,434	126,375	1,181	122	1,058	13,567	13,454	126	13	113	141,001	139,830	1,306	135	1,171
74	May-26	126,375	125,316	1,181	121	1,059	13,454	13,341	126	13	113	139,830	138,658	1,306	134	1,172
75	Jun-26	125,316	124,256	1,181	120	1,060	13,341	13,229	126	13	113	138,658	137,484	1,306	133	1,173
76	Jul-26	124,256	123,195	1,181	119	1,061	13,229	13,116	126	13	113	137,484	136,310	1,306	132	1,174
77	Aug-26	123,195	122,132	1,181	118	1,062	13,116	13,003	126	13	113	136,310	135,135	1,306	131	1,175
78	Sep-26	122,132	121,069	1,181	117	1,063	13,003	12,889	126	12	113	135,135	133,958	1,306	130	1,177
79	Oct-26	121,069	120,004	1,181	116	1,064	12,889	12,776	126	12	113	133,958	132,780	1,306	129	1,178
80	Nov-26	120,004	118,939	1,181	115	1,065	12,776	12,663	126	12	113	132,780	131,602	1,306	128	1,179
81	Dec-26	118,939	117,873	1,181	114	1,066	12,663	12,549	126	12	114	131,602	130,422	1,306	126	1,180
82	Jan-27	117,873	116,805	1,181	113	1,067	12,549	12,435	126	12	114	130,422	129,241	1,306	125	1,181
83	Feb-27	116,805	115,737	1,181	112	1,068	12,435	12,322	126	12	114	129,241	128,058	1,306	124	1,182
84	Mar-27	115,737	114,667	1,181	111	1,070	12,322	12,208	126	12	114	128,058	126,875	1,306	123	1,183
85	Apr-27	114,667	113,597	1,181	110	1,071	12,208	12,094	126	12	114	126,875	125,690	1,306	122	1,185
86	May-27	113,597	112,525	1,181	109	1,072	12,094	11,980	126	12	114	125,690	124,505	1,306	121	1,186
87	Jun-27	112,525	111,453	1,181	108	1,073	11,980	11,866	126	12	114	124,505	123,318	1,306	120	1,187
88	Jul-27	111,453	110,379	1,181	107	1,074	11,866	11,751	126	11	114	123,318	122,130	1,306	119	1,188
89	Aug-27	110,379	109,304	1,181	106	1,075	11,751	11,637	126	11	114	122,130	120,941	1,306	117	1,189
90	Sep-27	109,304	108,229	1,181	105	1,076	11,637	11,522	126	11	115	120,941	119,751	1,306	116	1,190
91	Oct-27	108,229	107,152	1,181	104	1,077	11,522	11,408	126	11	115	119,751	118,560	1,306	115	1,191
92	Nov-27	107,152	106,074	1,181	103	1,078	11,408	11,293	126	11	115	118,560	117,367	1,306	114	1,192
93	Dec-27	106,074	104,995	1,181	102	1,079	11,293	11,178	126	11	115	117,367	116,173	1,306	113	1,194
94	Jan-28	104,995	103,915	1,181	101	1,080	11,178	11,063	126	11	115	116,173	114,979	1,306	112	1,195
95	Feb-28	103,915	102,835	1,181	100	1,081	11,063	10,948	126	11	115	114,979	113,783	1,306	110	1,196
96	Mar-28	102,835	101,753	1,181	99	1,082	10,948	10,833	126	11	115	113,783	112,586	1,306	109	1,197
97	Apr-28	101,753	100,670	1,181	98	1,083	10,833	10,718	126	10	115	112,586	111,387	1,306	108	1,198
98	May-28	100,670	99,586	1,181	97	1,084	10,718	10,602	126	10	115	111,387	110,188	1,306	107	1,199
99	Jun-28	99,586	98,501	1,181	96	1,085	10,602	10,487	126	10	116	110,188	108,987	1,306	106	1,201
100	Jul-28	98,501	97,415	1,181	95	1,086	10,487	10,371	126	10	116	108,987	107,786	1,306	105	1,202
101	Aug-28	97,415	96,328	1,181	94	1,087	10,371	10,255	126	10	116	107,786	106,583	1,306	104	1,203
102	Sep-28	96,328	95,239	1,181	93	1,088	10,255	10,139	126	10	116	106,583	105,379	1,306	102	1,204
103	Oct-28	95,239	94,150	1,181	92	1,089	10,139	10,023	126	10	116	105,379	104,174	1,306	101	1,205
104	Nov-28	94,150	93,060	1,181	90	1,090	10,023	9,907	126	10	116	104,174	102,967	1,306	100	1,206
105	Dec-28	93,060	91,969	1,181	89	1,091	9,907	9,791	126	10	116	102,967	101,760	1,306	99	1,207
106	Jan-29	91,969	90,876	1,181	88	1,092	9,791	9,675	126	9	116	101,760	100,551	1,306	98	1,209
107	Feb-29	90,876	89,783	1,181	87	1,093	9,675	9,559	126	9	116	100,551	99,341	1,306	97	1,210

6	Date	Incremental O&M Deferral					Capital Investments					Total				
		Beg Bal	End Bal	Payment	Interest	Net Change	Beg Bal	End Bal	Payment	Interest	Net Change	Beg Bal	End Bal	Payment	Interest	Net Change
108	Mar-29	89,783	88,688	1,181	86	1,094	9,559	9,442	126	9	117	99,341	98,130	1,306	95	1,211
109	Apr-29	88,688	87,593	1,181	85	1,095	9,442	9,325	126	9	117	98,130	96,918	1,306	94	1,212
110	May-29	87,593	86,496	1,181	84	1,097	9,325	9,209	126	9	117	96,918	95,705	1,306	93	1,213
111	Jun-29	86,496	85,399	1,181	83	1,098	9,209	9,092	126	9	117	95,705	94,491	1,306	92	1,214
112	Jul-29	85,399	84,300	1,181	82	1,099	9,092	8,975	126	9	117	94,491	93,275	1,306	91	1,216
113	Aug-29	84,300	83,200	1,181	81	1,100	8,975	8,858	126	9	117	93,275	92,058	1,306	90	1,217
114	Sep-29	83,200	82,100	1,181	80	1,101	8,858	8,741	126	9	117	92,058	90,840	1,306	88	1,218
115	Oct-29	82,100	80,998	1,181	79	1,102	8,741	8,623	126	8	117	90,840	89,621	1,306	87	1,219
116	Nov-29	80,998	79,895	1,181	78	1,103	8,623	8,506	126	8	117	89,621	88,401	1,306	86	1,220
117	Dec-29	79,895	78,791	1,181	77	1,104	8,506	8,388	126	8	118	88,401	87,179	1,306	85	1,221
118	Jan-30	78,791	77,686	1,181	76	1,105	8,388	8,271	126	8	118	87,179	85,957	1,306	84	1,223
119	Feb-30	77,686	76,580	1,181	75	1,106	8,271	8,153	126	8	118	85,957	84,733	1,306	83	1,224
120	Mar-30	76,580	75,473	1,181	74	1,107	8,153	8,035	126	8	118	84,733	83,508	1,306	81	1,225
121	Apr-30	75,473	74,365	1,181	73	1,108	8,035	7,917	126	8	118	83,508	82,282	1,306	80	1,226
122	May-30	74,365	73,255	1,181	71	1,109	7,917	7,799	126	8	118	82,282	81,054	1,306	79	1,227
123	Jun-30	73,255	72,145	1,181	70	1,110	7,799	7,681	126	7	118	81,054	79,826	1,306	78	1,229
124	Jul-30	72,145	71,034	1,181	69	1,111	7,681	7,562	126	7	118	79,826	78,596	1,306	77	1,230
125	Aug-30	71,034	69,921	1,181	68	1,112	7,562	7,444	126	7	118	78,596	77,365	1,306	76	1,231
126	Sep-30	69,921	68,808	1,181	67	1,114	7,444	7,325	126	7	119	77,365	76,133	1,306	74	1,232
127	Oct-30	68,808	67,693	1,181	66	1,115	7,325	7,207	126	7	119	76,133	74,900	1,306	73	1,233
128	Nov-30	67,693	66,577	1,181	65	1,116	7,207	7,088	126	7	119	74,900	73,665	1,306	72	1,234
129	Dec-30	66,577	65,461	1,181	64	1,117	7,088	6,969	126	7	119	73,665	72,430	1,306	71	1,236
130	Jan-31	65,461	64,343	1,181	63	1,118	6,969	6,850	126	7	119	72,430	71,193	1,306	70	1,237
131	Feb-31	64,343	63,224	1,181	62	1,119	6,850	6,731	126	7	119	71,193	69,955	1,306	68	1,238
132	Mar-31	63,224	62,104	1,181	61	1,120	6,731	6,612	126	6	119	69,955	68,716	1,306	67	1,239
133	Apr-31	62,104	60,983	1,181	60	1,121	6,612	6,492	126	6	119	68,716	67,475	1,306	66	1,240
134	May-31	60,983	59,861	1,181	59	1,122	6,492	6,373	126	6	119	67,475	66,234	1,306	65	1,242
135	Jun-31	59,861	58,738	1,181	58	1,123	6,373	6,253	126	6	120	66,234	64,991	1,306	64	1,243
136	Jul-31	58,738	57,613	1,181	56	1,124	6,253	6,134	126	6	120	64,991	63,747	1,306	62	1,244
137	Aug-31	57,613	56,488	1,181	55	1,125	6,134	6,014	126	6	120	63,747	62,502	1,306	61	1,245
138	Sep-31	56,488	55,361	1,181	54	1,126	6,014	5,894	126	6	120	62,502	61,255	1,306	60	1,246
139	Oct-31	55,361	54,234	1,181	53	1,128	5,894	5,774	126	6	120	61,255	60,008	1,306	59	1,248
140	Nov-31	54,234	53,105	1,181	52	1,129	5,774	5,654	126	6	120	60,008	58,759	1,306	58	1,249
141	Dec-31	53,105	51,976	1,181	51	1,130	5,654	5,533	126	5	120	58,759	57,509	1,306	56	1,250
142	Jan-32	51,976	50,845	1,181	50	1,131	5,533	5,413	126	5	120	57,509	56,258	1,306	55	1,251
143	Feb-32	50,845	49,713	1,181	49	1,132	5,413	5,293	126	5	121	56,258	55,006	1,306	54	1,252
144	Mar-32	49,713	48,580	1,181	48	1,133	5,293	5,172	126	5	121	55,006	53,752	1,306	53	1,254
145	Apr-32	48,580	47,446	1,181	47	1,134	5,172	5,051	126	5	121	53,752	52,497	1,306	52	1,255
146	May-32	47,446	46,311	1,181	46	1,135	5,051	4,930	126	5	121	52,497	51,241	1,306	50	1,256
147	Jun-32	46,311	45,175	1,181	45	1,136	4,930	4,809	126	5	121	51,241	49,984	1,306	49	1,257
148	Jul-32	45,175	44,037	1,181	43	1,137	4,809	4,688	126	5	121	49,984	48,726	1,306	48	1,258
149	Aug-32	44,037	42,899	1,181	42	1,138	4,688	4,567	126	5	121	48,726	47,466	1,306	47	1,260
150	Sep-32	42,899	41,759	1,181	41	1,139	4,567	4,446	126	4	121	47,466	46,205	1,306	46	1,261
151	Oct-32	41,759	40,619	1,181	40	1,141	4,446	4,324	126	4	121	46,205	44,943	1,306	44	1,262
152	Nov-32	40,619	39,477	1,181	39	1,142	4,324	4,203	126	4	122	44,943	43,680	1,306	43	1,263
153	Dec-32	39,477	38,334	1,181	38	1,143	4,203	4,081	126	4	122	43,680	42,416	1,306	42	1,264
154	Jan-33	38,334	37,191	1,181	37	1,144	4,081	3,959	126	4	122	42,416	41,150	1,306	41	1,266
155	Feb-33	37,191	36,046	1,181	36	1,145	3,959	3,837	126	4	122	41,150	39,883	1,306	40	1,267
156	Mar-33	36,046	34,899	1,181	35	1,146	3,837	3,715	126	4	122	39,883	38,615	1,306	38	1,268
157	Apr-33	34,899	33,752	1,181	34	1,147	3,715	3,593	126	4	122	38,615	37,346	1,306	37	1,269
158	May-33	33,752	32,604	1,181	32	1,148	3,593	3,471	126	3	122	37,346	36,075	1,306	36	1,271
159	Jun-33	32,604	31,455	1,181	31	1,149	3,471	3,349	126	3	122	36,075	34,803	1,306	35	1,272
160	Jul-33	31,455	30,304	1,181	30	1,150	3,349	3,226	126	3	122	34,803	33,530	1,306	33	1,273
161	Aug-33	30,304	29,152	1,181	29	1,152	3,226	3,104	126	3	123	33,530	32,256	1,306	32	1,274
162	Sep-33	29,152	28,000	1,181	28	1,153	3,104	2,981	126	3	123	32,256	30,981	1,306	31	1,275
163	Oct-33	28,000	26,846	1,181	27	1,154	2,981	2,858	126	3	123	30,981	29,704	1,306	30	1,277
164	Nov-33	26,846	25,691	1,181	26	1,155	2,858	2,735	126	3	123	29,704	28,426	1,306	29	1,278
165	Dec-33	25,691	24,535	1,181	25	1,156	2,735	2,612	126	3	123	28,426	27,147	1,306	27	1,279

6	Date	Incremental O&M Deferral					Capital Investments					Total				
		Beg Bal	End Bal	Payment	Interest	Net Change	Beg Bal	End Bal	Payment	Interest	Net Change	Beg Bal	End Bal	Payment	Interest	Net Change
166	Jan-34	24,535	23,378	1,181	24	1,157	2,612	2,489	126	3	123	27,147	25,867	1,306	26	1,280
167	Feb-34	23,378	22,220	1,181	22	1,158	2,489	2,366	126	2	123	25,867	24,585	1,306	25	1,282
168	Mar-34	22,220	21,060	1,181	21	1,159	2,366	2,242	126	2	123	24,585	23,302	1,306	24	1,283
169	Apr-34	21,060	19,900	1,181	20	1,160	2,242	2,119	126	2	124	23,302	22,018	1,306	22	1,284
170	May-34	19,900	18,738	1,181	19	1,162	2,119	1,995	126	2	124	22,018	20,733	1,306	21	1,285
171	Jun-34	18,738	17,575	1,181	18	1,163	1,995	1,871	126	2	124	20,733	19,447	1,306	20	1,287
172	Jul-34	17,575	16,412	1,181	17	1,164	1,871	1,747	126	2	124	19,447	18,159	1,306	19	1,288
173	Aug-34	16,412	15,247	1,181	16	1,165	1,747	1,623	126	2	124	18,159	16,870	1,306	17	1,289
174	Sep-34	15,247	14,081	1,181	15	1,166	1,623	1,499	126	2	124	16,870	15,580	1,306	16	1,290
175	Oct-34	14,081	12,913	1,181	14	1,167	1,499	1,375	126	1	124	15,580	14,288	1,306	15	1,291
176	Nov-34	12,913	11,745	1,181	12	1,168	1,375	1,250	126	1	124	14,288	12,995	1,306	14	1,293
177	Dec-34	11,745	10,576	1,181	11	1,169	1,250	1,126	126	1	125	12,995	11,702	1,306	12	1,294
178	Jan-35	10,576	9,405	1,181	10	1,171	1,126	1,001	126	1	125	11,702	10,406	1,306	11	1,295
179	Feb-35	9,405	8,233	1,181	9	1,172	1,001	877	126	1	125	10,406	9,110	1,306	10	1,296
180	Mar-35	8,233	7,061	1,181	8	1,173	877	752	126	1	125	9,110	7,812	1,306	9	1,298
181	Apr-35	7,061	5,887	1,181	7	1,174	752	627	126	1	125	7,812	6,513	1,306	8	1,299
182	May-35	5,887	4,712	1,181	6	1,175	627	502	126	1	125	6,513	5,213	1,306	6	1,300
183	Jun-35	4,712	3,535	1,181	5	1,176	502	376	126	0	125	5,213	3,912	1,306	5	1,301
184	Jul-35	3,535	2,358	1,181	3	1,177	376	251	126	0	125	3,912	2,609	1,306	4	1,303
185	Aug-35	2,358	1,180	1,181	2	1,178	251	126	126	0	125	2,609	1,305	1,306	3	1,304
186	Sep-35	1180	0	1181	1	1180	126	0	126	0	126	1,305	0	1,306	1	1,305

Duke Energy Progress, LLC
Docket No. E-2 Sub 1262
Abernathy DEP Exhibit 7
Storm Securitization
NORTH CAROLINA RETAIL
Annual Revenue Requirement - Storm Recovery Charge Model

Line No.		2020	2021	2022	2023	2024	2025	2026	2027
1	Storm Incremental O&M ^{[1][2]}	\$ 8,777	\$ 34,368	\$ 35,316	\$ 36,084	\$ 36,861	\$ 37,647	\$ 38,442	\$ 39,247
2	Storm Capital Investments ^{[1][2]}	1,392	5,567	5,567	5,567	5,567	5,567	5,567	5,567
3	Storm Recovery Charge	\$ 10,168	\$ 39,935	\$ 40,882	\$ 41,651	\$ 42,428	\$ 43,214	\$ 44,009	\$ 44,813
4									
5		2028	2029	2030	2031	2032	2033	2034	2035
6	Storm Incremental O&M ^{[1][2]}	\$ 40,060	\$ 40,884	\$ 41,716	\$ 42,559	\$ 43,411	\$ 44,273	\$ 45,032	\$ 34,181
7	Storm Capital Investments ^{[1][2]}	5,567	5,567	5,567	5,567	5,567	5,567	5,567	4,175
8	Storm Recovery Charge	\$ 45,627	\$ 46,450	\$ 47,283	\$ 48,125	\$ 48,977	\$ 49,839	\$ 50,598	\$ 38,356
9									
10	Total Revenue Requirement - Storm Recovery Charge Model							\$	682,355

Notes:
[1] Refer to Abernathy Exhibit 7 pages 2-3 for details of calculations
[2] Per Public Staff Partial Settlement and Stipulation in Docket No. E-2 Sub 1219, for securitization, the imposition of the storm recovery charge begins nine months after the new rates go into effect.

**Duke Energy Progress, LLC
Docket No. E-2 Sub 1262
Abernathy DEP Exhibit 7
Storm Securitization
NORTH CAROLINA RETAIL**

Annual Revenue Requirement - Storm Recovery Charge Model - Incremental O&M

Assumptions

Storm Incremental O&M (less normal amount)	\$ 556,556
Date of storm	Dec 31, 2018
Date of rates effective in new rate case	Jan 1, 2020
Date of securitization	Oct 1, 2020
Pre Tax Weighted Average Cost of Capital ^[5]	8.44%
Composite Tax Rate ^[5]	23.17%
Net of Tax Weighted Average Cost of Capital ^[5]	6.48%

Revenue Requirement

Storm Incremental O&M (less normal amount)	\$ 556,556
% amortized for Jan 1, 2019-Dec 31, 2020	0.0%
Amortization amount	-
Costs for Return	556,556
Return for Jan 1, 2019-Dec 31, 2019	36,086
Return for Jan 1, 2019-Sep 30, 2020 ^[1]	64,905
Total storm costs to include in securitization	621,461
Upfront financing costs for securitization ^{[3][4]}	8,992
Amount to securitize	\$ 630,452

Calculation of Storm Recovery Bond Payment

Monthly Storm Recovery Bond Payment	\$ 3,816
Annual Storm Recovery Bond Payment	\$ 45,790
Securitization Bond Rate	1.15%
Bond Period	15

	2020 [2]	2021	2022	2023	2024	2025	2026	2027
Storm recovery bond payment	\$ 11,448	\$ 45,790	\$ 45,790	\$ 45,790	\$ 45,790	\$ 45,790	\$ 45,790	\$ 45,790
Ongoing financing costs ^[4]	226	905	905	905	905	905	905	905
Storm recovery charge	11,674	46,695	46,695	46,695	46,695	46,695	46,695	46,695
Unrecovered storm incremental O&M	592,642	630,452	581,977	542,691	502,949	462,747	422,078	380,939
ADIT	(137,311)	(146,071)	(134,840)	(125,738)	(116,530)	(107,215)	(97,793)	(88,261)
Pre Tax Weighted Average Cost of Capital %	8.44%	8.44%	8.44%	8.44%	8.44%	8.44%	8.44%	8.44%
Return on ADIT in rate base	(2,897)	(12,327)	(11,379)	(10,611)	(9,834)	(9,048)	(8,253)	(7,448)
Annual Revenue Requirement	\$ 8,777	\$ 34,368	\$ 35,316	\$ 36,084	\$ 36,861	\$ 37,647	\$ 38,442	\$ 39,247

	2028	2029	2030	2031	2032	2033	2034	2035
Storm recovery bond payment	\$ 45,790	\$ 45,790	\$ 45,790	\$ 45,790	\$ 45,790	\$ 45,790	\$ 45,790	\$ 34,343
Ongoing financing costs ^[4]	905	905	905	905	905	905	792	339
Storm recovery charge	46,695	46,695	46,695	46,695	46,695	46,695	46,582	34,682
Unrecovered storm incremental O&M	339,322	297,223	254,635	211,554	167,974	123,888	79,292	34,178
ADIT	(78,618)	(68,864)	(58,997)	(49,016)	(38,918)	(28,704)	(18,371)	(7,919)
Pre Tax Weighted Average Cost of Capital %	8.44%	8.44%	8.44%	8.44%	8.44%	8.44%	8.44%	8.44%
Return on ADIT in rate base	(6,635)	(5,811)	(4,979)	(4,136)	(3,284)	(2,422)	(1,550)	(501)
Annual Revenue Requirement	\$ 40,060	\$ 40,884	\$ 41,716	\$ 42,559	\$ 43,411	\$ 44,273	\$ 45,032	\$ 34,181

Total Revenue Requirement - Storm Recovery Charge Model - Incremental O&M **\$ 598,858**

Notes:

[1] 1.75 years' return, compounded at December 31, 2020

[2] Per Public Staff Partial Settlement and Stipulation in Docket No. E-2 Sub 1219, for securitization, the imposition of the Storm recovery charge begins nine months after the new rates go into effect. In this scenario, the imposition of the storm recovery charge begins October 1, 2020, resulting in three months of activity for 2020.

[3] Upfront financing fees and on-going financing costs are estimates as of the petition date. Details of the estimates are outlined in Heath Exhibit 1.

[4] In consideration of upfront and ongoing financing costs, Duke Energy Progress elected to present those amounts with the O&M component of the storm recovery charge calculation.

[5] For purposes of the calculation, Duke Energy Progress has used the WACC agreed to in the Public Staff Second Partial Settlement and Stipulation in in Docket No. E-2 Sub 1219.

Duke Energy Progress, LLC
Docket No. E-2 Sub 1262
Abernathy DEP Exhibit 7
Storm Securitization
NORTH CAROLINA RETAIL

Annual Revenue Requirement - Storm Recovery Charge Model - Capital Investments

Line No.	Assumptions		Revenue Requirement				Calculation of Storm Recovery Bond Payment						
1	Storm Capital Investments	\$	68,637	Storm Capital Investments				\$	68,637	Monthly Storm Recovery Bond Payment	\$	464	
2				Costs for Return					68,637	Annual Storm Recovery Bond Payment	\$	5,567	
3	Date of storm	Dec 31, 2018		Return for Jan 1, 2019-Sep 30, 2020 ^[1]					8,004	Securitization Bond Rate		1.15%	
4	Date of rates effective in new rate case	Jan 1, 2020		Total storm capital including return					76,642	Bond Period		15	
5	Date of securitization ^[2]	Oct 1, 2020		Amount to securitize				\$	76,642				
6													
7	Net of Tax Weighted Average Cost of Capital ^[3]	6.48%											
8													
9													
10			2020 [2]	2021	2022	2023	2024	2025	2026	2027			
11	Storm Recovery Charge	\$	1,392	\$	5,567	\$	5,567	\$	5,567	\$	5,567	\$	5,567
12	Annual Revenue Requirement	\$	1,392	\$	5,567	\$	5,567	\$	5,567	\$	5,567	\$	5,567
13													
14													
15			2028	2029	2030	2031	2032	2033	2034	2035			
16	Storm Recovery Charge	\$	5,567	\$	5,567	\$	5,567	\$	5,567	\$	5,567	\$	4,175
17	Annual Revenue Requirement	\$	5,567	\$	5,567	\$	5,567	\$	5,567	\$	5,567	\$	4,175
18													
19													
20	Total Revenue Requirement - Storm Recovery Charge Model - Capital Investments										\$	83,498	

Notes:

[1] 1.75 years' return, compounded at December 31

[2] Per Public Staff Partial Settlement and Stipulation in Docket No. E-2 Sub 1219, for securitization, the imposition of the Storm recovery charge begins nine months after the new rates go into effect. In this scenario, the imposition of the storm recovery charge begins October 1, 2020, resulting in three months of activity for 2020.

[3] For purposes of the calculation, Duke Energy Progress has used the WACC agreed to in the Public Staff Second Partial Settlement and Stipulation in in Docket No. E-2 Sub 1219.

Duke Energy Progress, LLC
Docket No. E-2 Sub 1262
Abernathy DEP Exhibit 7
Storm Securitization
NORTH CAROLINA RETAIL

Annual Revenue Requirement - Storm Recovery Charge Model - Amortization Schedules

Line No.	Calculation of Storm Recovery Bond Payment - O&M			
1	Amount to securitize	\$	630,452	
2	Monthly Storm Recovery Bond Payment	\$	3,816	
3	Annual Storm Recovery Bond Payment	\$	45,790	
4	Securitization Bond Rate		1.15%	
5	Bond Period		15	

Calculation of Storm Recovery Bond Payment - Capital Investments			
Amount to securitize	\$	76,642	
Monthly Storm Recovery Bond Payment	\$	464	
Annual Storm Recovery Bond Payment	\$	5,567	
Securitization Bond Rate		1.15%	
Bond Period		15	

Incremental O&M Deferral						
Date	Beg Bal	End Bal	Payment	Interest	Net Change	
6 Oct-20	630,452	627,242	3,816	606	3,210	
7 Nov-20	627,242	624,029	3,816	603	3,213	
8 Dec-20	624,029	620,813	3,816	600	3,216	
9 Jan-21	620,813	617,594	3,816	597	3,219	
10 Feb-21	617,594	614,372	3,816	593	3,222	
11 Mar-21	614,372	611,146	3,816	590	3,225	
12 Apr-21	611,146	607,918	3,816	587	3,229	
13 May-21	607,918	604,686	3,816	584	3,232	
14 Jun-21	604,686	601,451	3,816	581	3,235	
15 Jul-21	601,451	598,213	3,816	578	3,238	
16 Aug-21	598,213	594,972	3,816	575	3,241	
17 Sep-21	594,972	591,728	3,816	572	3,244	
18 Oct-21	591,728	588,481	3,816	569	3,247	
19 Nov-21	588,481	585,231	3,816	565	3,250	
20 Dec-21	585,231	581,977	3,816	562	3,253	
21 Jan-22	581,977	578,721	3,816	559	3,257	
22 Feb-22	578,721	575,461	3,816	556	3,260	
23 Mar-22	575,461	572,198	3,816	553	3,263	
24 Apr-22	572,198	568,932	3,816	550	3,266	
25 May-22	568,932	565,663	3,816	547	3,269	
26 Jun-22	565,663	562,391	3,816	544	3,272	
27 Jul-22	562,391	559,115	3,816	540	3,275	
28 Aug-22	559,115	555,837	3,816	537	3,279	
29 Sep-22	555,837	552,555	3,816	534	3,282	
30 Oct-22	552,555	549,270	3,816	531	3,285	
31 Nov-22	549,270	545,982	3,816	528	3,288	
32 Dec-22	545,982	542,691	3,816	525	3,291	
33 Jan-23	542,691	539,397	3,816	521	3,294	
34 Feb-23	539,397	536,099	3,816	518	3,298	
35 Mar-23	536,099	532,798	3,816	515	3,301	
36 Apr-23	532,798	529,495	3,816	512	3,304	
37 May-23	529,495	526,188	3,816	509	3,307	
38 Jun-23	526,188	522,877	3,816	506	3,310	
39 Jul-23	522,877	519,564	3,816	502	3,313	
40 Aug-23	519,564	516,247	3,816	499	3,317	
41 Sep-23	516,247	512,928	3,816	496	3,320	
42 Oct-23	512,928	509,605	3,816	493	3,323	
43 Nov-23	509,605	506,279	3,816	490	3,326	
44 Dec-23	506,279	502,949	3,816	487	3,329	
45 Jan-24	502,949	499,617	3,816	483	3,333	
46 Feb-24	499,617	496,281	3,816	480	3,336	

Capital Investments					
Beg Bal	End Bal	Payment	Interest	Net Change	
76,642	76,252	464	74	390	
76,252	75,861	464	73	391	
75,861	75,470	464	73	391	
75,470	75,079	464	73	391	
75,079	74,687	464	72	392	
74,687	74,295	464	72	392	
74,295	73,902	464	71	392	
73,902	73,509	464	71	393	
73,509	73,116	464	71	393	
73,116	72,723	464	70	394	
72,723	72,329	464	70	394	
72,329	71,934	464	70	394	
71,934	71,540	464	69	395	
71,540	71,144	464	69	395	
71,144	70,749	464	68	396	
70,749	70,353	464	68	396	
70,353	69,957	464	68	396	
69,957	69,560	464	67	397	
69,560	69,163	464	67	397	
69,163	68,766	464	66	397	
68,766	68,368	464	66	398	
68,368	67,970	464	66	398	
67,970	67,571	464	65	399	
67,571	67,172	464	65	399	
67,172	66,773	464	65	399	
66,773	66,373	464	64	400	
66,373	65,973	464	64	400	
65,973	65,573	464	63	400	
65,573	65,172	464	63	401	
65,172	64,770	464	63	401	
64,770	64,369	464	62	402	
64,369	63,967	464	62	402	
63,967	63,564	464	61	402	
63,564	63,162	464	61	403	
63,162	62,758	464	61	403	
62,758	62,355	464	60	404	
62,355	61,951	464	60	404	
61,951	61,546	464	60	404	
61,546	61,142	464	59	405	
61,142	60,737	464	59	405	
60,737	60,331	464	58	406	

Total					
Beg Bal	End Bal	Payment	Interest	Net Change	
707,094	703,494	4,280	679	3,600	
703,494	699,890	4,280	676	3,604	
699,890	696,283	4,280	673	3,607	
696,283	692,673	4,280	669	3,611	
692,673	689,059	4,280	666	3,614	
689,059	685,441	4,280	662	3,618	
685,441	681,820	4,280	659	3,621	
681,820	678,195	4,280	655	3,625	
678,195	674,567	4,280	652	3,628	
674,567	670,936	4,280	648	3,631	
670,936	667,301	4,280	645	3,635	
667,301	663,662	4,280	641	3,638	
663,662	660,020	4,280	638	3,642	
660,020	656,375	4,280	634	3,645	
656,375	652,726	4,280	631	3,649	
652,726	649,074	4,280	627	3,652	
649,074	645,418	4,280	624	3,656	
645,418	641,758	4,280	620	3,660	
641,758	638,095	4,280	617	3,663	
638,095	634,428	4,280	613	3,667	
634,428	630,758	4,280	610	3,670	
630,758	627,085	4,280	606	3,674	
627,085	623,408	4,280	603	3,677	
623,408	619,727	4,280	599	3,681	
619,727	616,043	4,280	596	3,684	
616,043	612,355	4,280	592	3,688	
612,355	608,664	4,280	588	3,691	
608,664	604,969	4,280	585	3,695	
604,969	601,271	4,280	581	3,698	
601,271	597,569	4,280	578	3,702	
597,569	593,863	4,280	574	3,705	
593,863	590,154	4,280	571	3,709	
590,154	586,442	4,280	567	3,713	
586,442	582,725	4,280	564	3,716	
582,725	579,006	4,280	560	3,720	
579,006	575,282	4,280	556	3,723	
575,282	571,555	4,280	553	3,727	
571,555	567,825	4,280	549	3,730	
567,825	564,091	4,280	546	3,734	
564,091	560,353	4,280	542	3,738	
560,353	556,612	4,280	538	3,741	

		Incremental O&M Deferral					Capital Investments					Total				
	Date	Beg Bal	End Bal	Payment	Interest	Net Change	Beg Bal	End Bal	Payment	Interest	Net Change	Beg Bal	End Bal	Payment	Interest	Net Change
47	Mar-24	496,281	492,942	3,816	477	3,339	60,331	59,925	464	58	406	556,612	552,867	4,280	535	3,745
48	Apr-24	492,942	489,600	3,816	474	3,342	59,925	59,519	464	58	406	552,867	549,119	4,280	531	3,748
49	May-24	489,600	486,255	3,816	470	3,345	59,519	59,112	464	57	407	549,119	545,367	4,280	528	3,752
50	Jun-24	486,255	482,906	3,816	467	3,349	59,112	58,705	464	57	407	545,367	541,611	4,280	524	3,756
51	Jul-24	482,906	479,554	3,816	464	3,352	58,705	58,298	464	56	407	541,611	537,852	4,280	520	3,759
52	Aug-24	479,554	476,199	3,816	461	3,355	58,298	57,890	464	56	408	537,852	534,089	4,280	517	3,763
53	Sep-24	476,199	472,841	3,816	458	3,358	57,890	57,482	464	56	408	534,089	530,322	4,280	513	3,766
54	Oct-24	472,841	469,479	3,816	454	3,361	57,482	57,073	464	55	409	530,322	526,552	4,280	510	3,770
55	Nov-24	469,479	466,115	3,816	451	3,365	57,073	56,664	464	55	409	526,552	522,779	4,280	506	3,774
56	Dec-24	466,115	462,747	3,816	448	3,368	56,664	56,254	464	54	409	522,779	519,001	4,280	502	3,777
57	Jan-25	462,747	459,376	3,816	445	3,371	56,254	55,845	464	54	410	519,001	515,220	4,280	499	3,781
58	Feb-25	459,376	456,001	3,816	441	3,374	55,845	55,434	464	54	410	515,220	511,436	4,280	495	3,785
59	Mar-25	456,001	452,624	3,816	438	3,378	55,434	55,024	464	53	411	511,436	507,647	4,280	491	3,788
60	Apr-25	452,624	449,243	3,816	435	3,381	55,024	54,613	464	53	411	507,647	503,856	4,280	488	3,792
61	May-25	449,243	445,859	3,816	432	3,384	54,613	54,201	464	52	411	503,856	500,060	4,280	484	3,796
62	Jun-25	445,859	442,471	3,816	428	3,387	54,201	53,790	464	52	412	500,060	496,261	4,280	481	3,799
63	Jul-25	442,471	439,081	3,816	425	3,391	53,790	53,377	464	52	412	496,261	492,458	4,280	477	3,803
64	Aug-25	439,081	435,687	3,816	422	3,394	53,377	52,965	464	51	413	492,458	488,652	4,280	473	3,806
65	Sep-25	435,687	432,289	3,816	419	3,397	52,965	52,552	464	51	413	488,652	484,841	4,280	470	3,810
66	Oct-25	432,289	428,889	3,816	415	3,400	52,552	52,139	464	50	413	484,841	481,028	4,280	466	3,814
67	Nov-25	428,889	425,485	3,816	412	3,404	52,139	51,725	464	50	414	481,028	477,210	4,280	462	3,817
68	Dec-25	425,485	422,078	3,816	409	3,407	51,725	51,311	464	50	414	477,210	473,389	4,280	459	3,821
69	Jan-26	422,078	418,668	3,816	406	3,410	51,311	50,896	464	49	415	473,389	469,564	4,280	455	3,825
70	Feb-26	418,668	415,255	3,816	402	3,414	50,896	50,481	464	49	415	469,564	465,736	4,280	451	3,828
71	Mar-26	415,255	411,838	3,816	399	3,417	50,481	50,066	464	49	415	465,736	461,903	4,280	448	3,832
72	Apr-26	411,838	408,418	3,816	396	3,420	50,066	49,650	464	48	416	461,903	458,068	4,280	444	3,836
73	May-26	408,418	404,994	3,816	392	3,423	49,650	49,234	464	48	416	458,068	454,228	4,280	440	3,840
74	Jun-26	404,994	401,568	3,816	389	3,427	49,234	48,817	464	47	417	454,228	450,385	4,280	436	3,843
75	Jul-26	401,568	398,138	3,816	386	3,430	48,817	48,400	464	47	417	450,385	446,538	4,280	433	3,847
76	Aug-26	398,138	394,705	3,816	383	3,433	48,400	47,983	464	47	417	446,538	442,687	4,280	429	3,851
77	Sep-26	394,705	391,268	3,816	379	3,437	47,983	47,565	464	46	418	442,687	438,833	4,280	425	3,854
78	Oct-26	391,268	387,828	3,816	376	3,440	47,565	47,147	464	46	418	438,833	434,975	4,280	422	3,858
79	Nov-26	387,828	384,385	3,816	373	3,443	47,147	46,728	464	45	419	434,975	431,113	4,280	418	3,862
80	Dec-26	384,385	380,939	3,816	369	3,446	46,728	46,309	464	45	419	431,113	427,248	4,280	414	3,865
81	Jan-27	380,939	377,489	3,816	366	3,450	46,309	45,890	464	45	419	427,248	423,379	4,280	411	3,869
82	Feb-27	377,489	374,036	3,816	363	3,453	45,890	45,470	464	44	420	423,379	419,506	4,280	407	3,873
83	Mar-27	374,036	370,579	3,816	359	3,456	45,470	45,050	464	44	420	419,506	415,629	4,280	403	3,877
84	Apr-27	370,579	367,120	3,816	356	3,460	45,050	44,629	464	43	421	415,629	411,749	4,280	399	3,880
85	May-27	367,120	363,656	3,816	353	3,463	44,629	44,208	464	43	421	411,749	407,865	4,280	396	3,884
86	Jun-27	363,656	360,190	3,816	349	3,466	44,208	43,787	464	42	421	407,865	403,977	4,280	392	3,888
87	Jul-27	360,190	356,720	3,816	346	3,470	43,787	43,365	464	42	422	403,977	400,086	4,280	388	3,892
88	Aug-27	356,720	353,247	3,816	343	3,473	43,365	42,943	464	42	422	400,086	396,190	4,280	384	3,895
89	Sep-27	353,247	349,771	3,816	339	3,476	42,943	42,520	464	41	423	396,190	392,291	4,280	381	3,899
90	Oct-27	349,771	346,291	3,816	336	3,480	42,520	42,097	464	41	423	392,291	388,389	4,280	377	3,903
91	Nov-27	346,291	342,808	3,816	333	3,483	42,097	41,674	464	40	423	388,389	384,482	4,280	373	3,906
92	Dec-27	342,808	339,322	3,816	329	3,486	41,674	41,250	464	40	424	384,482	380,572	4,280	369	3,910
93	Jan-28	339,322	335,832	3,816	326	3,490	41,250	40,826	464	40	424	380,572	376,658	4,280	366	3,914
94	Feb-28	335,832	332,339	3,816	323	3,493	40,826	40,401	464	39	425	376,658	372,740	4,280	362	3,918
95	Mar-28	332,339	328,842	3,816	319	3,496	40,401	39,976	464	39	425	372,740	368,819	4,280	358	3,922
96	Apr-28	328,842	325,343	3,816	316	3,500	39,976	39,551	464	38	425	368,819	364,893	4,280	354	3,925
97	May-28	325,343	321,839	3,816	313	3,503	39,551	39,125	464	38	426	364,893	360,964	4,280	351	3,929
98	Jun-28	321,839	318,333	3,816	309	3,507	39,125	38,699	464	38	426	360,964	357,031	4,280	347	3,933
99	Jul-28	318,333	314,823	3,816	306	3,510	38,699	38,272	464	37	427	357,031	353,095	4,280	343	3,937
100	Aug-28	314,823	311,310	3,816	303	3,513	38,272	37,845	464	37	427	353,095	349,154	4,280	339	3,940
101	Sep-28	311,310	307,793	3,816	299	3,517	37,845	37,417	464	36	428	349,154	345,210	4,280	336	3,944
102	Oct-28	307,793	304,273	3,816	296	3,520	37,417	36,989	464	36	428	345,210	341,262	4,280	332	3,948

		Incremental O&M Deferral					Capital Investments					Total				
	Date	Beg Bal	End Bal	Payment	Interest	Net Change	Beg Bal	End Bal	Payment	Interest	Net Change	Beg Bal	End Bal	Payment	Interest	Net Change
103	Nov-28	304,273	300,749	3,816	292	3,523	36,989	36,561	464	36	428	341,262	337,310	4,280	328	3,952
104	Dec-28	300,749	297,223	3,816	289	3,527	36,561	36,132	464	35	429	337,310	333,355	4,280	324	3,956
105	Jan-29	297,223	293,692	3,816	286	3,530	36,132	35,703	464	35	429	333,355	329,395	4,280	320	3,959
106	Feb-29	293,692	290,159	3,816	282	3,534	35,703	35,274	464	34	430	329,395	325,432	4,280	317	3,963
107	Mar-29	290,159	286,622	3,816	279	3,537	35,274	34,844	464	34	430	325,432	321,465	4,280	313	3,967
108	Apr-29	286,622	283,081	3,816	275	3,540	34,844	34,413	464	33	430	321,465	317,494	4,280	309	3,971
109	May-29	283,081	279,537	3,816	272	3,544	34,413	33,982	464	33	431	317,494	313,520	4,280	305	3,975
110	Jun-29	279,537	275,990	3,816	269	3,547	33,982	33,551	464	33	431	313,520	309,541	4,280	301	3,978
111	Jul-29	275,990	272,440	3,816	265	3,551	33,551	33,120	464	32	432	309,541	305,559	4,280	297	3,982
112	Aug-29	272,440	268,886	3,816	262	3,554	33,120	32,687	464	32	432	305,559	301,573	4,280	294	3,986
113	Sep-29	268,886	265,328	3,816	258	3,557	32,687	32,255	464	31	432	301,573	297,583	4,280	290	3,990
114	Oct-29	265,328	261,767	3,816	255	3,561	32,255	31,822	464	31	433	297,583	293,589	4,280	286	3,994
115	Nov-29	261,767	258,203	3,816	252	3,564	31,822	31,389	464	31	433	293,589	289,592	4,280	282	3,998
116	Dec-29	258,203	254,635	3,816	248	3,568	31,389	30,955	464	30	434	289,592	285,590	4,280	278	4,001
117	Jan-30	254,635	251,064	3,816	245	3,571	30,955	30,521	464	30	434	285,590	281,585	4,280	274	4,005
118	Feb-30	251,064	247,490	3,816	241	3,575	30,521	30,086	464	29	435	281,585	277,576	4,280	271	4,009
119	Mar-30	247,490	243,912	3,816	238	3,578	30,086	29,651	464	29	435	277,576	273,563	4,280	267	4,013
120	Apr-30	243,912	240,330	3,816	234	3,581	29,651	29,216	464	28	435	273,563	269,546	4,280	263	4,017
121	May-30	240,330	236,745	3,816	231	3,585	29,216	28,780	464	28	436	269,546	265,525	4,280	259	4,021
122	Jun-30	236,745	233,157	3,816	227	3,588	28,780	28,344	464	28	436	265,525	261,501	4,280	255	4,025
123	Jul-30	233,157	229,565	3,816	224	3,592	28,344	27,907	464	27	437	261,501	257,472	4,280	251	4,028
124	Aug-30	229,565	225,970	3,816	221	3,595	27,907	27,470	464	27	437	257,472	253,440	4,280	247	4,032
125	Sep-30	225,970	222,371	3,816	217	3,599	27,470	27,033	464	26	437	253,440	249,404	4,280	244	4,036
126	Oct-30	222,371	218,769	3,816	214	3,602	27,033	26,595	464	26	438	249,404	245,364	4,280	240	4,040
127	Nov-30	218,769	215,163	3,816	210	3,606	26,595	26,157	464	26	438	245,364	241,320	4,280	236	4,044
128	Dec-30	215,163	211,554	3,816	207	3,609	26,157	25,718	464	25	439	241,320	237,272	4,280	232	4,048
129	Jan-31	211,554	207,942	3,816	203	3,613	25,718	25,279	464	25	439	237,272	233,220	4,280	228	4,052
130	Feb-31	207,942	204,326	3,816	200	3,616	25,279	24,839	464	24	440	233,220	229,165	4,280	224	4,056
131	Mar-31	204,326	200,706	3,816	196	3,619	24,839	24,399	464	24	440	229,165	225,105	4,280	220	4,059
132	Apr-31	200,706	197,083	3,816	193	3,623	24,399	23,959	464	23	440	225,105	221,042	4,280	216	4,063
133	May-31	197,083	193,457	3,816	189	3,626	23,959	23,518	464	23	441	221,042	216,975	4,280	212	4,067
134	Jun-31	193,457	189,827	3,816	186	3,630	23,518	23,077	464	23	441	216,975	212,903	4,280	209	4,071
135	Jul-31	189,827	186,193	3,816	182	3,633	23,077	22,635	464	22	442	212,903	208,828	4,280	205	4,075
136	Aug-31	186,193	182,557	3,816	179	3,637	22,635	22,193	464	22	442	208,828	204,749	4,280	201	4,079
137	Sep-31	182,557	178,916	3,816	175	3,640	22,193	21,750	464	21	443	204,749	200,666	4,280	197	4,083
138	Oct-31	178,916	175,272	3,816	172	3,644	21,750	21,307	464	21	443	200,666	196,579	4,280	193	4,087
139	Nov-31	175,272	171,625	3,816	168	3,647	21,307	20,864	464	20	443	196,579	192,489	4,280	189	4,091
140	Dec-31	171,625	167,974	3,816	165	3,651	20,864	20,420	464	20	444	192,489	188,394	4,280	185	4,095
141	Jan-32	167,974	164,320	3,816	161	3,654	20,420	19,976	464	20	444	188,394	184,295	4,280	181	4,099
142	Feb-32	164,320	160,662	3,816	158	3,658	19,976	19,531	464	19	445	184,295	180,193	4,280	177	4,103
143	Mar-32	160,662	157,000	3,816	154	3,661	19,531	19,086	464	19	445	180,193	176,086	4,280	173	4,107
144	Apr-32	157,000	153,335	3,816	151	3,665	19,086	18,640	464	18	446	176,086	171,976	4,280	169	4,111
145	May-32	153,335	149,667	3,816	147	3,668	18,640	18,194	464	18	446	171,976	167,861	4,280	165	4,114
146	Jun-32	149,667	145,995	3,816	144	3,672	18,194	17,748	464	17	446	167,861	163,743	4,280	161	4,118
147	Jul-32	145,995	142,319	3,816	140	3,676	17,748	17,301	464	17	447	163,743	159,620	4,280	157	4,122
148	Aug-32	142,319	138,640	3,816	137	3,679	17,301	16,854	464	17	447	159,620	155,494	4,280	153	4,126
149	Sep-32	138,640	134,957	3,816	133	3,683	16,854	16,406	464	16	448	155,494	151,364	4,280	149	4,130
150	Oct-32	134,957	131,271	3,816	130	3,686	16,406	15,958	464	16	448	151,364	147,229	4,280	145	4,134
151	Nov-32	131,271	127,582	3,816	126	3,690	15,958	15,510	464	15	449	147,229	143,091	4,280	141	4,138
152	Dec-32	127,582	123,888	3,816	123	3,693	15,510	15,061	464	15	449	143,091	138,949	4,280	138	4,142
153	Jan-33	123,888	120,192	3,816	119	3,697	15,061	14,611	464	14	449	138,949	134,803	4,280	134	4,146
154	Feb-33	120,192	116,491	3,816	115	3,700	14,611	14,161	464	14	450	134,803	130,653	4,280	130	4,150
155	Mar-33	116,491	112,787	3,816	112	3,704	14,161	13,711	464	14	450	130,653	126,498	4,280	126	4,154
156	Apr-33	112,787	109,080	3,816	108	3,707	13,711	13,260	464	13	451	126,498	122,340	4,280	122	4,158
157	May-33	109,080	105,369	3,816	105	3,711	13,260	12,809	464	13	451	122,340	118,178	4,280	118	4,162
158	Jun-33	105,369	101,654	3,816	101	3,715	12,809	12,358	464	12	452	118,178	114,012	4,280	114	4,166

		Incremental O&M Deferral					Capital Investments					Total				
	Date	Beg Bal	End Bal	Payment	Interest	Net Change	Beg Bal	End Bal	Payment	Interest	Net Change	Beg Bal	End Bal	Payment	Interest	Net Change
159	Jul-33	101,654	97,936	3,816	98	3,718	12,358	11,906	464	12	452	114,012	109,842	4,280	110	4,170
160	Aug-33	97,936	94,214	3,816	94	3,722	11,906	11,453	464	11	452	109,842	105,668	4,280	106	4,174
161	Sep-33	94,214	90,489	3,816	91	3,725	11,453	11,000	464	11	453	105,668	101,490	4,280	102	4,178
162	Oct-33	90,489	86,760	3,816	87	3,729	11,000	10,547	464	11	453	101,490	97,307	4,280	98	4,182
163	Nov-33	86,760	83,028	3,816	83	3,732	10,547	10,093	464	10	454	97,307	93,121	4,280	94	4,186
164	Dec-33	83,028	79,292	3,816	80	3,736	10,093	9,639	464	10	454	93,121	88,931	4,280	89	4,190
165	Jan-34	79,292	75,552	3,816	76	3,740	9,639	9,185	464	9	455	88,931	84,737	4,280	85	4,194
166	Feb-34	75,552	71,809	3,816	73	3,743	9,185	8,730	464	9	455	84,737	80,538	4,280	81	4,198
167	Mar-34	71,809	68,062	3,816	69	3,747	8,730	8,274	464	8	455	80,538	76,336	4,280	77	4,202
168	Apr-34	68,062	64,312	3,816	65	3,750	8,274	7,818	464	8	456	76,336	72,130	4,280	73	4,206
169	May-34	64,312	60,558	3,816	62	3,754	7,818	7,362	464	8	456	72,130	67,919	4,280	69	4,210
170	Jun-34	60,558	56,800	3,816	58	3,758	7,362	6,905	464	7	457	67,919	63,705	4,280	65	4,214
171	Jul-34	56,800	53,039	3,816	55	3,761	6,905	6,448	464	7	457	63,705	59,486	4,280	61	4,218
172	Aug-34	53,039	49,274	3,816	51	3,765	6,448	5,990	464	6	458	59,486	55,264	4,280	57	4,223
173	Sep-34	49,274	45,505	3,816	47	3,768	5,990	5,532	464	6	458	55,264	51,037	4,280	53	4,227
174	Oct-34	45,505	41,733	3,816	44	3,772	5,532	5,073	464	5	459	51,037	46,807	4,280	49	4,231
175	Nov-34	41,733	37,957	3,816	40	3,776	5,073	4,614	464	5	459	46,807	42,572	4,280	45	4,235
176	Dec-34	37,957	34,178	3,816	36	3,779	4,614	4,155	464	4	459	42,572	38,333	4,280	41	4,239
177	Jan-35	34,178	30,395	3,816	33	3,783	4,155	3,695	464	4	460	38,333	34,090	4,280	37	4,243
178	Feb-35	30,395	26,608	3,816	29	3,787	3,695	3,235	464	4	460	34,090	29,843	4,280	33	4,247
179	Mar-35	26,608	22,818	3,816	26	3,790	3,235	2,774	464	3	461	29,843	25,592	4,280	29	4,251
180	Apr-35	22,818	19,024	3,816	22	3,794	2,774	2,313	464	3	461	25,592	21,337	4,280	25	4,255
181	May-35	19,024	15,227	3,816	18	3,798	2,313	1,851	464	2	462	21,337	17,078	4,280	21	4,259
182	Jun-35	15,227	11,426	3,816	15	3,801	1,851	1,389	464	2	462	17,078	12,815	4,280	16	4,263
183	Jul-35	11,426	7,621	3,816	11	3,805	1,389	926	464	1	463	12,815	8,547	4,280	12	4,267
184	Aug-35	7,621	3,812	3,816	7	3,809	926	463	464	1	463	8,547	4,276	4,280	8	4,271
185	Sep-35	3,812	(0)	3,816	4	3,812	463	(0)	464	0	463	4,276	(0)	4,280	4	4,276

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

DOCKET NO. E-7, SUB 1243

DOCKET NO. E-2, SUB 1262

In the Matter of:)	
	)	DIRECT TESTIMONY OF
Petition of Duke Energy Carolinas, LLC	)	JONATHAN BYRD
And Duke Energy Progress, LLC for	)	FOR DUKE ENERGY
Issuance of Storm Cost Recovery Financing	)	CAROLINAS, LLC AND DUKE
Orders	)	ENERGY PROGRESS, LLC

1 **I. INTRODUCTION**

2 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

3 A. My name is Jonathan Byrd, and my business address is 550 South Tryon Street,
4 Charlotte, North Carolina.

5 **Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

6 A. I am Director, Southeast Pricing & Regulatory Solutions for Duke Energy
7 Carolinas, LLC (“DEC”), Duke Energy Progress, LLC (“DEP”), and Duke
8 Energy Florida, LLC, testifying on behalf of DEC and DEP (each a “Company”
9 or collectively “the Companies”).

10 **Q. PLEASE BRIEFLY SUMMARIZE YOUR EDUCATIONAL**
11 **BACKGROUND AND PROFESSIONAL EXPERIENCE.**

12 A. I received a Bachelor of Science degree in Mechanical Engineering from the
13 University of North Carolina (“UNC”) at Charlotte, a Master of Engineering
14 degree from NC State University, and a Master of Business Administration
15 degree from UNC-Chapel Hill.

16 I joined Duke Energy Corporation in 2005 and have worked in various
17 roles providing products and services to large business customers, corporate
18 finance and renewable energy. In June of 2020 I moved into my current role in
19 Pricing and Regulatory Strategy.

20 **Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE NORTH**
21 **CAROLINA UTILITIES COMMISSION (“COMMISSION”)?**

22 A. Yes. I have testified previously, including in Docket No. E-7, Sub 1052,
23 regarding DEC’s 2013 REPS compliance report and application for approval of

1 its REPS cost recovery rider, and in Docket No. E-2, Sub 1043, regarding
2 DEP's 2014 application for approval of its REPS cost recovery rider.

3 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

4 A. My testimony demonstrates that the storm recovery charge rates each Company
5 proposes reflect appropriate rate making principles and result in an equitable
6 basis for recovery of each Company's revenue requirements across and within
7 their respective customer classes and rate schedules. My testimony: (1)
8 describes the changes to each Company's retail electric rate schedules; (2)
9 quantifies the effect of these proposed changes on each Company's North
10 Carolina retail electric customers; (3) discusses how each Company proposes
11 to implement the storm recovery charges, as quantified in witness Melissa
12 Abernathy's testimony; and (4) describes other requested changes to each
13 Company's tariff.

14 **Q. WHAT IS THE SCOPE OF YOUR TESTIMONY?**

15 A. My testimony is principally devoted to outlining the steps followed in
16 calculating the proposed storm recovery charge by rate class for each Company.
17 While the final storm recovery charges by rate class will not be calculated until
18 after the final terms of the issuance of storm recovery bonds have been
19 established, my testimony outlines the methodology that will be used in
20 developing the proposed storm recovery charges. Barring significant changes
21 in the terms of an issuance of storm recovery bonds, or significant changes in
22 embedded benchmark interest rates or credit spreads of securitization bonds,

1 the results presented in my testimony, including the proposed storm recovery
2 charges, should closely approximate the final figures.

3 My testimony addresses the following subject areas:

- 4 • The calculation of the proposed storm recovery charges for each
5 Company by customer rate class; and
- 6 • The tariff revisions needed to implement the storm recovery charges at
7 each Company.

8 **Q. ARE YOU SPONSORING ANY EXHIBITS TO YOUR DIRECT**
9 **TESTIMONY?**

10 A. Yes. The following exhibits are presented in conjunction with my Direct
11 Testimony:

- 12 • Byrd Exhibit 1 – Proposed Storm Recovery Costs by customer rate
13 class; and
- 14 • Byrd Exhibit 2 – Proposed Tariff Sheets by Company.

15 Each of these exhibits were prepared under my direction and control, and
16 to the best of my knowledge all factual matters contained therein are true and
17 accurate.

18 **II. CALCULATION OF THE STORM RECOVERY CHARGE**

19 **Q. PLEASE DISCUSS THE CALCULATION OF EACH STORM**
20 **RECOVERY CHARGE BY CUSTOMER RATE CLASS.**

21 A. The allocation methodology described in witness Abernathy's testimony is used
22 in the calculation of the storm recovery charge by customer rate class for each
23 Company in Abernathy Exhibit 3. The allocation factors used to calculate the

1 storm recovery charge were filed in DEC and DEP's most recent general rate
2 case dockets and were applied to the total first year revenue requirements
3 presented in Abernathy Exhibit 4 to allocate the revenue requirements to each
4 customer rate class. Next, the rate was calculated by dividing total revenue
5 requirements for each customer rate class by the effective kWh sales for each
6 customer rate class.

7 **Q. WILL EACH RATE CLASS'S STORM RECOVERY CHARGES**
8 **REMAIN FIXED OVER TIME?**

9 A. No. Each rate class's storm recovery charge will be subject to periodic
10 adjustments.

11 **Q. HOW WILL THE PERIODIC ADJUSTMENTS TO THE STORM**
12 **RECOVERY CHARGE BE DETERMINED?**

13 A. A formula-based true-up process will be used to make periodic adjustments to
14 the storm recovery charges. As described in witness Shana W. Angers' and
15 witness Charles N. Atkins II's testimonies, in any given period, differences
16 between the estimated and actual amount of storm recovery charge collections
17 and on-going financing costs will result in an adjustment to the storm recovery
18 charges.

19 **Q. PLEASE DESCRIBE HOW THIS FORMULA-BASED TRUE-UP WILL**
20 **WORK.**

21 A. At least semi-annually (or quarterly beginning 12 months prior to the scheduled
22 final payment date of the latest maturing tranche of each series of storm
23 recovery bonds) a new estimated revenue requirement for each Company's

1 storm recovery bonds will be calculated using the Storm Recovery Charge
2 True-Up Mechanism Form that witness Angers presents in Angers Exhibit 1.
3 This new estimated revenue requirement will take into account total financing
4 costs (including debt service) for the forecasted upcoming two periods and prior
5 period adjustments. Each Company will then calculate the customer rate impact
6 by customer rate class consistent with Byrd Exhibit 1, using the most current
7 Commission-approved allocation methodology and MWh sales forecast by rate
8 class from each Company's most recent Integrated Resource Plan for the period
9 over which the storm recovery charges will be billed. In addition to a semi-
10 annual true-up adjustment, each Company, acting as servicer for its series of
11 storm recovery bonds, will be permitted to file for optional interim true-up
12 adjustments at any time to ensure the recovery of revenues sufficient to provide
13 for the timely payment of the storm recovery bonds and all on-going financing
14 costs payable in connection with the storm recovery bonds.

15 **Q. WOULD THE SAME FORMULA-BASED MECHANISM BE USED IN**
16 **THE EVENT OF AN OVER-RECOVERY OF STORM RECOVERY**
17 **CHARGES TO ENSURE THE RECOVERY OF REVENUES MATCHES**
18 **THE TIMELY PAYMENT OF DEBT SERVICE FOR A SERIES OF**
19 **STORM RECOVERY BONDS AND ON-GOING FINANCING COSTS?**

20 A. Yes.

1 **Q. WHAT IS THE EXPECTED TREND IN THE STORM RECOVERY**
2 **CHARGES OVER TIME?**

3 A. While it is impossible to know with certainty the trend in charges in advance,
4 the storm recovery bonds have been structured to produce substantially stable
5 annual charges over time. Assuming stable charges, the storm recovery charges
6 are expected to vary inversely with expected load growth. In other words, each
7 rate class's storm recovery charge should be relatively constant or slightly
8 declining over time, barring unexpected load and cost variations.

9 **III. TARIFF SHEETS**

10 **Q. HAVE YOU DEVELOPED THE PROPOSED TARIFF SHEETS FOR**
11 **EACH COMPANY NEEDED TO IMPLEMENT THE STORM**
12 **RECOVERY CHARGES?**

13 A. Yes. Proposed tariff sheet numbers 133 and RR-35, which are provided in Byrd
14 Exhibit 2, have been developed to implement the storm recovery charge for
15 each Company.

16 **Q. DOES THE PROPOSED TARIFF LANGUAGE INDICATE THAT**
17 **EACH STORM RECOVERY CHARGE IS A NONBYPASSABLE**
18 **CHARGE?**

19 A. Yes. The following language is included to indicate the nonbypassable nature
20 of the charge:

21 The Storm Recovery Charge shall be paid by all existing
22 or future retail customers receiving transmission or
23 distribution service, or both, from the Company or its

1 successors or assignees under Commission-approved
2 rate schedules or under special contracts, even if the
3 customer elects to purchase electricity from alternative
4 electric suppliers following a fundamental change in
5 regulation of public utilities in this State.

6 **Q. ARE THERE ANY TARIFF PROVISIONS SPECIFIC TO THE STORM**
7 **RECOVERY CHARGE?**

8 A. Yes. The following language is included on tariff sheets 133 and RR-35
9 indicating the ownership of the charge:

10 As approved by the Commission, a Special Purpose
11 Entity (“SPE”), wholly-owned by the Company, has
12 been created and is the owner of the storm recovery
13 property which includes all rights to impose, bill, charge,
14 collect, and receive the relevant Storm Recovery Charge
15 and to obtain periodic adjustment to such charges.
16 Company, as servicer, shall act as its SPE’s collection
17 agent for the relevant Storm Recovery Charge.

18 **Q. WHAT EFFECTIVE DATE ARE THE COMPANIES REQUESTING**
19 **FOR THE STORM RECOVERY CHARGE?**

20 A. DEC and DEP propose to implement the storm recovery charge related to their
21 series of storm recovery bonds beginning with the first billing cycle for the
22 month following the issuance of the storm recovery bonds. As explained in
23 witness Thomas J. Heath Jr.’s testimony, the Companies recommend an

1 issuance date as soon as practicable. Each storm recovery charge will remain
2 in effect until the related storm recovery bonds have been paid in full or legally
3 discharged and the financing costs associated with such series of storm recovery
4 bonds have been paid in full or fully recovered.

5 **Q. HOW WILL THE STORM RECOVERY CHARGES APPROVED BY**
6 **THE COMMISSION BE REFLECTED ON CUSTOMER BILLS?**

7 A. The storm recovery charges will be reflected by each Company as a separate
8 line on each customer's bill, titled "Storm Securitization Charge." This line
9 will include both the rate and the total amount charged. In addition, all electric
10 bills will state that, as approved in the Financing Orders, all rights to the Storm
11 Securitization Charge are owned by the relevant SPE and that DEC and DEP
12 are acting as a collection agent or servicer for such SPE.

13 **Q. ARE THE COMPANIES REQUESTING APPROVAL OF THE TARIFF**
14 **SHEETS ATTACHED IN BYRD EXHIBIT 2?**

15 A. Not at this time. As I mentioned previously, the final storm recovery charge for
16 each series of storm recovery bonds will not be calculated until after the final
17 terms of an issuance of such storm recovery bonds have been established. Once
18 the final storm recovery charge is calculated, the relevant tariff sheets shown in
19 Byrd Exhibit 2 will be revised and submitted for administrative approval by
20 noon on the 3rd business day after the date of submission of the tariff sheets as
21 part of the issuance advice letter process described in the testimony of witness
22 Heath. DEC and DEP are, however, requesting approval of the form of each
23 tariff sheet that is attached as Byrd Exhibit 2.

1 **Q. THEREAFTER, WOULD THE STORM RECOVERY CHARGE**
2 **TARIFF SHEETS BE REVISED PERIODICALLY?**

3 A. Yes. The formula-based true-up mechanism described earlier in my testimony
4 would result in revisions to the storm recovery charges listed on tariff sheet
5 numbers 133 and RR-35. DEC and DEP would seek administrative approval
6 of any necessary revisions to these tariff sheets resulting from the formula-
7 based true-up mechanism as part of the overall administrative approval of the
8 true-up adjustment.

9 **IV. CONCLUSION**

10 **Q. PLEASE SUMMARIZE YOUR TESTIMONY.**

11 A. I have provided support for the calculation of the storm recovery charges and
12 their components by rate class. Lastly, I have outlined the tariff revisions
13 needed to implement the storm recovery charges.

14 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

15 A. Yes

Proposed Storm Recovery Charges by Customer Rate Class

Rate Class	Applicable Schedules	(A) Revenue Requirement Allocated by Class ⁽¹⁾ (\$'000)	(B) Effective Sales ⁽²⁾ (MWh)	(C) Storm Recovery Charge (¢/kWh)
				(A) * 100 / (B)
Residential	ES, RE, RE-CPP, RE-TOU-CPP, RE-TOUD-DPP, RS, RS-CPP, RS-TOU-CPP, RS-TOUD-DPP, RT	\$12,563	22,221,707	0.0565
General Service	BC, HP, LGS, OPT-E, OPT-V, PG, S, SGS, SGS-CPP, SGS-TOU-CPP, SGS-TOUD-DPP, TS	\$3,598	22,921,898	0.0157
Industrial	HP, I, OPT-E, OPT-V, PG	\$1,015	12,257,066	0.0083
Lighting	NL, OL, PL	\$897	665,536	0.1348
Total		\$18,073	58,066,207	0.0311

⁽¹⁾ *Abernathy Exhibit 3 - Allocation of Storm Recovery Charge to Customer Classes as filed in Docket No. E-7, Sub 1243. Revenue Requirements were grossed-up to reflect uncollectible account write-offs and regulatory fees.*

⁽²⁾ *Effective Sales are based on the Company's 2020 IRP retail load forecast for year 2021. Effective Sales have been allocated to Rate Classes using billed kWh sales for year 2018.*

Proposed Storm Recovery Charges by Customer Rate Class

Rate Class	Applicable Schedules	(A) Revenue Requirement Allocated by Class ⁽¹⁾ (\$ '000)	(B) Effective Sales ⁽²⁾ (MWh)	(C) Storm Recovery Charge (¢/kWh)
				(A) * 100 / (B)
Residential	RES, R-TOUD, R-TOU	\$45,647	16,245,955	0.281
Small General Service	SGS, SGS-TOUE, SGS-TOU-CLR, TSF & TSS	\$5,851	1,937,257	0.302
Medium General Service	MGS, SGS-TOU, SI, CH-TOUE, GS- TES, APH-TES, CSG, CSE	\$5,143	10,938,439	0.047
Large General Service	LGS, LGS-TOU, LGS-RTP	\$1,283	8,244,605	0.016
Lighting	ALS, SLS, SLR & SFLS	\$145	345,115	0.042
Total		\$58,069	37,711,370	0.154

⁽¹⁾ *Abernathy Exhibit 3 - Allocation of Storm Recovery Charge to Customer Classes as filed in Docket No. E-2, Sub 1262. Revenue Requirements were grossed-up to reflect uncollectible account write-offs and regulatory fees.*

⁽²⁾ *Effective Sales are based on the Company's 2020 IRP retail load forecast for year 2021. Effective Sales have been allocated to Rate Classes using billed kWh sales for year 2018.*

Proposed Tariffs

Duke Energy Carolinas, LLC
(North Carolina Only)

Electricity No. 4
North Carolina Original Leaf No. 133

RIDER STS (NC) STORM SECURITIZATION

APPLICABILITY (North Carolina Only)

All service supplied under the Company's rate schedules is subject to approved storm cost recovery adjustments, an increment per kilowatt hour as set forth below. This increment is not included in the Rate Schedules of the Company and therefore, must be applied to the bill as calculated under the applicable rate.

The Storm Recovery Charge shall be paid by all existing or future retail customers receiving transmission or distribution service, or both, from Company or its successor or assignees under Commission-approved rate schedules or under special contracts, even if the customer elects to purchase electricity from alternative electric suppliers following a fundamental change in regulation of public utilities in this State.

STORM RECOVERY CHARGE

The Storm Recovery Charge applicable to the Energy Charge under the Company's various rate schedules and was approved in a financing order issued to the Company by the North Carolina Utilities Commission ("Commission") and will be adjusted at least semi-annually to ensure timely payment of principal, interest and financing costs of storm recovery bonds from the effective date of the Storm Recovery Charge until the storm recovery bonds have been paid in full or legally discharged and the financing costs have been fully recovered. As approved by the Commission, a Special Purpose Entity ("SPE"), wholly owned by Company, has been created and is the owner of the storm recovery property which includes all rights to impose, bill, charge, collect, and receive the relevant Storm Recovery Charge and to obtain periodic adjustment to such charges. Company, as servicer, shall act as SPE's collection agent for the relevant Storm Recovery Charge.

MONTHLY RATE

Effective for service rendered on and after _____, the incremental rate for the appropriate class, including revenue-related taxes and regulatory fees, shall be as shown in the following table:

Rate Class	Applicable Schedules	Billing Rate (¢/kWh)
Residential	RS, RE, ES, RT, RS-CPP, RS-TOU-CPP, RS-TOUD-DPP, RE-CPP, RE-TOU-CPP, RE-TOUD-DPP	0.0565
General Service	SGS, BC, LGS, TS, OPT-V, OPT-E, HP, PG, S, SGS-CPP, SGS-TOU-CPP, SGS-TOUD-DPP	0.0157
Industrial	I, OPT-V, OPT-E, HP, PG	0.0083
Lighting	OL, PL, NL	0.1348

Proposed Tariffs

Duke Energy Progress, LLC
(North Carolina Only)

RR-35

STORM SECURITIZATION RIDER STS-1

APPLICABILITY

The incremental rates shown below are approved storm cost recovery adjustments and are not included in the MONTHLY RATE provision of the applicable schedule used in billing and shall therefore be added to Customer's monthly bill statement.

The Storm Recovery Charge shall be paid by all existing or future retail customers receiving transmission or distribution service, or both, from Company or its successor or assignees under Commission-approved rate schedules or under special contracts, even if the customer elects to purchase electricity from alternative electric suppliers following a fundamental change in regulation of public utilities in this State.

STORM RECOVERY CHARGE

The Storm Recovery Charge applicable to the Energy Charge under the Company's various rate schedules and was approved in a financing order issued to the Company by the North Carolina Utilities Commission ("Commission") and will be adjusted at least semi-annually to ensure timely payment of principal, interest and financing costs of storm recovery bonds from the effective date of the Storm Recovery Charge until the storm recovery bonds have been paid in full or legally discharged and the financing costs have been fully recovered. As approved by the Commission, a Special Purpose Entity ("SPE"), wholly owned by the Company, has been created and is the owner of the storm recovery property which includes all rights to impose, bill, charge, collect, and receive the relevant Storm Recovery Charge and to obtain periodic adjustment to such charges. Company, as servicer, shall act as SPE's collection agent for the relevant Storm Recovery Charge.

MONTHLY RATE

Effective for service rendered on and after ____, the incremental rate for the appropriate class, including revenue-related taxes and regulatory fees, shall be shown as in the following table:

Rate Class	Applicable Schedules	Billing Rate (¢/kWh)
Residential	RES, R-TOUD & R-TOU	0.281
Small General Service	SGS, SGS-TOUE, SGS TOU-CLR, TSF & TSS	0.302
Medium General Service	MGS, SGS-TOU, SI, CH-TOUE, GS-TES, APH-TES, CSG, CSE	0.047
Large General Service	LGS, LGS-TOU, LGS-RTP	0.016
Lighting	ALS, SLS, SLR & SFLS	0.042

Effective for service rendered on and after ____
NCUC Docket No. E-2, Sub 1262

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

DOCKET NO. E-7, SUB 1243

DOCKET NO. E-2, SUB 1262

In the Matter of:)	
	)	DIRECT TESTIMONY OF
Petition of Duke Energy Carolinas, LLC	)	SHANA W. ANGERS
And Duke Energy Progress, LLC for	)	FOR DUKE ENERGY
Issuance of Storm Cost Recovery Financing)	CAROLINAS, LLC AND DUKE
Orders)	ENERGY PROGRESS, LLC

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I. INTRODUCTION

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Shana W. Angers, and my business address is 550 South Tryon Street, Charlotte, North Carolina.

Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?

A. I am employed by Duke Energy Business Services, LLC as Accounting Manager for Duke Energy Progress, LLC (“DEP”), testifying on behalf of DEP and Duke Energy Carolinas, LLC (“DEC”) (each a “Company” or collectively “the Companies”).

Q. PLEASE BRIEFLY SUMMARIZE YOUR EDUCATIONAL BACKGROUND AND PROFESSIONAL EXPERIENCE.

A. I graduated from the University of Florida with a Bachelor of Science degree and Master’s degree in Accounting. I am also a Certified Public Accountant licensed in the state of Florida and maintain a reciprocal license in the state of North Carolina. I have 12 years of professional experience with Duke Energy Corporation (“Duke Energy”) in various accounting and finance roles. I was named to my current position as Accounting Manager of DEP in December 2018.

Q. WHAT ARE YOUR RESPONSIBILITIES IN YOUR CURRENT POSITION?

A. I am responsible for ensuring that the accounting impacts of DEP’s business activities and transactions are understood and properly recorded to the general ledger and that such accounting impacts, as well as any applicable related

1 variances to budget and prior year results, are clearly explained and properly
2 presented in internal and/or external financial reports. I am also responsible for
3 ensuring that the accounting team performs its tasks in an accurate and timely
4 manner in accordance with published deadlines while strictly adhering to
5 Company policies and controls.

6 **Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE NORTH**
7 **CAROLINA UTILITIES COMMISSION (“COMMISSION”)?**

8 A. Yes. I most recently testified before this Commission in DEP’s most recent
9 general rate case proceeding in Docket No. E-2, Sub 1219.

10 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS**
11 **PROCEEDING?**

12 A. The purpose of my testimony is to (i) propose the mechanism and
13 corresponding form to be used for making periodic, formula-based true-ups to
14 the proposed charges to customers to pay the Companies’ storm recovery costs
15 and financing costs as a result of Hurricanes Florence, Michael, Dorian, and
16 Winter Storm Diego, the “storm recovery charges” and (ii) present the
17 accounting entries that will be required for the proposed storm recovery charges
18 for each Company.

19 **Q. WILL THERE BE MULTIPLE STORM RECOVERY CHARGES?**

20 A. There will be a single storm recovery charge dedicated for each series of storm
21 recovery bonds issued on behalf of either DEC or DEP. Each storm recovery
22 charge will be paid by all existing or future retail customers receiving

1 transmission or distribution services, or both, from either DEP or DEC, as the
2 case may be, or their successors or assignees.

3 **Q. ARE YOU SPONSORING ANY EXHIBITS WITH YOUR DIRECT**
4 **TESTIMONY?**

5 A. Yes. The following exhibits are presented in conjunction with my direct
6 testimony:

- 7 • Angers Exhibit 1 – Storm Recovery Charge True-Up Mechanism Form
- 8 • Angers Exhibit 2 – Accounting Entries to Record Storm Recovery
- 9 Charge

10 Each of these exhibits were prepared under my direction and control, and to
11 the best of my knowledge all factual matters contained therein are true and
12 accurate.

13 **II. TRUE-UP MECHANISM**

14 **Q. DO THE COMPANIES HAVE A STATUTORY OBLIGATION TO**
15 **PERIODICALLY TRUE-UP THEIR STORM RECOVERY CHARGES?**

16 A. Yes. Per Section (b)(3)b.6. of N.C. Gen. Stat. § 62-172 (the “Securitization
17 Statute”):

18 “A financing order issued by the Commission to a public utility shall include...

- 19 6. A formula-based true-up mechanism for making, at least annually,
- 20 expeditious periodic adjustments in the storm recovery charges that
- 21 customers are required to pay pursuant to the financing order and for
- 22 making any adjustments that are necessary to correct for any overcollection
- 23 or under collection of the charges or to otherwise ensure the timely payment

1 of storm recovery bonds and financing costs and other required amounts
2 and charges payable in connection with the storm recovery bonds.”

3 **Q. HOW WILL THE TRUE-UP MECHANISM WORK?**

4 A. Per Section (b)(3)d. of the Securitization Statute, the Companies are required to
5 file with the Commission, at least annually, a petition or letter applying the
6 formula-based true-up mechanisms and, based on estimates of consumption for
7 each rate class and other mathematical factors, request approval to make the
8 applicable adjustments. Within 30 days after receiving the Companies’ filing,
9 the Commission is required to either approve the request or inform the
10 Companies of any mathematical or clerical errors in its calculation.

11 To achieve this, at least semi-annually (or quarterly beginning 12
12 months prior to the scheduled final payment date of the latest maturing tranche
13 of each series of storm recovery bonds) a new estimated revenue requirement
14 for each Company’s storm recovery bonds will be calculated using the Storm
15 Recovery Charge True-Up Mechanism Form presented in Angers Exhibit 1.
16 This new estimated revenue requirement will take into account total financing
17 costs (including debt service) for the forecasted upcoming two periods and prior
18 period adjustments. Once the total average retail storm recovery charge per
19 kWh is calculated for a specific series of storm recovery bonds for the upcoming
20 remittance period, it is broken down to specific charges per customer rate class.
21 This breakdown is further addressed in witness Melissa Abernathy’s testimony.

1 **Q. HOW OFTEN DO THE COMPANIES INTEND TO TRUE-UP THE**
2 **STORM RECOVERY CHARGES?**

3 A. The Companies propose to implement a true-up at least semi-annually. The
4 Companies propose to make their semi-annual true-up filings so that each semi-
5 annual true-up shall be effective approximately three months prior to the next
6 scheduled payment date. This true-up mechanism will help to ensure that
7 customers pay no more or less than what is required to pay the debt service on
8 the storm recovery bonds and all on-going financing costs. The calculation will
9 take into account total financing costs (including debt service) for the forecasted
10 upcoming two periods and prior period adjustments. It will also help mitigate
11 bondholders' exposure to differences in actual and estimated sales forecasts,
12 uncollectable accounts receivable, and cash flow variability.

13 **Q. PLEASE DESCRIBE THE TIMELINE FOR EACH SEMI-ANNUAL**
14 **TRUE-UP FILING.**

15 A. Assuming the storm recovery bonds are issued on June 1, 2021, as proposed by
16 DEC and DEP, the storm recovery bonds will have scheduled payment dates of
17 January 1 and July 1. To ensure storm recovery charge collections are sufficient
18 to ensure timely payment of the storm recovery bonds and all on-going
19 financing costs, the Companies propose making the semi-annual true-up filings
20 at the end of February and August so that each true-up adjustment of storm
21 recovery charges will be effective on April 1 and October 1 of each year.

1 **Q. WILL OVER OR UNDER RECOVERIES OF THE STORM**
2 **RECOVERY CHARGES BE TRACKED ON A CLASS-BY-CLASS**
3 **BASIS FOR DETERMINING FUTURE CHARGES?**

4 A. No. Any over or under recoveries for any prior period will simply be used to
5 adjust the periodic revenue requirement for the next period, thus benefiting all
6 customers classes. This “cross collateralization” will strengthen the security
7 for the storm recovery bonds.

8 **Q. WILL STORM RECOVERY CHARGES BE “CROSS**
9 **COLLATERALIZED” FOR ALL SERIES OF STORM RECOVERY**
10 **BONDS?**

11 A. No. As noted above, each series of storm recovery bonds will have its own
12 dedicated storm recovery charge. Retail customers will only be obligated to
13 pay amounts due with respect to the dedicated storm recovery charges
14 applicable to them. As a result, retail customers of DEC will have no obligation
15 to pay storm recovery charges related to storm recovery bonds issued to recover
16 storm recovery costs of DEP and retail customers of DEP will have no
17 obligation to pay storm recovery charges related to storm recovery bonds issued
18 to recover storm recovery costs of DEC.

19 **Q. APART FROM THE SEMI-ANNUAL TRUE-UP ADJUSTMENTS, DO**
20 **THE COMPANIES SEEK AUTHORITY TO FILE A TRUE-UP AT ANY**
21 **OTHER TIME?**

22 A. Yes. In addition to the semi-annual true-up adjustments, each Company, acting
23 as servicer for its series of storm recovery bonds, seeks authority to make

1 optional, interim true-up adjustments at any time to ensure the recovery of
2 revenues sufficient to provide for the timely payment of the storm recovery
3 bonds and all on-going financing costs payable in connection with the storm
4 recovery bonds. The optional true-up adjustment would follow the same
5 process and use the same form, contained in Angers Exhibit 1, as the
6 semiannual true-up adjustment. The approval period for the optional, interim
7 true-up adjustment would also be within 30 days of the date of filing.

8 **Q. HOW LONG WILL THE STORM RECOVERY CHARGES BE**
9 **IMPOSED AND COLLECTED?**

10 A. Each storm recovery charge will be imposed and collected until its series of
11 storm recovery bonds have been paid in full or legally discharged and the
12 related financing costs have been paid in full or fully recovered.

13 **Q. WILL THE COMPANIES RECONCILE STORM RECOVERY**
14 **CHARGE COLLECTIONS AND ESTIMATED REMITTANCES?**

15 A. Yes. At least semi-annually, each Company will reconcile storm recovery
16 charge collections during the prior six months with amounts remitted. If storm
17 recovery charges have been under-remitted, each Company will remit the
18 shortfall to the indenture trustee on the next servicer business day. If the storm
19 recovery charges have been over-remitted, then the relevant Company will
20 reduce the next succeeding remittance(s) by the amount of the over-remittance.
21 Each Company will also update the data underlying the weighted average days
22 outstanding and delinquency factors.

1 **Q. WHAT WILL HAPPEN WITH STORM RECOVERY CHARGE**
2 **COLLECTIONS FOLLOWING REPAYMENT OF THE STORM**
3 **RECOVERY BONDS AND ANY RELATED FINANCING COSTS?**

4 A. After all storm recovery bonds and on-going financing costs of a particular
5 series have been paid in full, the relevant storm recovery charge will no longer
6 be billed to, or collected from, customers. Any remaining amounts held by the
7 relevant special purpose entity (“SPE”) (exclusive of the amounts in the capital
8 subaccount, representing the equity contribution, together with any return on
9 the capital subaccount) will be remitted to DEC or DEP, as applicable, to be
10 credited to customers’ bills.

11 **III. ACCOUNTING FOR STORM RECOVERY**

12 **Q. PLEASE DESCRIBE THE OVERALL ACCOUNTING TREATMENT**
13 **FOR STORM RECOVERY FINANCING.**

14 A. As explained in witness Charles N. Atkins II’s direct testimony, the Companies
15 will conduct storm recovery financing through SPEs. Each SPE will be created
16 solely to facilitate storm recovery cost financing and will be a wholly-owned
17 subsidiary of either DEC or DEP. The SPEs and the Companies will maintain
18 separate accounting records. The accounting entries necessary to record storm
19 recovery financing activities (e.g., initial bond issuance, monthly collections,
20 etc.), along with an explanation of each, are illustrated in my Exhibit 2.

1 **Q. ARE THE COMPANIES REQUESTING COMMISSION APPROVAL**
2 **FOR ANY SPECIFIC ACCOUNTING TREATMENT ASSOCIATED**
3 **WITH THE PROPOSED STORM RECOVERY COST FINANCINGS?**

4 A. Yes. Each Company is seeking approval to sell the right to impose, bill, charge,
5 collect and receive the storm recovery charges authorized under a financing
6 order, and to obtain periodic adjustments to such charges, to its SPE and to
7 classify such right as storm recovery property as defined in the Securitization
8 Statute.

9 **Q. WHAT AMOUNTS OF STORM RECOVERY PROPERTY ARE THE**
10 **COMPANIES PROPOSING TO SELL TO THEIR SPEs?**

11 A. DEC is proposing to sell storm recovery property in the approximate amount of
12 \$230.8 million to its SPE which, assuming a June 1, 2021 issuance, includes
13 approximately \$37.2 million of carrying costs and DEP is proposing to sell
14 storm recovery property in the approximate amount of \$748.0 million to its SPE
15 which, assuming a June 1, 2021 issuance, includes approximately \$113.8
16 million of carrying costs. Additionally, all paid (or accrued) upfront financing
17 costs, primarily bond issuance costs, will also be included in the amounts
18 funded through the bond financings at the SPEs.

19 **Q. HOW WILL THE SPEs AMORTIZE STORM RECOVERY**
20 **PROPERTY?**

21 A. Each SPE will amortize the relevant storm recovery property based on the
22 principal amount required for the repayment of the relevant series of storm
23 recovery bonds over the expected life of the bonds.

1 **Q. WHAT ARE THE ANTICIPATED ACCOUNTING ENTRIES TO BE**
2 **RECORDED AT THE SPE?**

3 A. As illustrated in my Exhibit 2, the accounting entries to be recorded by the SPEs
4 are as follows: (1) recording of capital subaccount from the Companies' equity
5 investment; (2) recording of proceeds from the issuance of bonds; (3) purchase
6 of storm recovery property from each Company; (4) receipt of cash from the
7 relevant Company for the storm recovery charges collected; (5) amortization of
8 the storm recovery property; (6) accrual of interest expense; (7) amortization of
9 up-front financing costs; (8) payment of bond principal and interest; (9)
10 recording of on-going operating costs and servicing fees payable; (10)
11 replenishment of capital subaccount, if needed; (11) return impacts on the
12 capital subaccount; and (12) transfer of cash to the excess funds subaccount in
13 the event of excess storm recovery charges collected.

14 **Q. WHAT ARE THE ANTICIPATED ACCOUNTING ENTRIES TO BE**
15 **RECORDED AT THE COMPANIES?**

16 A. As illustrated in Angers Exhibit 2, the accounting entries to be recorded by each
17 Company are as follows: (1) recording of expenditure of cash to fund the
18 capital subaccount at each SPE and a related investment; (2) sale of the storm
19 recovery property to each SPE; (3) recognition and collection of storm recovery
20 charges; (4) collection and remittance of revenue related taxes on the storm
21 recovery charges (*i.e.*, gross receipts tax, franchise fee, etc.); (5) interest on
22 remittances (only if applicable); and (6) impact of earnings of each SPE.

1 **Q. HOW WILL STORM RECOVERY CHARGES COLLECTED FROM**
2 **CUSTOMERS BE RECORDED?**

3 A. The storm recovery charge collections will be remitted to and recorded as
4 revenues at the relevant SPE.

5 **Q. PLEASE DESCRIBE HOW EACH COMPANY, AS SERVICER,**
6 **PROPOSES TO REMIT STORM RECOVERY CHARGES TO THE**
7 **SPE.**

8 A. Each Company, as servicer, will be required to remit storm recovery charges
9 directly to the appropriate Bond Trustee for each series of storm recovery
10 bonds. As the Companies do not track its customer charges on a daily basis,
11 they will remit storm recovery charges based on estimated daily collections
12 using a weighted average balance of days outstanding (“ADO”) on the
13 Companies’ retail bills. Collections remitted daily will represent the charges
14 estimated to have been received on any day, based upon the ADO and estimated
15 write-offs. For example, if a Company’s retail bills are outstanding, on a
16 weighted average basis, for a period of thirty days, then such Company will
17 remit to the appropriate SPE the storm recovery charges estimated to be
18 collected on a particular date, less an assumed delinquency rate, thirty days
19 thereafter.

20 **Q. CAN THE COMPANIES REMIT THE STORM RECOVERY**
21 **CHARGES LESS FREQUENTLY THAN DAILY UNDER CERTAIN**
22 **CONDITIONS?**

23 A. Yes, under certain circumstances. Provisions within the servicing agreement

1 may also permit each Company to remit storm recovery charges monthly,
2 instead of daily. The Company may only exercise this option if the conditions
3 of the servicing agreement are satisfied. These conditions will be driven by
4 rating agency requirements to achieve and maintain the targeted “AAA” ratings
5 on the bonds and may include the maintenance by the Companies of a minimum
6 credit rating(s), the maintenance of reserves, or other conditions. If the
7 Companies are eligible to remit charges monthly, and elect to do so, then
8 charges would be remitted based upon the same general methodology. For
9 example, assuming again that charges are outstanding on average for thirty
10 days, then all charges which are assumed to be collected during a calendar
11 month will be remitted on the first business day of the next calendar month.
12 The Companies would include in any remittance investment earnings which are
13 estimated to have been earned on such collections in the hands of the
14 Companies. A monthly remittance process for the storm recovery charges
15 would only occur if it does not negatively impact the credit ratings for the
16 bonds.

17 **Q. HOW WILL THE COMPANIES ALLOCATE PARTIAL PAYMENTS**
18 **ON A BILL TO THE STORM RECOVERY CHARGES?**

19 A. When each Company, acting as servicer, does the annual reconciliation, partial
20 payments will be allocated to the appropriate storm recovery charges in the
21 same proportion that such charges bear to the total bill. The first dollars
22 collected would be attributed to past due balances, if any. Once those balances
23 are paid in full, if cash collections are not sufficient to pay a customer’s current

1 bill, then the cash would be prorated between the different components of the
2 bill.

3 **Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

4 A. Yes.

Storm Recovery Charge
True-up Mechanism Form

Storm Recovery Charge True-up Mechanism Form
For the Period ____ through ____

Description	Calculation of the True-up (1)	Projected Revenue Requirement to be Billed and Collected (2)	Revenue Requirement for Projected Remittance Period (1)+(2)=(3)
Storm Recovery Bond Repayment Charge (remitted to SPE)			
True-up for the Prior Remittance Period Beginning __ and Ending __			
Prior Remittance Period Revenue Requirements			
Prior Remittance Period Actual Cash Receipt Transfers Interest income			
Cash Receipts Transferred to the SPE			
Interest income on Subaccounts at the SPE			
Total Current Period Actual Daily Cash Receipts Transfers and Interest Income (Line 6 + 7)	-		
(Over)/Under Collections of Prior Remittance Period Requirements (Line 4+8)	-		
Cash in Excess Funds Subaccount	-		
Cumulative (Over)/Under Collections through Prior Remittance Period (Line 9+10)	\$ -		\$ -
Current Remittance Period Beginning ____ and Ending ____			
Principal			
Interest			
Servicing Costs			
Other On-Going Costs			
Total Current Remittance Period Revenue Requirement (Line 15+16+17+18)	\$ -		
Current Remittance Period Cash Receipt Transfers and Interest Income:			
Cash Receipts Transferred to SPE	(A) -	(B) -	
Interest Income on Subaccounts at SPE	(A) -	(B) -	
Total Current Remittance Period Cash Receipt Transfers and Interest Income (Line 22+23)	\$ -	\$ -	
Estimated Current Remittance Period (Over)/Under Collection (Line 19+24)	\$ -	\$ -	\$ -
Projected Remittance Period Beginning ____ and Ending ____			
Principal			
Interest			
Servicing Costs			
Other On-Going Costs			
Projected Remittance Period Revenue Requirement (Line 29+30+31+32)		\$ -	\$ -
Total Revenue Requirements to be Billed During Projected Two Remittance Periods (Line 11+25+33)			\$ -
Forecasted KWh Sales for the Projected Two Remittance Periods (adjusted for uncollectibles)			
Average Retail Storm Recovery Charge per kWh (Line 35/36)			(C) 0
Notes:			
(A) Amounts are based on a billed and collected basis.			
(B) Includes estimated amounts for ____ through ____.			
(C) Allocation of this amount to each rate class is addressed by Jonathan Byrd in his testimony			

STORM SECURITIZATION ACCOUNTING ENTRIES

Corporate Special Purpose Entity (Corp SPE)	Utility Special Purpose Entities (SPEs)	Companies ("DEC" and "DEP")	Income Statement	Balance Sheet
Entries for the Set-up and Funding of the SPEs				
To record the initial investment and establish a restricted cash account in the SPEs.				
Dr. Restricted Cash/Capital Subaccount Cr. Member's Equity	Dr. Restricted Cash/Capital Subaccount Cr. Member's Equity	Dr. Investment in SPEs Cr. Cash		X X
Entries Related to the Issuance of Storm Recovery Bonds				
To record the issuance of the storm recovery bonds.				
Dr. Restricted Cash/General Subaccount Cr. Pass-thru Bonds Payable				X X
Dr. Storm Recovery Bonds Receivable w/Utility SPEs Cr. Restricted Cash/General Subaccount	Dr. Restricted Cash/General Subaccount Cr. Storm Recovery Bonds Payable w/Corp SPE			X X
	Dr. Upfront Bond Issuance Costs Cr. Restricted Cash/General Subaccount			X X
Entries Related to the Purchase of Storm Asset Recovery Property from the Companies				
To record the purchase of the Storm Asset Recovery Property from the Companies related to Storm Asset Recovery Financing.				
	Dr. Storm Asset Recovery Property Cr. Restricted Cash/General Subaccount	Dr. Cash Cr. Storm Regulatory Asset		X X
Monthly Entries Related to Storm Asset Recovery Financing				
To record revenues from the collection of Storm Asset Recovery Charges from customers.				
		Dr. Customer Accounts Receivable Cr. Accounts Payable w/Utility SPEs		X X
	Dr. Accounts Receivable w/Utilities Cr. Storm Asset Recovery Revenue		X	X
To record the revenue related taxes on the Storm Asset Recovery collected by the Companies.				
		Dr. Revenue Taxes and Fees Cr. Revenue Taxes and Fees Payable	X	X
To record the proceeds of Storm Asset Recovery Charges collected by the Companies to be remitted to the Utility SPEs.				
		Dr. Cash Cr. Customer Accounts Receivable		X X
	Dr. Restricted Cash/General Subaccount Cr. Accounts Receivable w/Utilities	Dr. Accounts Payable w/Utility SPEs Cr. Cash		X X
To record the payment of revenue related taxes.				
		Dr. Revenue Taxes and Fees Payable Cr. Cash		X X
To record the amortization of the Storm Asset Recovery Property.				
	Dr. Amortization Expense Cr. Storm Asset Recovery Property		X	X
To record interest expense on the Storm Asset Recovery Bonds.				
	Dr. Interest Expense Cr. Storm Recovery Interest Payable w/Corp SPE		X	X
Dr. Storm Recovery Interest Receivable w/Utility SPEs Cr. Pass-thru Interest Revenue			X	X
Dr. Pass-thru Interest Expense Cr. Pass-thru Interest Payable			X	X
To record amortization of the upfront bond issuance costs.				
	Dr. Interest Expense – Issuance Costs Cr. Upfront Bond Issuance Costs		X	X
To record payment of principle and interest on the Storm Asset Recovery Bonds.				
Dr. Restricted Cash/General Subaccount Cr. Storm Recovery Bonds Receivable w/Utility SPEs Cr. Storm Recovery Interest Receivable w/Utility SPEs	Dr. Storm Recovery Bonds Payable w/Corp SPE Dr. Storm Recovery Interest Payable w/Corp SPE Cr. Restricted Cash/General Subaccount			X X X
Dr. Pass-thru Bonds Payable Dr. Pass-thru Interest Payable Cr. Restricted Cash/General Subaccount				X X X
To record on-going operating costs and servicing fees.				
	Dr. Admin & General Expense Cr. Restricted Cash/General Subaccount		X	X
		Dr. Cash Cr. Admin & General Expense	X	X
To record replenishment of the capital subaccount through the true-up mechanism, if funds are used.				
	Dr. Restricted Cash/Capital Subaccount Cr. Restricted Cash/General Subaccount			X X
To reflect the collection of return on capital subaccount and associated cash dividend.				
	Dr. Restricted Cash/Capital Subaccount Cr. Restricted Cash/General Subaccount			X X
	Dr. Member's Equity Cr. Restricted Cash/Capital Subaccount	Dr. Cash Cr. Investment in SPEs		X X
To record excess proceeds from the Storm Asset Recovery Charges remitted to the SPEs after payments for principle, interest, on-going operating costs and servicing fees, and replishment of the capital subaccount.				
	Dr. Restricted Cash/Excess Funds Subaccount Cr. Restricted Cash/General Subaccount			X X