



Camal O. Robinson
Associate General Counsel

Duke Energy
550 South Tryon St
DEC45A
Charlotte, NC 28202

o: 980.373.2631
f: 704.382.4439

camal.robinson@duke-energy.com

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VIA Electronic Filing

Ms. Kimberley A. Campbell
Office of the Chief Clerk
North Carolina Utilities Commission
4325 Mail Service Center
Raleigh, North Carolina 27699-4335

**Re: Joint Petition of Duke Energy Carolinas, LLC and Duke Energy Progress, LLC for Issuance of Storm Recovery Financing Orders
Docket Nos. E-7, Sub 1243 and E-2, Sub 1262**

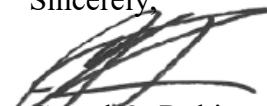
Dear Ms. Campbell:

In accordance with Ordering Paragraph One (1) of the Commission's *Order Scheduling Hearing, Requiring Filing of Testimony, and Establishing Discovery Guidelines*, enclosed for filing in the above-referenced proceedings on behalf of Duke Energy Carolinas, LLC and Duke Energy Progress, LLC (the "Companies") please find the *Witness Summaries* of the following witnesses:

- Thomas J. Heath, Jr.
- Charles N. Atkins III
- Melissa Abernathy
- Jonathan L. Byrd
- Shana W. Angers

Please feel free to contact me with any questions or concerns, and thank you for your assistance in this matter.

Sincerely,



Camal O. Robinson

COR:kjg

Enclosures

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Jan 26 2021

**Direct and Rebuttal Testimony Summary
of
Thomas J. Heath, Jr.**

Docket No. E-7, Sub 1243

Docket No. E-2, Sub 1262

Duke Energy Carolinas, LLC and Duke Energy Progress, LLC
Summary of Thomas J. Heath, Jr. Direct and Rebuttal Testimony
Docket Nos. E-7, Sub 1243 and E-2, Sub 1262

Good morning, Commissioners. My name is Thomas Heath and I am a Structured Finance Director for Duke Energy Corporation. I am pleased to appear before you today to discuss the Joint Petition for Storm Cost Recovery Financing Orders of Duke Energy Carolinas and Duke Energy Progress, which I will refer to collectively as “the Companies”.

In my direct testimony, I present the Companies’ proposal to use storm recovery bonds to finance storm recovery costs as permitted by the Securitization Statute and to provide an estimate of up-front and on-going financing costs. The Companies request that the Commission approve the issuance of storm recovery bonds to finance the full amount of the Companies’ storm recovery costs related to Hurricanes Florence, Michael, Dorian, and Winter Storm Diego.

The Statutory Cost Objectives of the Securitization Statute of providing quantifiable benefits to customers and structuring and pricing the bonds to result in the lowest storm recovery charges consistent with market conditions at the time they are priced are clear, and the Companies have proposed a financing structure that meets these objectives and provides significant savings for DEC and DEP customers compared to traditional base rate recovery. The Companies have proposed options to either issue bonds separately for DEC and DEP or in a combined structure, which the Companies believe are expected to attract greater investor attention and provide consistent bond terms and pricing for both DEC and DEP customers. These options are intended to permit flexibility for the offerings to achieve the Statutory Cost Objectives; and it is important to note that no decision has been made to date as to exactly what structure will be utilized in the proposed transaction.

My rebuttal testimony responds to recommendations proposed by the Public Staff Consultants, clarifies the requirements of the Securitization Statute, explains how the Companies’

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proposals are consistent with the Statutory Cost Objectives, and provides alternative recommendations regarding post-financing order procedures.

The Public Staff's testimony was primarily focused on ensuring a continuing and, by historic standards, extraordinarily active role for the Public Staff in the post financing order structuring, marketing, and pricing process for the storm recovery bonds. The Companies have significant concerns with an arrangement that allows an intervening party – even the Public Staff – to have a decision-making role in a financial transaction that, by statute, is required to be performed by the Companies, decided by the Companies, and executed by the Companies. In the event the Commission decides to weigh the applicability of the construct of the Duke Energy Florida (“DEF”) bond team model to the Companies’ proposed transaction in this case, I make clear to the Commission that the Public Staff Consultants did not accurately explain the construct of the DEF bond team, which they heavily rely on in their testimony. While the Companies believe this is ultimately a decision for the Commission, the Companies would support a Bond Team, consistent with the DEF bond team, comprised of the Companies, their advisor(s) and counsel, and a designated Commissioner or member of Commission staff, including any independent consultants or counsel hired by the Commission itself to ensure that the structuring, marketing, and pricing of the storm recovery bonds will achieve the Statutory Cost Objectives.

Commissioners, I want to make clear that the Companies particularly reject the notions, which are repeated often in the Public Staff Consultant’s testimony, that DEC and DEP are presumptively unsuited or would have anything other than their customers’ best interests at heart and in mind during this process. The Companies are keenly aware that the costs of all of their debt issuances are subject to ultimate recovery from customers and it is not in the Companies’ best interests to do anything that unnecessarily adds to the cumulative costs of electric service that their

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customers must pay. This is as true of their past issuances as it is of the proposed transactions, and our track record of prior bond issuances speak for themselves. After all, the fundamental purpose of securitization is to lower customer costs. With this in mind, the Companies have put together an indicative structure that, based on market conditions as of early October 2020, would save DEC customers \$57.5 million and DEP customers \$216.2 million over a 15-year period, that is over 30 percent savings when compared to the traditional method of recovering storm costs through base electric rates. Further, the Companies have proposed to certify to the Commission, through the Issuance Advice Letter (“IAL”) process or otherwise, that the bonds meet the Statutory Cost Objectives; we take that willingness to certify very seriously.

Lastly, the Public Staff Consultants have proposed so-called “best practices” related to utility securitization transactions and imply that the Companies’ proposed transaction is deficient because it does not include these so-called “best practices.” The facts, however, are that many of these recommended practices have already been incorporated into the Companies’ proposed Financing Orders. The Companies believe the additional recommended best practices of the Public Staff Consultants are not appropriate for the proposed transactions in these dockets as they do not adhere to the Securitization Statute and deviate from established North Carolina regulatory practices.

This concludes my testimony summary.

**Direct and Rebuttal Testimony Summary
of
Charles N. Atkins III**

Docket No. E-7, Sub 1243

Docket No. E-2, Sub 1262

Duke Energy Carolinas, LLC and Duke Energy Progress, LLC
Summary of Charles N. Atkins II Direct and Rebuttal Testimony
Docket Nos. E-7, Sub 1243 and E-2, Sub 1262

Good morning/afternoon, Commissioners. My name is Charles Atkins, and I am CEO of Atkins Capital Strategies LLC. I am serving as a co-financial advisor to Duke Energy Carolinas and Duke Energy Progress, which I refer to collectively as “the Companies” and separately as “DEC” and “DEP.” I am pleased to appear before you in connection with the Companies’ Joint Petition for Storm Cost Recovery Financing Orders.

By way of background, while these storm recovery securitization transactions will be the first such transactions done in the State of North Carolina, these transactions are not new to the marketplace. There have been 66 of these transactions sponsored by or related to investor-owned utilities since 1997, totaling over \$50 billion in bonds issued. Not only are Duke Energy and its family of companies experienced and sophisticated issuers of debt, issuing many billions over the years, these transactions will not be the first securitization for Duke Energy. The 2016 \$1.29 billion securitization sponsored by Duke Energy Florida is the largest recent utility securitization, the longest large transaction with a 20-year scheduled final maturity, and the first utility securitization to be included in the Bloomberg Barclays Corporate Utility Index.

The securitization process can result in AAA-rated debt that is insulated from the bankruptcy risk of the sponsoring Companies, so that the Companies’ customers may benefit from a cost of capital that is based on 99.5% AAA debt, rather than the much higher regulatory weighted average cost of equity and debt capital utilized in traditional cost recovery. This lower cost of capital can result in significant savings for customers, estimated at approximately 30%, as described by Companies witness Heath.

There are three main strategies the Companies may use in issuing these bonds to investors. One factor to consider in assessing each of these alternatives is the potential for inclusion in the Bloomberg Barclays Corporate Index. Many investors perceive bond issues that are included in

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the Index to be more tradable, or more “liquid,” and therefore more attractive than bonds that are not Index-eligible. However, there is a minimum \$300 million issue size requirement for potential inclusion in the Corporate Index. Therefore, a stand-alone DEP transaction would satisfy that size requirement, but a stand-alone DEC transaction under these circumstances would not.

One potential issuance strategy is to market and price the DEP and DEC storm recovery bonds separately, spaced out by several weeks or months. A second strategy would involve marketing and pricing the DEC and DEP transactions simultaneously. The third issuance strategy is the SRB Securities structure discussed in my direct testimony, which would be structured to be eligible for the Corporate Index.

The Companies are fully committed to satisfying their Statutory Cost Objective obligations, including achieving the lowest storm recovery charges consistent with market conditions at the time the bonds are priced. The Companies will evaluate closely the benefits and considerations involved in each of these three strategies. Specifically, the Companies seek approval of proposed financing orders containing all the key elements required for AAA ratings, as well as the flexibility to assess various structures and issuance approaches based on rating agency, lead underwriter and investor feedback as well as other real-time market factors. If the Commission desires, the Companies have indicated support for a “Bond Team” approach, similar to the Duke Energy Florida transaction, where there would be a working group that would participate in the development of the transaction structures, and the review of marketing plans and the transaction pricing. The Bond Team would consist of the Companies, their advisors and counsel, the Commission, and its independent outside consultants and/or counsel. The role of the Commission here is unique, since the Commission makes specific findings that are key to the creation of the storm recovery property and it is the Commission that issues the financing order.

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The Bond Team would receive ongoing feedback and advice from the lead underwriters, the Public Staff and its consultants, and their respective counsel.

This concludes my summary, and I look forward to our discussion.

**Direct and Rebuttal Testimony Summary
of
Melissa Abernathy**

Docket No. E-7, Sub 1243

Docket No. E-2, Sub 1262

Duke Energy Carolinas, LLC and Duke Energy Progress, LLC
Summary of Melissa Abernathy Direct and Rebuttal Testimony
Docket Nos. E-7, Sub 1243 and E-2, Sub 1262

My name is Melissa Abernathy and I am a Director of Rates and Regulatory Planning for North Carolina and South Carolina, representing both Duke Energy Carolinas and Duke Energy Progress. I am pleased to appear before you today to discuss various aspects of the proposed storm securitization transaction which will provide significant quantifiable benefits to customers.

My direct testimony supports the revenue requirement calculations for the storm recovery charges resulting from the Companies' proposal to use storm recovery bonds to finance the incremental O&M and capital investments related to Hurricanes Florence, Michael, Dorian and Winter Storm Diego, as well as accrued carrying charges, as permitted by the Securitization Statute. The revenue requirements are designed to repay the proposed storm recovery bonds as well as all up-front and on-going financing costs associated with the securitization bond structure. Within my testimony I demonstrate the quantifiable benefits that customers receive through a storm bond issuance, as compared to the traditional recovery model.

The magnitude of the 2018 and 2019 storms was unprecedented in the Companies' service territories, resulting in the Companies collectively financing approximately \$1 billion in storm recovery costs and associated carrying charges. These Storms and their costs have been outlined extensively in the current pending rate case dockets and in the associated storm deferral dockets that preceded the rate cases. The storm recovery costs were updated in this docket to include final costs incurred related to the Storms, which resulted in an overall decrease in the amount of storm costs from what was presented in the rate cases. The Public Staff previously reviewed the storm costs originally included in the rate cases and found them to be reasonable and prudently incurred. The Companies and the Public Staff agreed on pursuing securitization of these storm costs as outlined in the Securitization Statute and agreed upon certain assumptions to be used in the calculation of quantifiable benefits to customers. As noted in my rebuttal testimony, over a 15-

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Summary of Melissa Abernathy Direct and Rebuttal Testimony
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year bond period, Duke Energy Carolinas expects securitization to provide an approximate \$58 million, or 31% net present value benefit to customers when compared to traditional recovery mechanisms, while DEP expects securitization to provide an approximate \$216 million, or 34% net present value benefit to customers when compared to traditional recovery mechanisms.

The primary purpose of my rebuttal testimony is to respond to comments from Public Staff witnesses related to accounting and auditing of the storm costs and financing costs associated with the transaction. Public Staff's testimony included accounting recommendations to track and audit the various up-front and ongoing financing costs that are required by each Company's separate Special Purpose Entity as well as comments related to the servicing and administration fees received by each Company from its respective SPE. The Companies believe the financing costs, while some are estimated, are fairly stated and the level of review the Public Staff is requesting is unprecedented for securitization transactions and is not contemplated in the Securitization Statute. With regard to the servicing and administrative fees, the Companies intend to include both the fees received and the incremental costs incurred related to the servicing and administration functions in future cost of service studies, so the Companies are only compensated for the incremental costs incurred in connection with performing their obligations. Accordingly, the Companies do not believe the level of tracking the Public Staff has requested is necessary or has a material benefit to customers based on the amounts in question.

In summary, Duke Energy has earned a consistent and strong reputation within the industry for our rapid and capable response to these extreme weather events in North Carolina. The Companies and the Commission have an opportunity to use the recently passed Securitization Statute to provide significant benefits to customers, as well as create a structure in which the Company is able to recover its storm costs quickly and efficiently.

**Direct Testimony and Affidavit Summary
of
Jonathan L. Byrd**

Docket No. E-7, Sub 1243

Docket No. E-2, Sub 1262

Duke Energy Carolinas, LLC and Duke Energy Progress, LLC
Summary of Direct Testimony of Jonathan L. Byrd
Docket Nos. E-7, Sub 1243 and E-2, Sub 1262

My name is Jonathan Byrd and I am the Director, Southeast Pricing & Regulatory Solutions for Duke Energy Carolinas, LLC Duke Energy Progress, LLC, and Duke Energy Florida, LLC. I am pleased to appear before the Commission today to testify on behalf of the Companies.

The purpose of my direct testimony is to explain the Companies' calculation of the proposed storm recovery charges by customer class, and the tariff revisions needed to implement the storm recovery charges at each Company. My testimony demonstrates that the storm recovery charge rates each Company proposes reflect appropriate rate making principles and result in an equitable basis for recovery of each Company's revenue requirements across and within their respective customer classes and rate schedules.

To calculate the storm recovery charges, the Companies start with the total first year revenue requirements as presented by witness Melissa Abernathy in Abernathy Exhibit 4. Then, the Companies utilize the allocation factors filed in each of Company's most recent general rate case dockets to allocate the revenue requirements to each customer class. Lastly, to calculate each Company's rate, the Companies divide the revenue requirements for each customer rate class by the forecasted kWh sales for each customer rate class. This calculation results in an equitable and accurate storm recovery charge for each customer rate class.

To implement the storm recovery charges, the Companies have proposed tariff sheet numbers 133 and RR-35. Example proposed tariff sheets are provided in Byrd Exhibit 2 for each Company.

No parties to this proceeding have opposed or recommended changes to either the Companies' proposed storm cost calculation or tariff sheets, and it is my belief that the storm recovery charge calculation and tariff sheets should be approved.

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Summary of Direct Testimony of Jonathan L. Byrd
Docket Nos. E-7, Sub 1243 and E-2, Sub 1262

In addition to filing direct testimony, I also filed an affidavit to provide notice to the Commission of Duke Energy Progress, LLC's temporary billing compliance procedure. Duke Energy Progress' current customer billing system is not technologically capable of performing line item billing. However, the Company is in the process of implementing a new customer billing system, Customer Connect, which will be able to perform line item billing once in service. Therefore, to adhere to the requirements of the Securitization Statute in the interim period, the Company is proposing a temporary billing procedure to provide customers necessary information regarding the storm recovery charge. This billing compliance procedure does not affect Duke Energy Carolinas, and the Companies have discussed this procedure with the Public Staff and have been authorized to represent that the Public Staff does not object to Duke Energy Progress' solution.

This concludes my testimony and affidavit summary.

**Direct Testimony Summary
of
Shana W. Angers**

Docket No. E-7, Sub 1243

Docket No. E-2, Sub 1262

Duke Energy Carolinas, LLC and Duke Energy Progress, LLC
Summary of Direct Testimony of Shana W. Angers
Docket Nos. E-7, Sub 1243 and E-2, Sub 1262

My name is Shana W. Angers and I am the Accounting Manager for Duke Energy Progress, LLC. I am pleased to appear before the Commission today to testify on behalf of both Duke Energy Progress, LLC and Duke Energy Carolinas, LLC, which I refer to collectively as “the Companies.”

The purpose of my direct testimony in this proceeding is to discuss the Companies’ formula-based true-up mechanism developed to meet the requirements of the Securitization Statute, as well as present each Company’s accounting entries that will be required for the proposed storm recovery charges.

To achieve the requirements of the Securitization Statute, the Companies, as servicers of the storm recovery bonds, will make, at least semi-annually, true-up adjustments to the storm recovery charges to correct (a) any under-collections or over-collections or (b) otherwise ensure the timely payment of storm recovery bonds and on-going financing costs and other required amounts and charges payable. In addition, the Companies will make optional interim true-up adjustments at any time to ensure the recovery of revenues sufficient to provide for the timely payment of the storm recovery bonds and including all related on-going financing costs payable.

Approval and implementation of the Companies’ true-up mechanism will ensure that customers pay no more or less than what is required to pay the debt service on the storm recovery bonds and all on-going financing costs, as well as help mitigate bondholders’ exposure to differences in actual and estimated sales forecasts, uncollectable accounts receivable, and cash flow variability. The specific Storm Recovery Charge True-Up Mechanism Form proposed by the Companies is presented in my Angers Exhibit 1, and has not been opposed by any party to this proceeding.

Duke Energy Carolinas, LLC and Duke Energy Progress, LLC
Summary of Direct Testimony of Shana W. Angers
Docket Nos. E-7, Sub 1243 and E-2, Sub 1262

In addition to the true-up mechanism, my direct testimony discusses the Companies' request for approval of specific accounting treatment of the proposed storm recovery costs, which is necessary because the Companies are conducting storm recovery financing through Special Purpose Entities, or "SPEs," as discussed more in depth by Companies witnesses Heath and Atkins. Specifically, the Companies seek approval to sell the right to impose, bill, charge, collect, and receive the storm recovery charges authorized under a financing order, and to obtain periodic adjustments to such charges, to each Company's respective SPE, and to classify such right as storm recovery property as defined in the Securitization Statute. The accounting entries necessary to achieve this transfer of rights for both the Companies and each Company's respective SPE are illustrated in my Angers Exhibit 2, and, similar to the true-up mechanism I support, are unopposed by parties to this proceeding.

This concludes my testimony summary.

CERTIFICATE OF SERVICE

I hereby certify that copies of the foregoing *Witness Summaries* as filed in Docket Nos. E-7, Sub 1243 and E-2, Sub 1262, were served via electronic delivery or mailed, first-class, postage prepaid, upon all parties of record.

This, the 26th day of January, 2021.

/s/Kristin M. Athens

Kristin M. Athens

McGuireWoods LLP

501 Fayetteville Street, Suite 500

PO Box 27507 (27611)

Raleigh, North Carolina 27601

Telephone: (919) 835-5909

kathens@mcguirewoods.com

*Attorney for Duke Energy Carolinas, LLC
and Duke Energy Progress, LLC*