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February 2, 2021

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

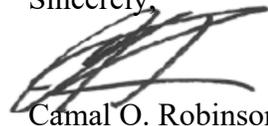
**Re: Joint Petition of Duke Energy Carolinas, LLC and Duke Energy Progress, LLC for Issuance of Storm Recovery Financing Orders
Docket Nos. E-7, Sub 1243 and E-2, Sub 1262**

Dear Ms. Campbell:

In accordance with Ordering Paragraph One (1) of the North Carolina Utilities 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 Cross Examination Exhibit 1 entered into the evidentiary record on Friday, January 29, 2021 during the evidentiary hearing.

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

Sincerely,



Camal O. Robinson

CC: Parties of Record

Enclosures

**Duke Energy Carolinas, LLC
Duke Energy Progress, LLC
Docket Nos. E-2, Sub 1262 and E-7, Sub 1243**

List of Cross-Examination Exhibits Moved Into Record on Thursday, January 29, 2021

Marked Exhibit No.	Description	Witness	DEC/DEP Attorney	Date Introduced	Date Entered
DEC/DEP Fichera Cross-Examination Exhibit No. 1	DEC/DEP Pre-Marked Exhibit No. 6 ("Investor-Owned Utility Securitization Possibilities, Processes, Pitfalls" by Joseph S. Fichera, NASUCA Annual Meeting (Nov. 8, 2020))	Public Staff: Joseph Fichera	Jim Jeffries	Jan. 29, 2021	Jan. 29, 2021



Investor-Owned Utility Securitization Possibilities, Processes, Pitfalls

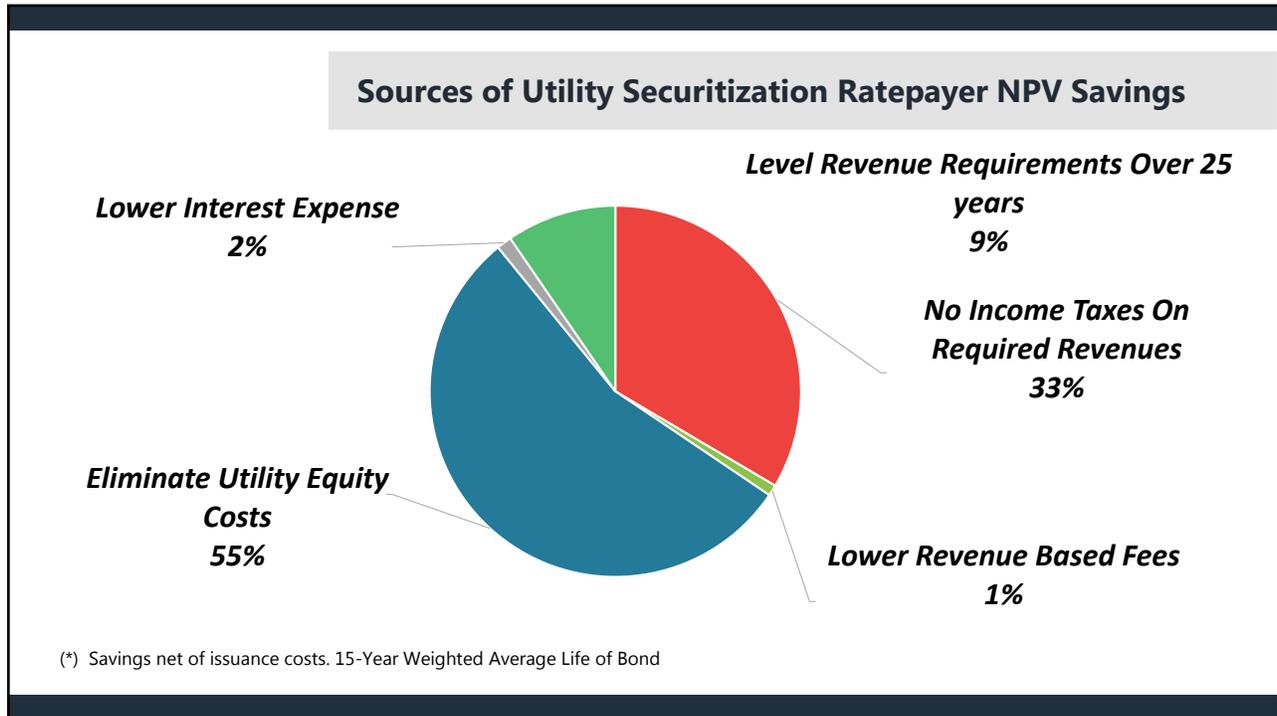
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**2000 – Present
 \$9,020,000,000**

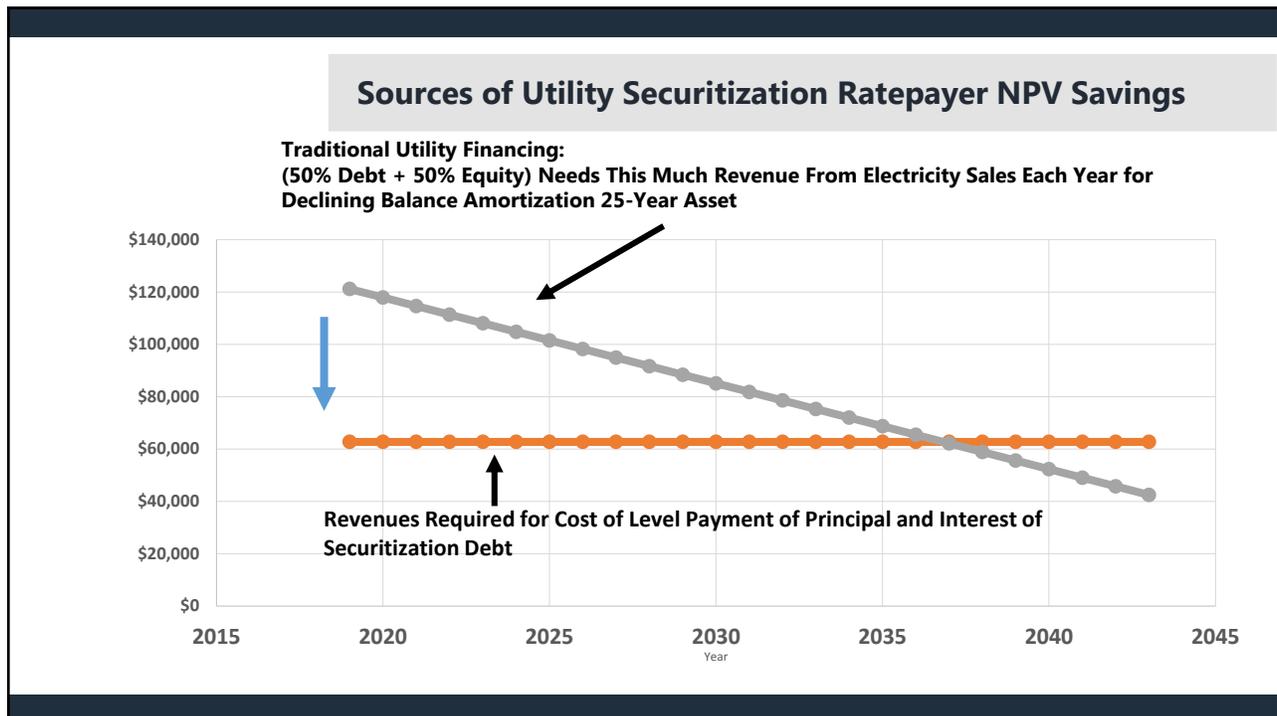
Our Experience in Investor-Owned Utility Securitization, Ratepayer-Backed Bonds: 19 years, Multiple Engagements; Same Personnel Have Advised 6 Commissions, 13 Transactions, \$9.02 Billion in Bonds involving 8 utilities, 25+ Underwriters

Size of Offering \$ Millions	Saber Partners' Role Involving State Utility Regulatory Agencies, Ratepayers and Securitization
N/A	Financial Advisor to Chairman of New York State Public Service Commission
\$748.9	Financial Advisor to Public Utility Commission (PUC) Texas
\$797.3	Financial Advisor to Public Utility Commission Texas
\$500.0	Financial Advisor to Public Utility Commission Texas
\$789.8	Financial Advisor to Public Utility Commission Texas
N/A	Financial Advisor to Vermont Public Service Board (Purchasing Agent, VEPP, Inc.)
N/A	Financial Advisor to Wisconsin Public Service Commission (PSC)
\$102.7	Financial Advisor to New Jersey Board of Public Utilities
\$1,851.0	Financial Advisor to Public Utility Commission Texas
\$1,739.7	Financial Advisor to Public Utility Commission Texas
\$344.5	Financial Advisor to Public Service Commission of West Virginia
\$114.8	Financial Advisor to Public Service Commission of West Virginia
\$652.0	Financial Advisor to Florida Public Service Commission
\$64.4	Financial Advisor to Public Service Commission of West Virginia
\$21.5	Financial Advisor to Public Service Commission of West Virginia
\$375	Financial Advisor to the Office of the People's Counsel (i.e., Ratepayer Advocate) of the District of Columbia Public Service Commission
\$1,294.0	Financial Advisor to Florida Public Service Commission
	Financial Advisor to California Community Choice Association for financial analysis and testimony before the California Public Utilities Commission Rulemaking (CPUC)17-06-026 Proceeding
	National Regulatory Research Institute (NRRRI) Fellow (Joseph S. Fichera) and author of securitization NRRRI "Insights" article January, 2019
	Advisor to HEAL Utah (Healthy Environment Alliance) securitization legislation proposal
	Advisor to North Carolina Utilities Commission Public Staff on storm securitization
\$9,020 Billion	

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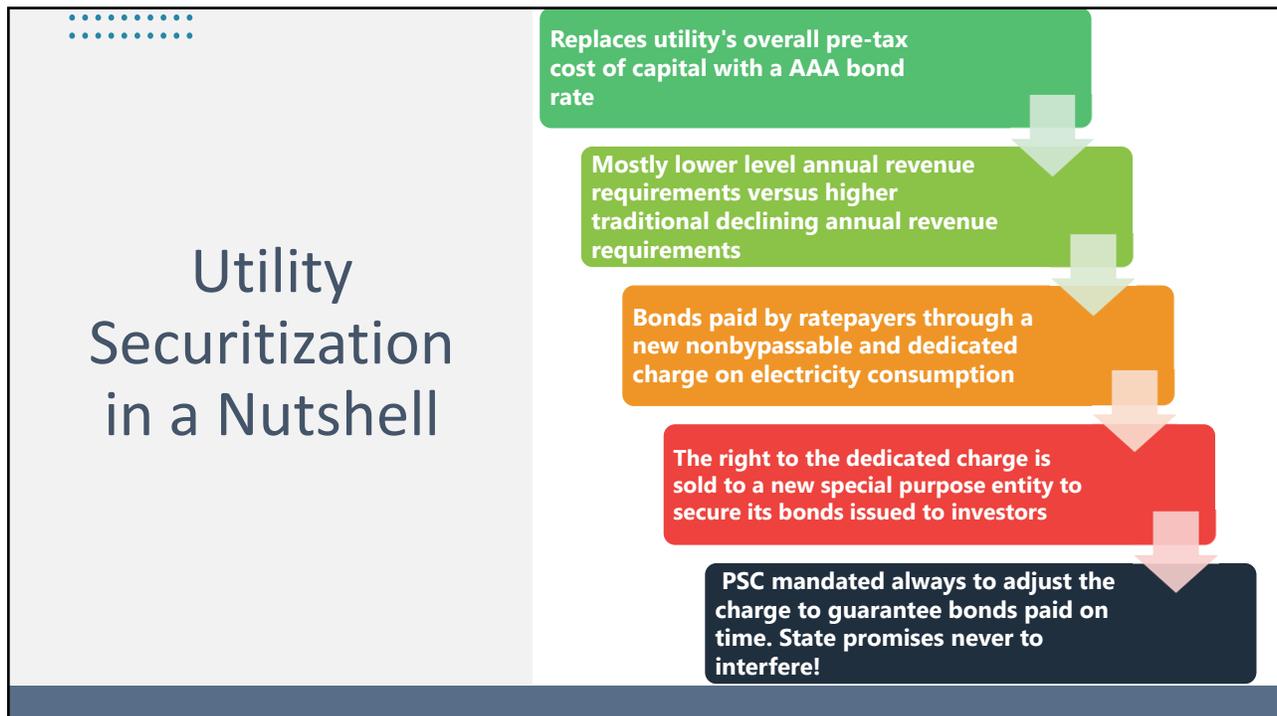
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WHY SECURITIZATION?

A "financing tool" to recover unique and significant costs in a way that is beneficial to both the utility and ratepayers.



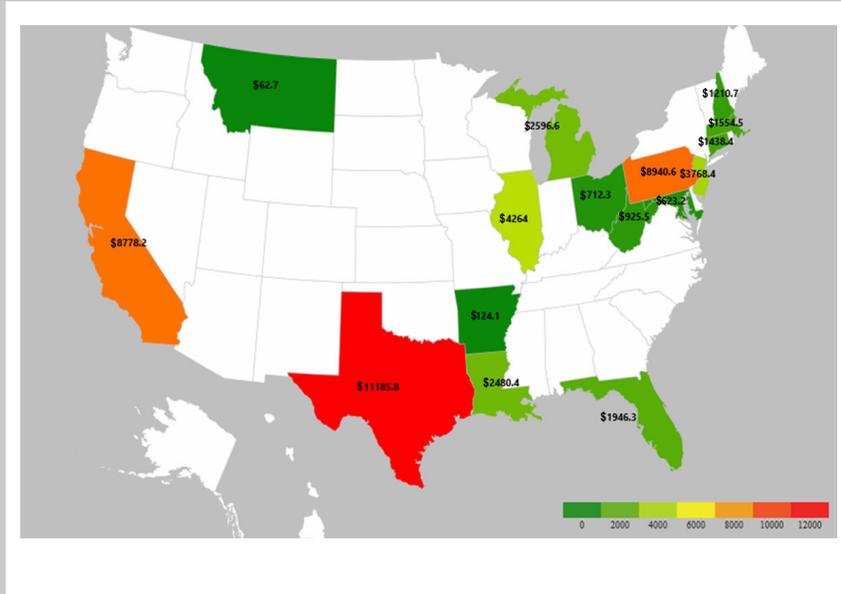
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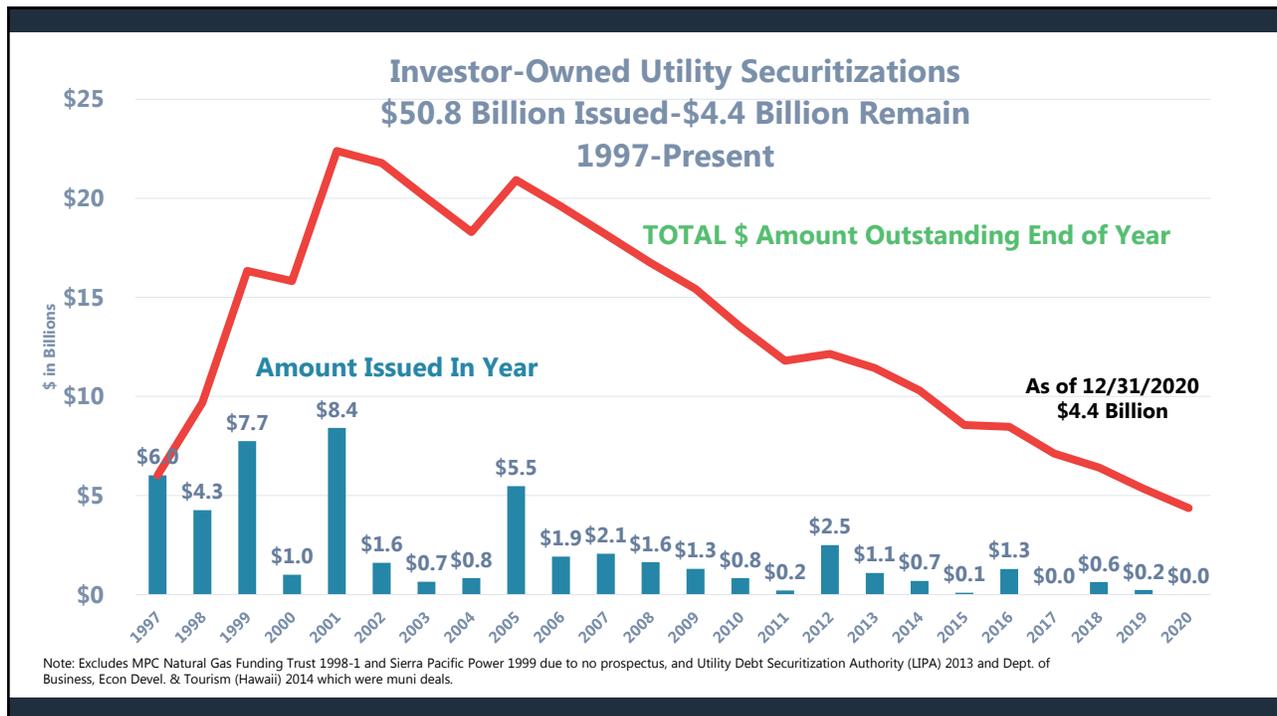
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Some states more active than others

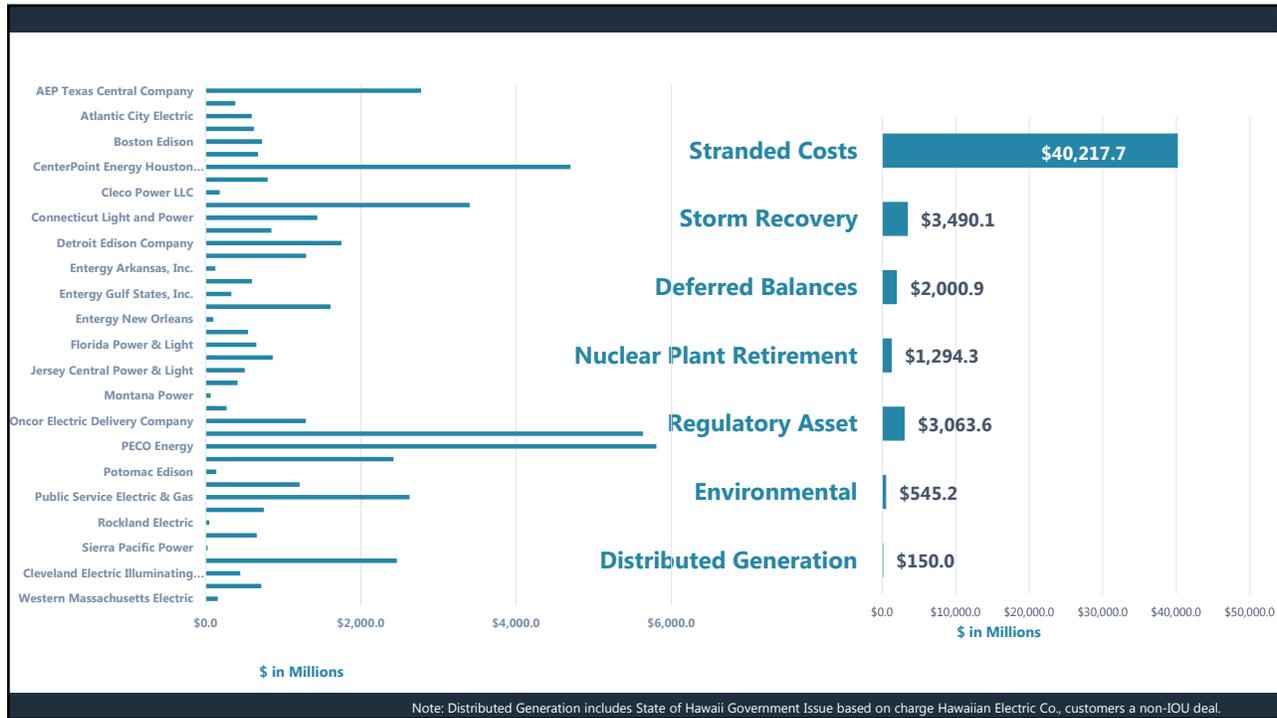
66 Investor-Owned Utility Transactions



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Eight Primary Uses Over Time 1997 – Present Only After Costs Determined Prudent and Recoverable

1. 1997 Rate reduction to facilitate deregulation of energy market

2. 1998-2007 Recovery of stranded costs resulting from electric industry deregulation

3. 2000 Buydown of above market power purchase agreements

4. 2001-2006 Deferred balances and regulatory assets

5. 2004 -2007 Costs of new pollution control equipment

6. 2005 Storm recovery costs

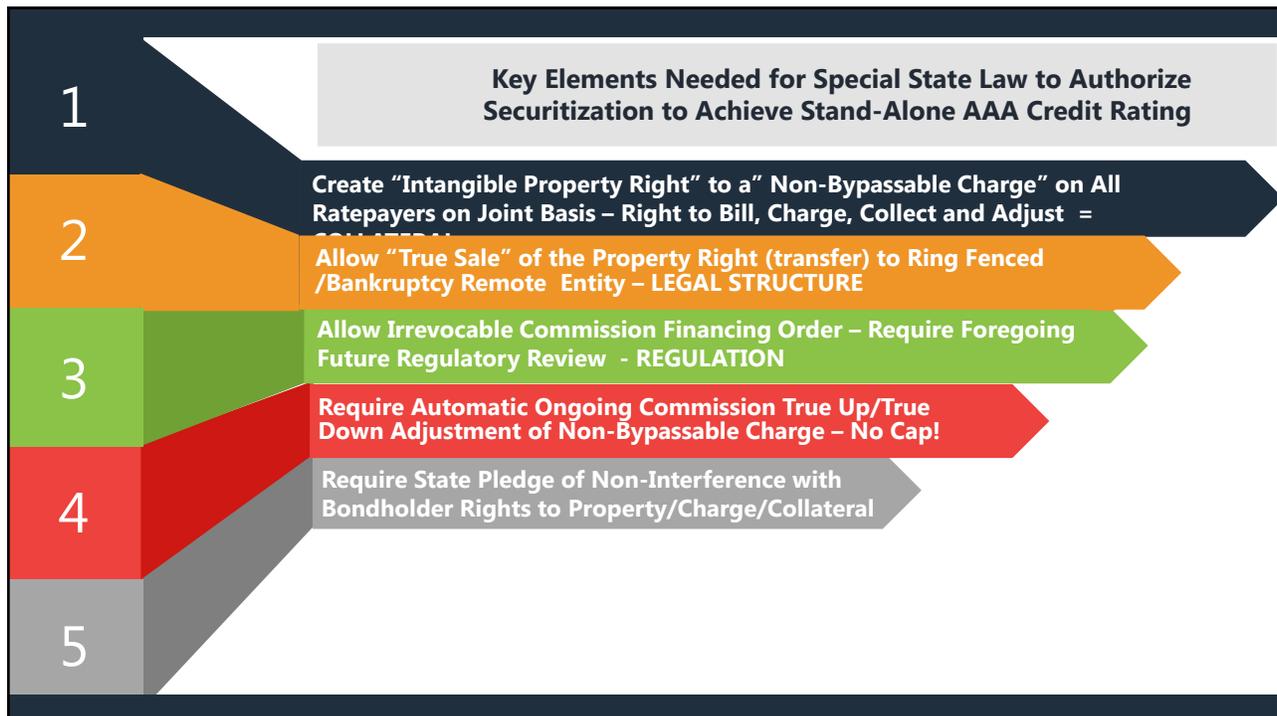
7. 2013 Costs of new renewable

8. 2016 Remaining costs of early retired nuclear plant

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4 Phases of Utility Securitization

Pass Special State Authorizing Legislation

- ✓ Address Rating Agency Issues
- ✓ Standards for Ratepayer Protections
- ✓ Commission Authority – Permissive or Restrictive

Utility Submits Financing Order Application

- ✓ Testimony from Utility and Commission
- ✓ Transparency

Write/Approve Detailed Financing Order

- ✓ Utility's Draft vs. Commission's.
- ✓ Estimates v Actual Costs
- ✓ Ratepayer Protections

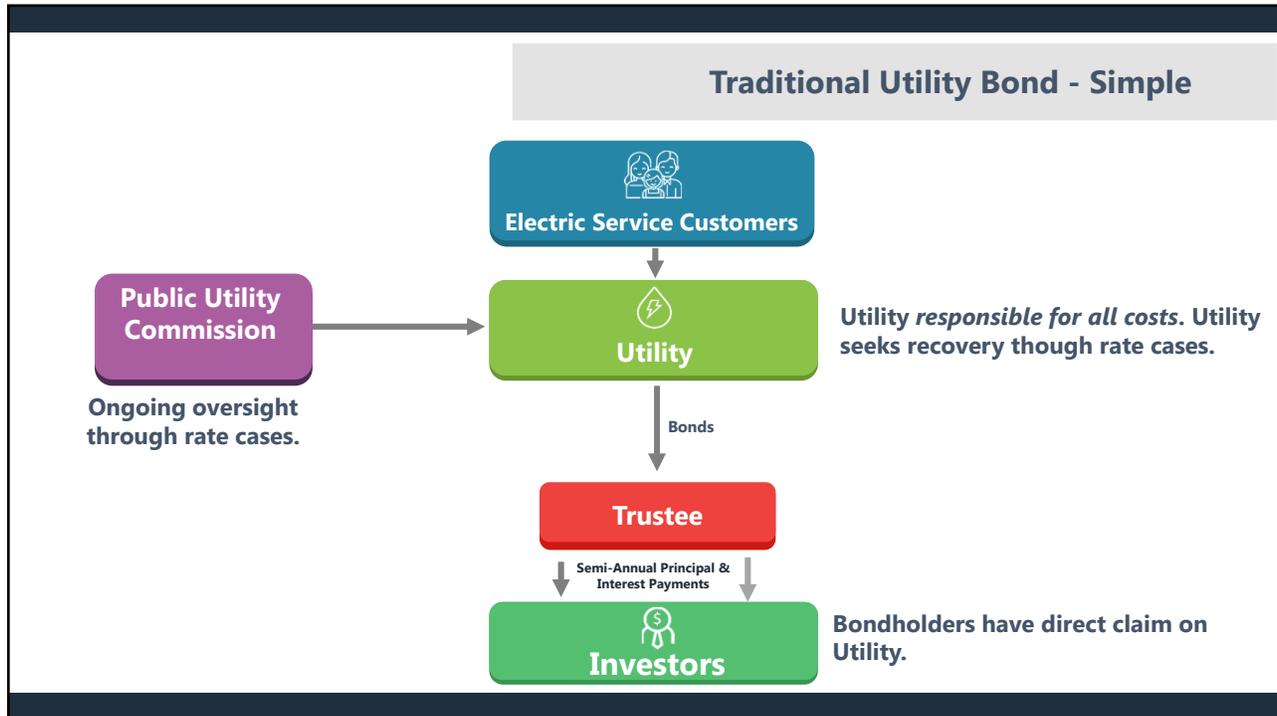
Implement Financing Order

- ✓ Structuring of Bonds
- ✓ Marketing
- ✓ Pricing

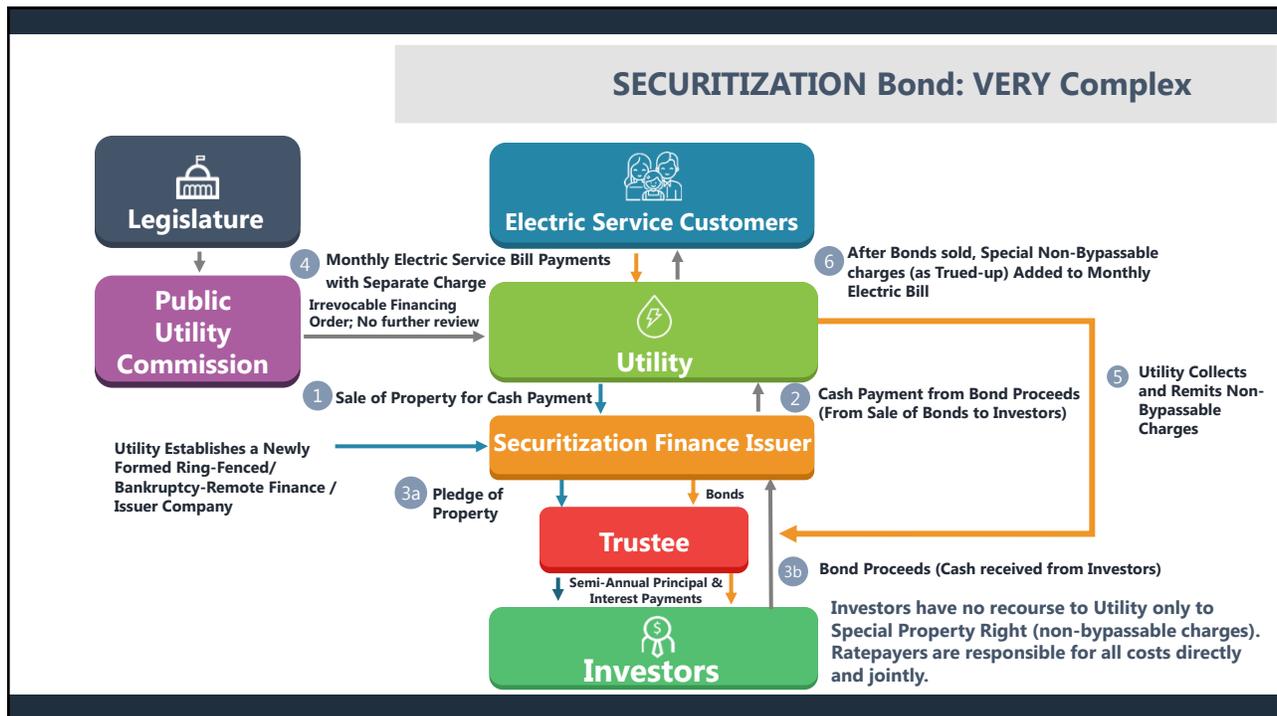
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Protecting the Ratepayer Checkbook – Keeping Things in Balance

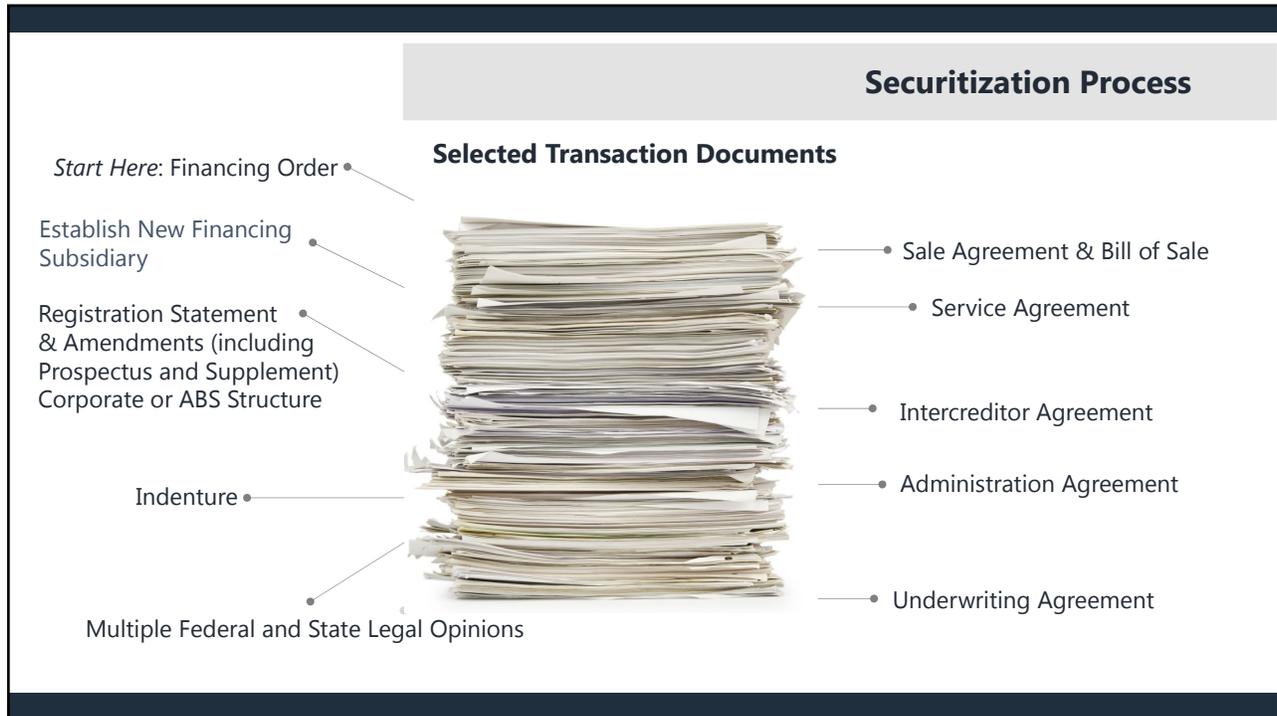
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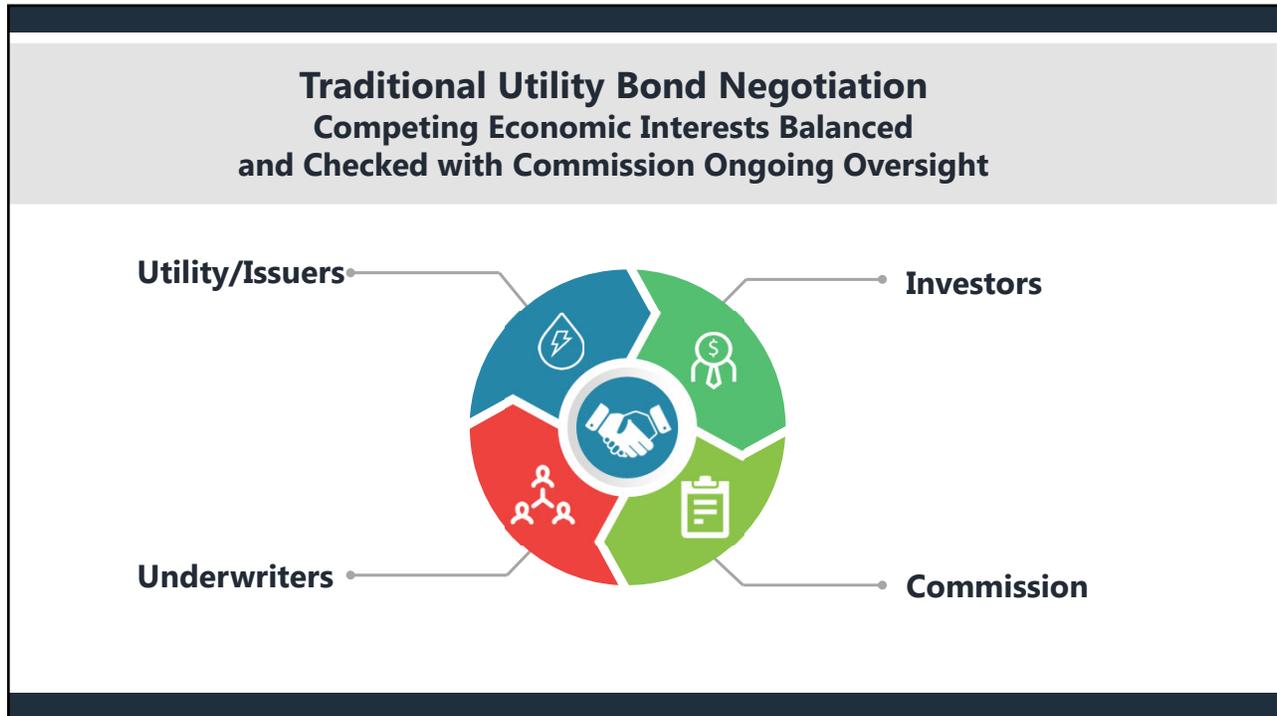
Traditional Utility Bond Offerings are Negotiated in Market

Negotiating parties have competing and conflicting economic interests.

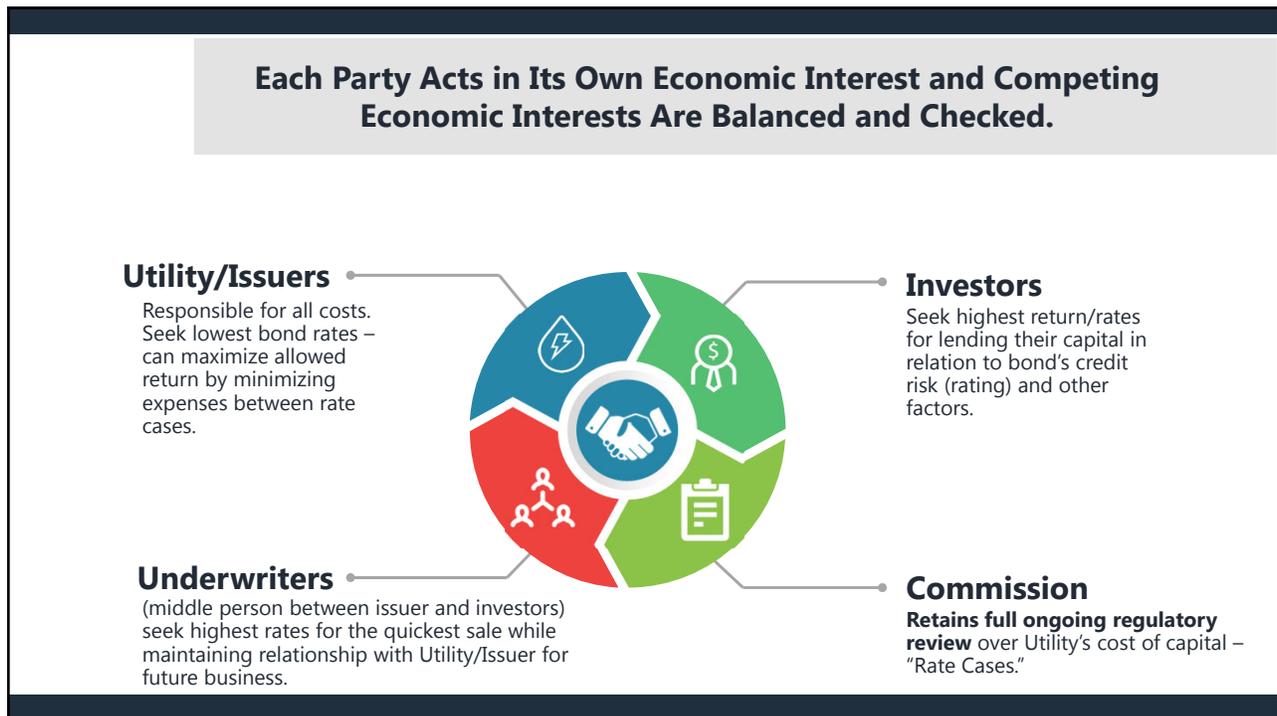
However, competing economic interests are *balanced and checked* in the negotiation to lead to an "efficient" and fair pricing result.

Regulators have full cost of capital ongoing review in rate cases.

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Bankers/Underwriters Have No Duty to Act in Ratepayers' Best Interests ... Fully Disclosed.



"The primary role of Goldman Sachs, as an underwriter, is to purchase securities, for resale to investors, in an arm's-length commercial transaction between the Issuer and **Goldman Sachs will act in its own interest and has financial and other interests that differ from those of the Issuer.**"¹

¹ See Public Service of New Hampshire d/b/a Eversource Energy Docket No. DE 17-096 Securitization Petition Attachment RR 1-013 Page 2

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Bankers/Underwriters Have No Duty to Ratepayers nor to Utility nor to Commission

Excerpt from Securitization Bond "Underwriting Agreement" Underwriters Required of an Issuer



Section Entitled: "Absence of Fiduciary Relationship"

- 1 [The utility] acknowledges and agrees that the Underwriters are acting solely in the capacity of an **arm's length contractual counterparty to the [utility]** with respect to the offering of the Bonds ... **(including in connection with determining the terms of the offering) and not as a financial advisor or a fiduciary to, or an agent of, (the utility) ...**
- 2 [The utility will] consult with their own advisors concerning such matters and **shall be responsible for making their own independent investigation and appraisal of the transactions contemplated**, and the Underwriters shall have **no responsibility or liability to [the utility]** with respect thereto.
- 3 **Any review by the Underwriters ... of the structure and terms of the transactions ... will be performed solely for the benefit of the Underwriters and shall not be on behalf of [the utility]"***

*See the language quoted above in AEP Texas securitization transaction 2012
https://www.sec.gov/Archives/edgar/data/18734/000090514812000765/efc12-292_ex11.htm

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Challenges in Structuring, Marketing & Pricing of Utility Securitization: Checks and Balances to Address Pricing Issues



-  **Wide variances in total interest costs to ratepayers.**
-  **Wide variances in transaction costs and utility efforts to achieve "lowest cost" versus only "lower costs."**
-  **Credit spreads vary dramatically.**
 - U.S. Agencies + Sovereigns
 - Mortgage-Backed Securities
 - Pure Corporates + Utilities
-  **Not all AAA's price alike. Debate with underwriters over "relative value" of competing investments with higher yield/costs affects ratepayers long-term.**

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The KEY Issue for Regulators with Securitization



FIDUCIARY DUTY:
Who protects ratepayers from paying too much since the utility is not responsible for any costs and regulator must give up ongoing review?

In securitization, every dollar is a ratepayer dollar.

How negotiated capital markets bond deals work...

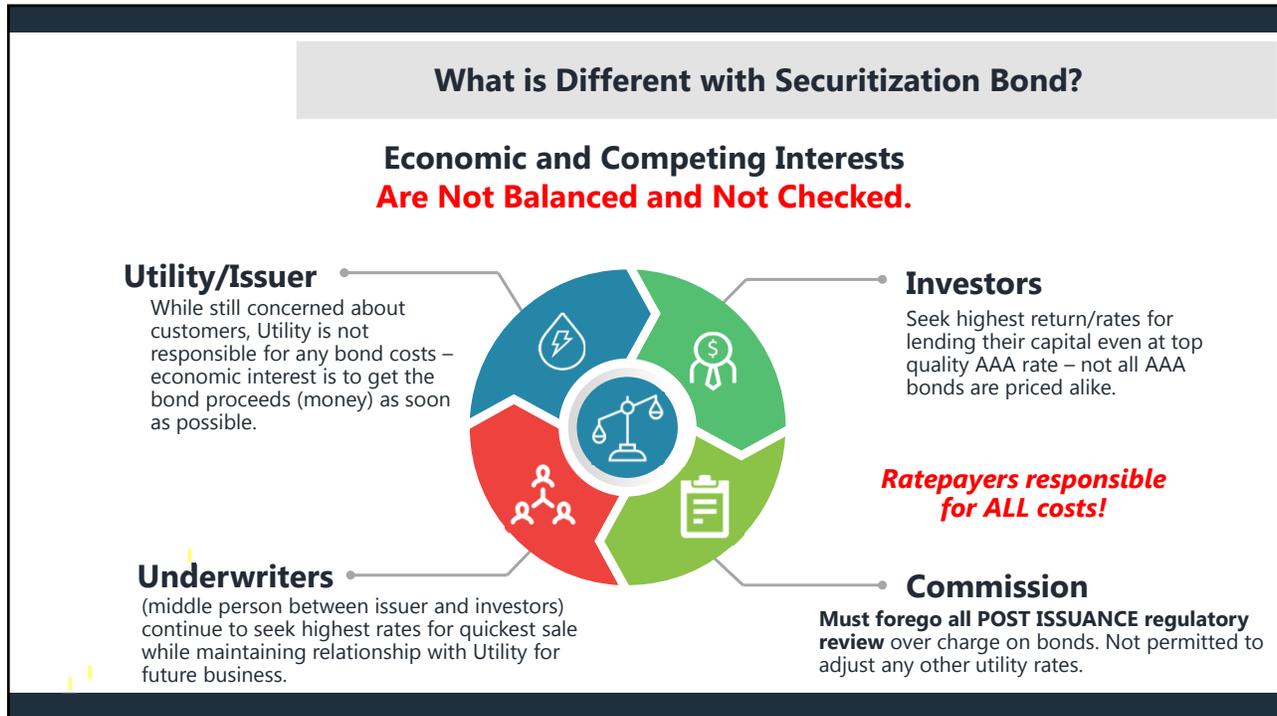



 Electric Service Customers


 Utility


 Underwriters/Investors

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Best Practices in Implementing the Commission’s Financing Order

Fiduciary Duty – Best Interests

Decisions Concerning the Structuring, Marketing and Pricing of Securitization Bonds Need to be Made by an Entity with a Fiduciary Duty – Duty of Care and Loyalty – to Consumers/ Ratepayers

Utility Interests Not Aligned with Ratepayers

Utility and Consumer Interests Are Not Aligned so as to Approach Securitization as “Business as Usual”

Need for Expertise

Experience and Expertise in Securitized Recovery Bond Issuance is Lacking at the Commission for Evaluation of Capital Market Alternatives

Best Practices

20 Years of Precedents Support Best Practices for Rigorous Analysis, Commission Oversight as a Joint Decision Maker Supported by an Independent, Experienced Financial Advisor

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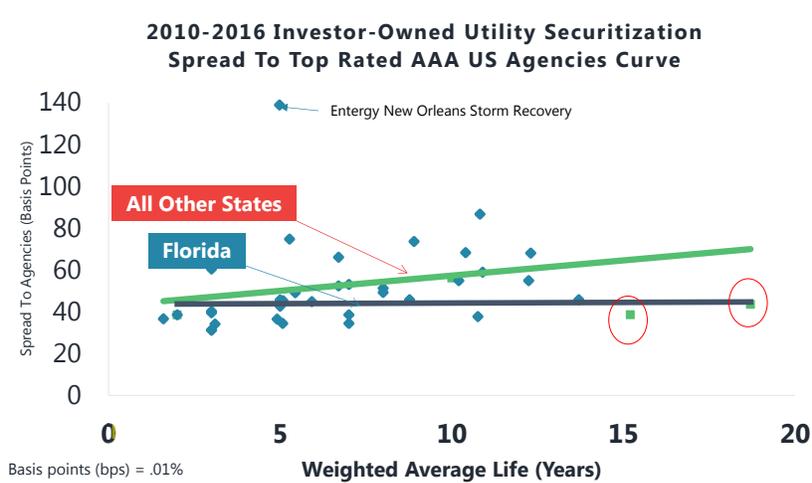


2016 Florida Public Service Commission Actions

- Established **Lowest Cost Objective in Financing Order.**
- Created **Bond Team – Commission and Utility.**
- Sold \$500+ million LONG Duration 15-20 years .
- Largest offering with longest maturity of its kind to date.
- Offering was in untested long-term (>15 years) market.
- Long maturities are most expensive to ratepayers.

Best Practice Example: Florida (Duke Energy Florida (DEF)) Ratepayer Savings From an **Active** Commission Vs. Other States 2010-2016

2010-2016 Investor-Owned Utility Securitization Spread To Top Rated AAA US Agencies Curve



Basis points (bps) = .01%

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Slide 28

LC14 JOE- NEED HELP ON THIS ONE.

Laura Cheshire, 11/8/2020

Besides Lowest Cost Pricing, Emerging Utility Securitization Issues



Should securitization debt be a permanent part of a utility's ongoing capital structure or "one-off"? If permanent, create smaller balance sheet? Create safer credit?

How much securitization is too much?

Always used voluntarily, at option of utility or can it be mandated?"