BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

Docket No. E-2, Sub 1262
Docket No. E-7, Sub 1243

In the Matter of		
Joint Petition of Duke Energy Carolinas, LLC and Duke Energy Progress, LLC Issuance of Storm Recovery Financing Orders	))))	DIRECT TESTIMONY OF WILLIAM B. MOORE CCONSULTANT TO SABER PARTNERS, LLC

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

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Direct Testimony of

William B. Moore

December 21, 2020

<u>TESTIMONY OF WILLIAM B.MOORE</u>
<u>DECEMBER 21, 2020</u>

Q. Please state your name and address.

A. William B. Moore, 2764 North Northshore Court, Wichita, KS, 67205.

Q. What is your relation to Saber Partners LLC?

A. I am a Consultant to Saber Partners, LLC (Saber Partners or Saber).

Q. Please describe your educational background and professional experience.

A. I have a Bachelor of Business Administration, Cum Laude Concentration in Accounting, from Wichita State University. I also was a student, then advisor and eventually faculty at The University of Michigan Public Utility Executive Program.

I retired in 2011 as CEO and President of Westar Energy, then the largest electric utility serving Kansas, and currently serve on the Boards of Directors of several banking and civic organizations. For over thirty-three years I held positions in general management, operations, corporate finance, strategic planning, financial relations, investor relations and financial reporting in the energy sector. I have significant experience in arranging and closing numerous types of financial transactions. For example, working at the executive level, I directed and implemented with our teams, restructuring plans to restore operational and financial health to Westar Energy (2002-2011) and Kansas Gas and Electric Company (1987-1992). I also have had executive involvement in establishing the strategic direction for companies, including acquisitions, acquisition defense, mergers and divestitures of significant business units.

More specifically, I served as President, Chief Executive Officer and Board member at Westar from 2007 until 2011, following four years in roles as Vice President, President and Chief Operating Officer, with operating responsibility for Power Delivery, Customer Care, Environmental and Safety.

Prior to my years at Westar, I served as the Senior Managing Director for Saber Partners LLC, from 2000-2002. The firm was formed to provide unique senior level corporate financial advice. Clients included the Public Utility Commission of Texas on the issuance of "transition bonds" (Ratepayer-Backed Bonds) resulting from deregulation. At that time, we also provided a small mid-western distribution utility general corporate advice regarding the company's transition from a member-owned organization to a publicly-traded utility. We also were retained by the State of California to provide advice to the Governor regarding the State's energy crisis.

During the 1990's, I served in several roles at Western Resources, Inc. (WR), Topeka, Kansas (1992-1995 as Vice President-Finance and 1998-2000 as Executive Vice President and CFO). From 1995-1998, I returned to Kansas Gas and Electric Company (KGE) in Wichita, Kansas as Chairman and President.

At WR as the senior financial executive reporting to the CEO, I implemented the financial strategy of the electric utility operations. As CFO, I addressed analyst earnings projections that were significantly too high and the refinancing plans for a major diversification subsidiary. I negotiated over $1.5 billion of bank facilities for WR and its subsidiaries during a period of declining credit quality and the restatement of financials. I also established a $150 million facility to allow sale of accounts receivable, reducing interest costs by $1 million to $2 million per year.

Earlier in my tenure at WR, I was instrumental in the analysis, negotiation and sale of certain gas distribution properties ($400 million), restructured the long-term debt portfolio and negotiated terms and conditions for the issuance of over $1.4 billion of debt and equity.

A highlight of my time as Chairman of the Board and President of Kansas Gas and Electric Company, a wholly owned subsidiary of WR with $650 million in revenues and 280,000 customers, was my work enhancing financial performance and resolving conflict, improving relationships with communities, key customers, regulators, politicians and employees by increasing visibility of KGE leadership which had been significantly reduced as a result of the merger which formed WR.

My career at KGE, the stand-alone company, included two merger attempts, both while I was CFO. In 1990, as one of the key representatives for KGE, I managed the merger activities and successful defense against the first hostile takeover attempt of a major investor-owned electric utility: shareholder value was enhanced by $150 million. The second was the successful merger which formed WR.

Over the course of my career at KGE, I negotiated terms and conditions for the issuance of over $3 billion of both investment grade and non-investment grade securities. Issuances were required to finance the fuel diversification program which resulted in the construction of over 4600 MW of coal and nuclear generation, and we accessed both European and domestic markets.

Through the years, I have been responsible for many facets of corporate finance, cash management and investor relations, and have been focused on using best practices for corporate financial strategies, procedures, and standards. Here are two more examples of refinancings that netted significant savings. I directed and negotiated the refinancing of $327 million of floating rate tax exempt bonds at 7% for 40 years. Our decision to stay short– initially due to low credit rating and high long-term rates– saved over $100 million in interest expense.

A second example is the negotiation of the sale/leaseback of a coal-fired generating station in 1987, which we refinanced in 1992. We recognized a $300 million gain, and then efficiently used credits to limit tax liability to $50 million. We found one investor who took the entire equity interest and were able to close without expensive bridge financing.

I currently serve in several Board of Director positions, including Fidelity Bank (Director and Audit Chair), Wichita State University Foundation (Director, Past Chair and Governance Committee) and Sedgwick County Zoo (Trustee and Finance Committee). I have enjoyed similar roles at other great institutions including: Intrust Financial Corp and Intrust Bank in Wichita Kansas; Wichita Area Chamber of Commerce; United Way Campaign Chair, Goodwill Industries, Kansas Big Brothers/Big Sisters and others.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. To support the need for a Bond Team that includes active Commission and Public Staff representation with its independent advisor.

Q. BASED ON YOUR PAST EXPERIENCE IN THE ELECTRIC UTILITY INDUSTRY, DO YOU HAVE RECOMMENDATIONS ABOUT WHAT THE COMMISSION SHOULD INCLUDE IN ITS FINANCING ORDER IN THIS PROCEEDING?

A. Yes. I have been in finance most of my career, I know how much time and effort goes into a financing that is not what one would call a “plain vanilla” bond. Many items and decisions are made as the process goes forward. Few things can be decided up-front and locked in. Document sessions, underwriter selection, rating agency reviews, marketing, the pricing process and more are dynamic. All decisions made during this time will affect the cost to the ratepayers directly. The Ratepayer-Backed Bond process that I witnessed in 2001 in Texas and as described by the Companies and Public Staff witnesses are clearly more complex than traditional utility first mortgage bonds or unsecured debt. I believe the Commission’s Financing Order needs to adapt to this situation.

Q. HOW SHOULD THE COMMISSION ADAPT?

A. The main proposal I have seen and support is for the Commission to create a post financing order, but pre-bond issuance, review process that includes a Bond Team. The Bond Team has the Companies and its advisors, Public Staff and its advisors and the Commission staff involved in all matters involving the structuring marketing and pricing of the bonds. At the end of the process, when the bonds get priced, each of the parties involved would give a certification that ratepayers got the best deal possible at the time – the lowest storm recovery charges consistent with market conditions and the terms of the financing order.

Q. WHY DO YOU SUPPORT THE BOND TEAM APPROACH?

A. As a utility executive, I like the Bond Team approach. One of my main reasons for this is because the certification being required is not only from the Underwriters and Companies, but also from the ratepayer advisors. This brings all the parties together.

Financial opinions are used extensively in many transactions like mergers and acquisitions where we get “fairness opinions”. In those transactions no one relies on a single opinion from one side of the transaction. Each side seeks an independent view and opinion.

Because the Financing Order is irrevocable and the Commission is required to give up its regular ongoing review of the costs, the Bond Team approach, together with confirming certifications, and with the additional layer of independent confirmation from the ratepayer representatives, confirms that the lowest storm recovery charge was, in fact, achieved. This would give me comfort that the Commission was fully informed and satisfied with the results.

Q. WHY IS THIS IMPORTANT?

A. I believe all utilities understand the importance of keeping customers' rates as low as possible while still delivering reliable energy and excellent customer service. The fact that "AAA" rated storm recovery bonds are being issued is a perfect example of a "win" for ratepayers and also for the Companies. No matter what the "AAA" interest rate will be, it will still be significantly less than the Companies' respective weighted average cost of capital.

But that is not the requirement or the objective of this transaction – just to produce savings compared to the utility's cost of capital. The objective and requirement here is to achieve the "lowest" storm recovery charge, of which interest rate is only one part. It does not make sense to me that a party representing the utility, who is not responsible for repaying the bonds, would be present but that no party representing the ratepayer would be present "at the negotiating table" throughout the many steps in structuring, marketing and pricing these Ratepayer-Backed Bonds. Markets work best when everybody who has a financial interest in the outcome has a say in what happens. Here the ratepayer has the most at stake in the bond offering, and the Companies are protected from any of the costs of the deal. Representatives of the ratepayers should be involved and should have an independent advisor to assist them in the process because these things are very technical.

Q. WHICH OF THESE STEPS DO YOU BELIEVE RECEIVE THE MOST BENEFIT FROM HAVING AN INDEPENDENT ADVISOR ON THE BOND TEAM?

A. They all contribute to achieving the lowest storm recovery charge, but in my experience, marketing and pricing are the most important steps requiring proactive independent advisor involvement for the ratepayer.

My perspective is that of a former treasurer and then chief financial officer and finally CEO with the utility finance function reporting to me. I have interacted with investment bankers and underwriters directly for years. I agree completely with witnesses Schoenblum and Maher that in all security issuances, underwriters have an inherent conflict of interest in determining the appropriate pricing level of the bonds. The testimony of witnesses Heath and Atkins seem to miss this important point. This conflict of interest in a Ratepayer-Backed Bond transaction is critical especially if the ratepayer is not at the negotiating table. I have found that it is not wise to rely on underwriters without a lot of work to keep the process competitive and honest. Wall Street has its own goals that do not always align with goals of the issuer. The process works best when you do your own homework and not just defer to others.

Q. WHY DO YOU SAY THAT?

A. Regarding marketing, as witness Atkins testifies, extensive education of investors will be provided by the underwriters working with the Companies. But I've seen that underwriters don't always get it right. The attention and focus varies greatly. That's why we liked firms that had research departments and bankers who spent the time to get to know us thoroughly and could explain things about our company and credit clearly. Companies that come frequently to market like Duke Energy benefit from a lot of attention and focus. Duke is covered and studied and can access the market easily. But this is not a Duke traditional bond. And there have been only three other bonds like this that have been sold in the past 5 years. It probably has not received a lot of attention from underwriters or investors because there really has been no reason for them to focus. Without a strong marketing plan focused on extensive education of investors, this is going to be a problem with something that has been around for a long time, but few know very well.

Q. WHAT SHOULD THE COMMISSION CONSIDER TO ADDRESS THIS ISSUE?

A. The Commission and Public Staff with their advisors need to be involved in that education process which is the important part of marketing. Having direct input into what is being presented, how it is being presented and to whom will make sure it is being done right for the ratepayer. Direct involvement in the process helps ensure that the underwriters actually stimulate broad investor demand as opposed to distribute to a few large accounts. As a presenter of information at many road shows and conference calls with investors, it was always difficult to determine those with real interest in the security. But by speaking and hearing from investors I got a better sense of what needed to be done. I also learned that I should not just speak with the investors one underwriter recommends but to listen to many and try to get to smaller accounts.

Q. WHY IS BROAD DISTRIBUTION TO SMALLER ACCOUNTS IMPORTANT?

A. Most underwriters know and cover the large institutions, like Blackrock and Pimco and Nuveen. It's easy to sell to them because their size gives them market power. They write big tickets which means they buy large amounts. An underwriter can sell a lot of a security with a single phone call. When there is a large order, that investor usually gets more influence over the price or yield on the bond because the underwriter can sell the deal quickly and move on to the next deal. I found getting really broad distribution and competition among investors takes more time and effort. So instead of one call, they need to make 50 calls. And instead of one order for $50 million it is 10 orders for $5 million. Some bankers are willing to make the effort, others not so much. With the ratepayer representative involved and taking the time to help educate investors and get them interested, it is more likely to result in a broader distribution with a positive outcome, lower cost.

Q. HOW SHOULD THE ACTUAL PRICING BE VIEWED BY THE COMMISSION?

A. Witness Atkins stated “The underwriters, in conjunction with the issuer, will begin to discuss informally with investors…..the credit spread relative to the benchmark rates for each tranche”.

This is one of the most important parts of the process getting the right benchmark and value assigned to bonds at each maturity. Witness Sutherland has done the most work on the appropriate pricing levels and comparables for this type of Ratepayer-Backed Bond. Witness Maher who was at AAA-rated Exxon discussed how they would approach the value of their securities versus what the bankers told them. I agree that one has to have a view, a perspective on the value of what you are selling from which to negotiate with underwriters and investors. This part of the process needs the ratepayer advisor perspective before those on the other side of the negotiating table have informal investor discussions. They need to be involved in determining the appropriate benchmarks, the initial thoughts on tranches and what the credit spread range should be relative to benchmark.

Q. ARE NOT THOSE ITEMS ALREADY KNOWN LARGELY? THE MARKET IS EFFICIENT WHEN YOU GET AAA RATING, CORRECT?

A. I said earlier that the AAA rate would be below the Companies' cost of capital, but there is no single AAA-rate out there in the market. Valuations vary greatly in all rating categories. This is a process that requires effort. The work of witness Sutherland on appropriate benchmarking impressed me. The results that Saber Partners have achieved in each of their 13 transactions speaks for itself.

Q. WHAT WOULD THAT INVOLVEMENT LOOK LIKE?

A. The Bond Team and especially Public Staff's advisors should be a party to all meetings and on all telephone calls to present their views and receive the feedback firsthand and in real time. This step is key because it is the beginning of the underwriters, as witness Atkins states, "keeping the master record (known as 'the book') in which all indications of interest received by underwriters from potential investors are recorded".

It is important for the Commission and Public Staff to have full transparency of "the book" to ensure that underwriters have reached out to a wide range of investors. That starts with the informal investor discussions and carries through Launch, Allocation and Pricing.

This it is not just listening and accepting what the underwriters report in what witness Atkins calls their “professional judgment.” It requires due diligence both through communication with underwriters in the deal as well as those outside of the immediate process.

As discussed in my professional experience, I have been involved in raising over $4 billion in issuance of bonds and equity. Ability to have full transparency of “the book” was always a challenge. In my case, underwriters would typically provide a percentage of under- or over-subscribed (amount of orders versus shares or bonds offered for sale), but were very protective of how many investors had indicated interest and their levels, price and amount. Without that information we had no idea of how hard the salesforce was pushing our securities and overall demand. Our relationship managers/calling officer would sometimes be willing to provide more information, but it always seemed to put them at risk to share that information, if they knew it. Reaching out to potential investors we knew could also help us verify (or not) what the underwriters were providing. More than once did we find out after pricing that “the book” was 150 to 200 percent over-subscribed, which meant we left some basis points on the table.

The Commission, Staff and Public Staff should not want that to happen on this issue of storm recovery bonds. By following “best practices” as outlined in the testimony of witnesses Schoenblum and

Fichera, the Commission will have all the steps in place to achieve the lowest storm recovery charge benchmark.

Q. DOES THE FACT THAT THE PUBLIC STAFF IS AN INTERVENOR IN THE COMPANIES' GENERAL RATE CASES AFFECT YOUR OPINION ABOUT WHETHER THEY SHOULD BE ON THE BOND TEAM?

A. No.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes.