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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**

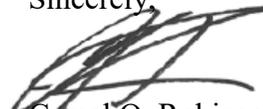
Dear Ms. Campbell:

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 Revised Witness Summaries of the following witnesses in light of the Agreement and Stipulation of Partial Settlement filed today between the Companies and Public Staff—North Carolina Utilities Commission.

- Thomas J. Heath, Jr.
- Melissa Abernathy

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

**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
Revised 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.

Since the filing of my rebuttal testimony, it is my understanding that the Companies and the Public Staff have reached a settlement regarding on-going financing costs and capital contributions, among other things. I am happy to address any questions the Commission may have regarding the settlement agreement and these agreed-upon issues.

This concludes my testimony summary.

**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
Revised 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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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. However, it is my understanding that the Companies and the Public Staff have reached a settlement agreement regarding the accounting issues addressed in my rebuttal testimony. I am happy to answer any questions the Commission may have on the settlement and agreements reached therein regarding the accounting of the storm recovery costs and financing costs.

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.

CERTIFICATE OF SERVICE

I hereby certify that copies of the foregoing *Revised 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 27th day of January, 2021.

/s/Kristin M. Athens

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