

**STATE OF NORTH CAROLINA
UTILITIES COMMISSION
RALEIGH**

DOCKET NO. E-7, SUB 1243
DOCKET NO. E-2, SUB 1262

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

In the Matter of		
Joint Petition of Duke Energy)	DUKE ENERGY CAROLINAS, LLC
Carolinas, LLC and Duke Energy)	AND DUKE ENERGY PROGRESS,
Progress, LLC for Issuance of Storm)	LLC’S JOINT PETITION FOR
Recovery Financing Orders)	FINANCING ORDERS

NOW COME Duke Energy Carolinas, LLC (“DEC”) and Duke Energy Progress, LLC (“DEP”) (individually, each a “Company” and collectively the “Petitioners” or the “Companies”) pursuant to North Carolina General Statute (“N.C. Gen. Stat.”) § 62-172 (“SB 559” or the “Securitization Statute”),¹ and respectfully petition the North Carolina Utilities Commission (“Commission”) to grant authorization for the financing of the Companies’ storm recovery costs due to storm recovery activities required as a result of Hurricanes Florence, Michael, Dorian, and Winter Storm Diego (collectively, the “Storms”) as a cost-saving measure for the benefit of the Companies’ customers. As explained herein, the Companies estimate that securitization of the respective storm recovery costs will result in expected customer savings of 32% for DEC customers and 33% for DEP customers.

Further, the Companies request that the Commission find that their storm recovery costs² and related financing costs are appropriately financed by debt secured by storm

¹ Senate Bill 559, An Act to Permit Financing for Certain Storm Recovery Costs, S.L. 2019-244.

² The “storm recovery costs” consist of DEC and DEP’s incremental operation and maintenance (“O&M”) expenses deferred as regulatory assets, as well as the associated capital investments incurred during the Storms and accrued carrying charges as presented in Docket No. E-7, Sub 1214 and Docket No. E-2, Sub 1219, which were deemed reasonable and prudent in Public Staff testimony and acknowledged as such

recovery property, and that the Commission issue orders for DEC and DEP by which each utility may accomplish such financing using a securitization structure authorized by SB 559 (“Financing Orders”), so that the Companies may recover their prudently incurred storm recovery costs. As required by N.C. Gen. Stat. § 62-172 and detailed herein, the financing of the Companies’ storm recovery costs through the issuance of storm recovery bonds and the imposition and collection of storm recovery charges are expected to provide quantifiable benefits to customers as compared to the costs that would be incurred absent the issuance of storm recovery bonds and the structuring and pricing of storm recovery bonds is reasonably expected to result in the lowest storm recovery charges consistent with market conditions at the time the storm recovery bonds are priced and the terms set forth in the applicable financing order (the “Statutory Cost Objectives”).

In support of this Petition, DEC and DEP state the following:

INTRODUCTION

1. Petitioners’ names and addresses are:

Duke Energy Carolinas, LLC
P.O. Box 1321 (DEC 45A)
Charlotte, North Carolina 28201

and

Duke Energy Progress, LLC
P.O. Box 1551
Raleigh, North Carolina 27602

in each Company’s Agreement and Stipulation of Partial Settlement with the North Carolina Utilities Commission Public Staff (“Public Staff”).

2. The names and addresses of Petitioners' attorneys are:

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3. Copies of all pleadings, testimony, orders, and correspondence in this proceeding should be served upon the attorneys listed above.

4. DEC is: (1) a limited liability company duly organized and existing under the laws of the State of North Carolina; (2) duly authorized by its Articles of Organization to engage in the business of generating, transmitting, distributing, and selling electric power and energy; (3) a public utility under the laws of North Carolina, and its operations in this State are subject to the jurisdiction of this Commission; (4) an investor-owned public utility; (5) a public utility under the laws of the State of South Carolina, and its operations

in South Carolina are subject to the jurisdiction of the Public Service Commission of South Carolina; and (6) a public utility under the Federal Power Act, and certain of its operations are subject to the jurisdiction of the Federal Energy Regulatory Commission. DEC's service area covers 24,000 square miles in the central and western portions of North Carolina and western South Carolina. The service area includes 62 counties, 44 in North Carolina and 18 in South Carolina. The Company supplies retail electric service to approximately 2 million customers in North Carolina.

5. DEP is (1) a limited liability company duly organized and existing under the laws of the State of North Carolina; (2) duly authorized by its Articles of Organization to engage in the business of generating, transmitting, distributing, and selling electric power and energy; (3) a public utility under the laws of North Carolina, and its operations in this State are subject to the jurisdiction of this Commission; (4) an investor-owned public utility; (5) a public utility under the laws of the State of South Carolina, and its operations in South Carolina are subject to the jurisdiction of the Public Service Commission of South Carolina; and (6) a public utility under the Federal Power Act, and certain of its operations are subject to the jurisdiction of the Federal Energy Regulatory Commission. DEP's service area covers 32,000 square miles including a substantial portion of the coastal plain of North Carolina extending from the Piedmont to the Atlantic coast between the Pamlico River and the South Carolina border, the lower Piedmont section of North Carolina, an area in western North Carolina in and around the city of Asheville, and an area in the northeastern portion of South Carolina. The Company supplies retail electric service to approximately 1.4 million customers in North Carolina.

THE STORMS

6. On September 14, 2018, Hurricane Florence made landfall near Wrightsville Beach, North Carolina with maximum wind gusts exceeding 105 miles per hour and storm surges in the range of 9 to 13 feet. The flooding and wind damage from Florence caused substantial damage to the transmission and distribution systems of DEC and DEP and resulted in electrical outages across virtually the entire eastern half of North Carolina, directly impacting the Companies' service territories. The Companies arranged for additional off-system line workers and support teams from Alabama, Arkansas, the District of Columbia, Florida, Georgia, Illinois, Indiana, Kansas, Kentucky, Louisiana, Maryland, Michigan, Minnesota, Mississippi, Missouri, New Jersey, Ohio, Oklahoma, Pennsylvania, Rhode Island, Tennessee, Texas, Wisconsin, and Canada to assist with the restoration efforts. In total, the Companies mobilized an army of staff and crews of approximately 20,000 people, the largest in their history, to stage throughout the Carolinas to immediately deploy as soon as it was safe to begin restoration efforts. In initiating, managing, and implementing this response to Hurricane Florence, the Companies were also required to mobilize employees for "storm duty" by diverting them from their normal day-to-day responsibilities to support storm response and recovery. This reallocation of internal assets occurred at virtually every level of the Companies and resulted in hundreds of employees working on a 24/7 basis to assist in the monumental task of restoring services and systems following the storm for the period September 10, 2018 to September 23, 2018.

7. Hurricane Michael came ashore in the Florida Panhandle on October 10, 2018, mere weeks after Hurricane Florence, as a Category 4 storm with winds as high as 155 miles per hour. The storm was quick-moving and reached the Carolinas as a tropical

storm on October 11, 2018. This fast-moving storm brought heavy winds and rain to the already saturated DEC and DEP service territories, resulting in additional flooding and widespread damage and outages. The Companies mobilized more than 10,000 personnel from both Companies, contractors, and off-system mutual assistance crews to restore the grid. To support this response effort, the Companies were required to coordinate meals and other basic services for these crews as they went about the difficult and dangerous work of restoring power to hurricane-impacted areas. In addition to line crews, vegetation management professionals, and damage assessors, other support personnel worked in call centers and operations centers to answer customer outage calls, assess damage, and dispatch crews. Other support personnel handled logistics, such as meals, housing, and refueling for the crews. The Companies also provided pre-storm preparation and post-impact restoration updates to customers through traditional and social media as well as text messages and emails.

8. Beginning on December 9, 2018, Winter Storm Diego entered the Companies' North Carolina and South Carolina service territories and dumped a mix of more than a foot of snow, ice, and freezing rain in many locations through December 10, 2018. Winter Storm Diego caused widespread damage and outages and was the most significant early December storm since 2002's ice storm, causing significant damage to the Companies' distribution system and impacting more than 767,700 customers. DEC and DEP were required to mobilize more than 9,000 personnel from both Companies, contractors, and off-system mutual assistance crews to restore the grid. The Companies housed thousands of these utility workers at staging areas in the operating zones and were also required to coordinate meals and other basic services, such as refueling, for these crews

as they went about the difficult and dangerous work of restoring power to the impacted areas.

9. Hurricane Dorian reached North Carolina on September 6, 2019, as a slow-moving Category 2 hurricane with sustained winds of up to 90 miles per hour. It first clipped Cape Lookout before making landfall at Cape Hatteras and resulted in a peak outage of more than 100,000 customers throughout the Companies' service territories. In response to Dorian, the Companies arranged for additional off-system line workers and support teams from Alabama, Arkansas, the District of Columbia, Florida, Georgia, Illinois, Indiana, Kansas, Kentucky, Louisiana, Maryland, Michigan, Minnesota, Mississippi, Missouri, New Jersey, Ohio, Oklahoma, Pennsylvania, Rhode Island, Tennessee, Texas, Wisconsin, and Canada to assist with the restoration efforts. To support this response effort, the Companies were required to provide housing and logistical operations support for almost 9,000 employees, off-system mutual assistance crews, and contractors in forward deployed areas directly impacted by the hurricane. Like its other hurricane response efforts, the Companies housed thousands of these utility workers at staging areas in the operating zones. The Companies were also required to coordinate meals and other basic services for these crews as they went about the difficult and dangerous work of restoring power to hurricane-impacted areas. In preparation for the potential impacts from Hurricane Dorian, the Companies also installed temporary mitigation structures, such as tiger dams and portadam systems, at seven substations.

**PRIOR EFFORTS TO DEFER AND RECOVER STORM COSTS THROUGH
RATE CASES AND THE SECURITIZATION PROCESS OF SB 559**

10. On December 21, 2018, DEC and DEP filed separate applications in Docket Nos. E-7, Sub 1187 and E-2, Sub 1193, respectively, requesting that the Commission approve the deferral of each Company's cost of restoring electric service after Hurricanes Florence and Michael and Winter Storm Diego.

11. On September 30, 2019, DEC filed its Application to Adjust Retail Rates, Request for An Accounting Order and to Consolidate Dockets with the Commission pursuant to N.C. Gen. Stat. §§ 62-133 and 62-134 in Docket No. E-7, Sub 1214 requesting a net base rate increase in DEC's retail revenues of approximately \$445.3 million.³ DEC's application explained that a significant portion of the rate increase was related to expenses incurred to restore service to the approximately 1.3 million customers impacted by Hurricanes Florence and Michael, and Winter Storm Diego in late 2018. DEC's application included a request to consolidate the storm deferral docket⁴ with the rate case and sought to recover DEC'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. The application sought to amortize these costs relating to the Storms over an eight-year period. In the testimony of DEC witness Stephen G. De May, North Carolina President of DEC and DEP, witness De May stated that if SB 559 (which was then pending before the General Assembly) was

³ On June 26, 2020, the Commission issued its *Order Consolidating Dockets* in Docket Nos. E-7, Sub 1214 and E-7, Sub 1187 granting DEC's request to consolidate Docket No. E-7, Sub 1187 with its general rate case docket. Docket No. E-7, Sub 1187 pertained to DEC's Petition for Accounting Order to Defer Storm Damage Expenses, filed December 21, 2018, requesting deferral of storm recovery costs prior to the enactment of SB 559.

⁴ Docket No. E-7, Sub 1187.

passed into law, DEC would pursue securitization if it provided customer savings and would cease the recovery of the remaining storm costs in current rates, and instead begin recovering the remaining unrecovered storm costs as provided for in a securitization financing order.⁵

12. On October 30, 2019, DEP filed its Application to Adjust Retail Rates, Request for An Accounting Order and to Consolidate Dockets with the Commission pursuant to N.C. Gen. Stat. §§ 62-133 and 62-134 in Docket No. E-2, Sub 1219 requesting a base rate increase in DEP's retail revenues of approximately \$585.9 million.⁶ DEP's application also explained that a significant portion of this increase was related to the recovery of expenses incurred to restore full service to approximately 2.3 million North Carolina customers that were impacted by Hurricanes Florence and Michael and Winter Storm Diego in late 2018 as well as Hurricane Dorian in 2019. In its rate case application, DEP requested an accounting order from the Commission and requested deferral treatment for costs related to Hurricane Dorian restoration efforts like what was requested in Docket No. E-2, Sub 1193. The application included a request to consolidate the storm deferral docket with the rate case and sought to recover DEP'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. Through its application, DEP sought to amortize the incremental costs of the Storms over a 15-year period. Similar to the DEC general rate case, witness De May's

⁵ Direct Testimony of Stephen De May, at 10-11, Docket No. E-7, Sub 1214 (filed Sept. 30, 2019).

⁶ On August 11, 2020, the Commission issued its *Order Consolidating Dockets* in Docket Nos. E-2, Sub 1219 and E-2, Sub 1193 granting DEP's request to consolidate Docket No. E-2, Sub 1193 with its general rate case docket. Docket No. E-2, Sub 1193 pertained to DEP's Petition for Accounting Order to Defer Storm Damage Expenses, filed December 21, 2018, requesting deferral of storm recovery costs prior to the enactment of SB 559.

direct testimony stated that if SB 559 were passed into law, DEP would pursue securitization if it provided customer savings and would cease the recovery of the remaining storm costs in current rates, and instead begin recovering the remaining unrecovered storm costs as provided for in a securitization financing order.⁷

13. On November 6, 2019, SB 559 was signed into law, establishing N.C. Gen. Stat. § 62-172 to create a new financing tool to allow utilities the ability to securitize certain storm recovery costs. Securitization is a process by which the storm recovery costs, which the Companies are entitled to recover, are not financed directly by the Companies at their overall cost of capital. Instead, securitization makes use of relatively low-cost bonds, which are secured by an irrevocable right to bill and collect storm recovery charges and obtain periodic adjustments to such charges. The storm recovery charges are separate and distinct from the Companies' base rates. This irrevocable right, also referred to as "storm recovery property," is sold to a bankruptcy-remote special purpose entity that is the issuer of the bonds. Because of the nature of the storm recovery property pledged to support the storm recovery bonds, the securitization process results in the issuance of highly-rated bonds (usually AAA or equivalent rated) to raise the capital necessary to reimburse an electric utility for its previously incurred storm recovery costs and to pay the associated financing costs relating to issuing the bonds and maintaining the structure to ensure timely payment of debt service on the bonds. This approach makes it possible to reduce each Company's overall revenue requirement associated with storm recovery costs thereby reducing costs to customers. The revenue requirement is lower because securitization

⁷ Direct Testimony of Stephen De May, at 10-11, Docket No. E-2, Sub 1219 (filed Oct. 30, 2019).

results in a lower-cost method of financing storm recovery costs in comparison to traditional cost recovery and ratemaking methods.

14. On February 18, 2020, the Public Staff and other intervenors to DEC's general rate case proceeding filed testimony in Docket No. E-7, Sub 1214. Among other things, Public Staff witness Michelle M. Boswell made an adjustment to remove all capital and O&M costs associated with the Storms in the present case because DEC had previously indicated that it would seek securitization treatment of these costs if SB 559 was enacted. Witness Boswell also stated that based upon the Public Staff's review of the costs DEC included in the general rate case, the Public Staff believed the costs associated with the Storms were prudently incurred.⁸

15. On March 4, 2020, DEC filed its rebuttal testimony in its general rate case proceeding. Among other things, DEC witness De May testified that DEC looked forward to pursuing securitization at the appropriate time but believed the cost of the Storms should remain a part of DEC's request in the rate case proceeding until the Commission reached the same determination reached by DEC and the Public Staff—that the costs were prudently incurred—and the Commission subsequently approved a financing petition.

16. On March 25, 2020, DEC and the Public Staff filed a Partial Settlement Agreement in DEC's general rate case proceeding ("DEC Settlement"). In the DEC Settlement, DEC and the Public Staff agreed that DEC's reasonable and prudently incurred storm recovery costs would be removed from Commission consideration in its rate case and instead DEC would proceed with filing a financing petition no later than 120 days from the date of the Commission's order addressing the prudence of DEC's storm recovery

⁸ Direct Testimony of Michelle M. Boswell on Behalf of the Public Staff, at 27-28, Docket No. E-7, Sub 1214 (filed February 18, 2020).

costs. For purposes of settlement, DEC and the Public Staff also agreed on the assumptions DEC would use in the securitization docket to evaluate whether securitization provides quantifiable customer benefits when compared to traditional storm cost recovery.

17. On April 13, 2020, the Public Staff and the other interveners in DEP's general rate case proceeding⁹ filed testimony. Among other things, Public Staff witness Shawn L. Dorgan made an adjustment to remove all capital and O&M costs associated with the Storms in the general rate case because DEP had previously indicated that it would seek securitization treatment of those costs if SB 559 was enacted. Witness Dorgan also stated that based upon the Public Staff's review of the costs DEP had included in the rate case, the Public Staff believed the costs associated with Hurricanes Florence, Michael, and Winter Storm Diego were prudently incurred.¹⁰ The Public Staff subsequently filed supplemental testimony and exhibits on April 23, 2020. In his supplemental testimony, witness Dorgan stated that based upon the Public Staff's review, the costs associated with Hurricane Dorian were also prudently incurred.¹¹

18. On May 4, 2020, DEP filed its rebuttal testimony in its general rate case proceeding. Among other things, DEP witness De May testified that DEP looked forward to pursuing securitization at the appropriate time but believed the cost of the Storms should remain a part of DEP's request in the rate case, until the Commission reached the same determination as reached by DEP and the Public Staff—that the storm costs were prudently incurred—and the Commission subsequently approved a financing petition.

⁹ Docket No. E-2, Sub 1219.

¹⁰ Direct Testimony of Shawn L. Dorgan on Behalf of the Public Staff, at 32, Docket No. E-2, Sub 1219 (filed Apr. 13, 2020).

¹¹ 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).

19. On June 2, 2020, DEP filed a Stipulation of Partial Settlement with the Public Staff in its general rate case proceeding (“DEP Settlement”). In the DEP Settlement, DEP and the Public Staff agreed that DEP’s reasonable and prudently incurred storm recovery costs would be removed from Commission consideration in its rate case and instead DEP would proceed with filing a financing petition no later than 120 days from the date of the Commission’s order addressing the prudence of DEP’s storm recovery costs. For purposes of settlement, DEP and the Public Staff also agreed on the assumptions DEP would use in this securitization docket to evaluate whether securitization provides quantifiable customer benefits when compared to traditional storm cost recovery.

20. N.C. Gen. Stat. § 62-172(b) authorizes the Companies to finance through securitization the amount of storm recovery costs found by the Commission to be recoverable. As of the filing of this Joint Petition, the Companies are still awaiting orders in their 2019 rate cases with the determination that the storm recovery costs were reasonable and prudent and cannot proceed with securitization until such orders are received.¹² Abernathy Exhibit 2, attached to witness Melissa Abernathy’s testimony, provides a reconciliation of storm recovery costs as of the date of the last update in each of DEC and DEP’s general rate cases to the storm recovery costs projected through May 31, 2021, to be recovered using storm recovery bonds. Once final orders are issued in the rate cases, the Companies will update their proposed storm recovery cost amounts, if needed, to ensure compliance with the Commission’s final rate case orders and N.C. Gen. Stat. § 62-172(b).

¹² The Companies note, however, that there is no evidence in the rate cases challenging the prudence or amounts of storm recovery costs reported by the Companies.

21. Accordingly, pursuant to N.C. Gen. Stat. § 62-172, the Companies seek approval of the proposed forms of Financing Orders for DEC and DEP, attached hereto as Joint Petition Exhibits B and C, respectively. By approving each of the proposed Financing Orders, the Commission: (1) authorizes DEC and DEP to securitize the storm recovery costs, updated through the projected date of issuance of the storm recovery bonds, found to be prudent and reasonable in the pending general rate proceedings and allow storm recovery bonds to be issued in an aggregate amount equal to (a) for DEC, consisting of the sum of (i) storm recovery costs for DEC (including carrying costs on such amounts through the issuance date of the storm recovery bonds, calculated at the relevant weighted average cost of capital approved by this Commission) as defined above and (ii) up-front financing costs incurred in connection with issuance of the storm recovery bonds for DEC; and (b) for DEP, consisting of the sum of (i) storm recovery costs for DEP (including carrying costs on such amounts through the issuance date of the storm recovery bonds, calculated at the relevant weighted average cost of capital approved by this Commission) as defined above and (ii) up-front financing costs incurred in connection with issuance of the storm recovery bonds for DEP; (2) approves the structure of the proposed securitization financing; (3) approves storm recovery charges for DEC and DEP in an amount, calculated and adjusted from time to time as provided in the Financing Orders, to be sufficient to pay the debt service on the storm recovery bonds together with related financing costs on a timely basis; and (4) approves DEC and DEP's proposed tariffs for each utility that apply the storm recovery charges to become effective as of the date of issuance of the storm recovery bonds.

22. In addition, the Companies request that the Commission consider and approve the relief requested in this Joint Petition as soon as practicable following a final order in each Company's pending general rate case, and within the 135-day period from the date of filing of this Joint Petition as set forth in N.C. Gen. Stat. § 62-172(b)(3)a.2.

FINANCING AND STORM RECOVERY COSTS

23. The Companies request that their up-front financing costs associated with the securitization process be included in the principal amount of storm recovery bonds.¹³ Principal, interest, and on-going financing costs, including, but not limited to costs of servicing and maintaining the storm recovery bonds, will be recovered through the storm recovery charges authorized by the Financing Orders. DEC estimates that its up-front financing costs will be \$5.2 million, and that its annual on-going financing costs of the storm recovery bonds will total approximately \$.44 million annually.¹⁴ DEP estimates that its up-front financing costs will be \$9 million and that its annual on-going financing costs of the storm recovery bonds will total approximately \$.91 million annually.¹⁵ These estimates are based upon each Company acting as a servicer for their respective Special Purpose Entities ("SPE), as more fully described below.

24. A list of the estimated up-front financing costs is included as an exhibit to the testimony of witness Thomas J. Heath, Jr. filed concurrently herewith. However, several of the components of the up-front financing costs will vary depending upon the size of the final issuance of the storm recovery bonds. Specifically, the U.S. Securities and

¹³ N.C. Gen. Stat. § 62-172(a)(4)c.; N.C. Gen. Stat. § 62-172(a)(12)—(13).

¹⁴ N.C. Gen. Stat. § 62-172(b)(1)e. requires a public utility petitioning the Commission for a Financing Order to estimate the total Financing Costs (as defined in Section 62-172(a)(4)) related to the storm recovery bonds, including the estimated costs of issuing the storm recovery bonds.

¹⁵ *Id.*

Exchange Commission (“SEC”) registration fee and the underwriters’ fees are typically proportional to the amount of a bond issuance. In addition, other up-front costs, such as legal, consulting and accounting fees and expenses, rating agency fees, printing expenses, and trustee costs will not be known until the issuance of the storm recovery bonds, when final invoices are submitted. Finally, any costs incurred by the Commission or the Public Staff for any outside consultants or counsel retained in connection with the securitization are up-front financing costs under the statute.¹⁶ The Commission and Public Staff’s costs will not be known until the issuance of the storm recovery bonds and final invoices are submitted prior to bond pricing. Accordingly, final up-front financing costs will not be known until after the final terms of the issuance have been established. Final up-front financing costs will be approved through the issuance advice letter procedures as proposed in the draft Financing Orders and described in the testimony of witness Charles N. Atkins II.

25. If the actual up-front financing costs are in excess of the amounts appearing in the issuance advice letter, the Companies have no ability to collect this excess amount through the storm recovery charge. Therefore, the Companies are seeking permission to establish a regulatory asset to defer any prudently incurred excess amounts of up-front financing costs, to preserve those costs for later recovery in each Company’s next general rate case proceeding.

26. The Securitization Statute does not contemplate Commission involvement in the bond issuance process following granting of a financing order, which is consistent with the Commission’s historic practice of allowing public utilities authority to execute

¹⁶ N.C. Gen. Stat. § 62-172(a)(4)f.

Commission-approved transactions without further regulatory action. In other public utility bond offerings, however, some state utility commissions have elected or have been statutorily required to participate in the bond issuance process. Therefore, to the extent requested by the Commission, the Companies propose to provide a Commissioner or Commission Staff member (a “Designated Member”) with timely information to allow for the Designated Member’s participation in the actual structuring, pricing, and issuance of the storm recovery bonds. The Companies’ proposed Financing Orders contemplate this continued Commission involvement, as discussed further by witness Atkins.

DEC

27. As discussed in the testimony of witness Abernathy, DEC seeks recovery through securitization of approximately \$230.8 million in storm recovery costs, which includes \$18.6 million in capital investment, \$169.8 million in O&M expense, plus \$37.2 million in carrying costs assuming a June 1, 2021 issuance date,¹⁷ and approximately \$5.2 million of up-front financing costs as described above. The total amount of carrying costs is subject to the adjustment necessary to account for the number of days, as applicable either greater than or less than assumed in the carrying cost calculations. Accordingly, DEC proposes to finance its total storm recovery costs through securitization, subject to the prudence determination by the Commission undertaken in DEC’s general rate

¹⁷ 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.

proceeding, Docket No. E-7, Sub 1214.^{18,19} The details of DEC's storm recovery activities resulting in these costs are further described in the testimony of witness Rufus S. Jackson in DEC's general rate case proceeding, Docket No. E-7, Sub 1214, and exemplify that DEC's storm recovery costs were reasonable and prudently incurred.^{20,21} Note also at this time, DEC does not intend to use any of the proceeds of the issuance of storm recovery bonds to fund storm recovery reserves.²²

28. As also exemplified in witness Abernathy's testimony and Abernathy DEC Exhibit 2, DEC's storm recovery costs, less carrying costs from July 31, 2020, to the issuance date of the storm recovery bonds, were included in DEC's general rate case proceeding, Docket No. E-7, Sub 1214, and have been subject to discovery and audit by the Public Staff and intervenors as part of that proceeding. No party to DEC's general rate case proceeding has contested the Company's storm recovery costs, and the Public Staff has specifically concluded that DEC's storm recovery costs were reasonable and prudently incurred. DEC requests recovery of such storm recovery costs through securitization.

DEP

29. As discussed in the testimony of witness Abernathy, DEP seeks recovery through securitization of approximately \$748.0 million in storm recovery costs, which

¹⁸ N.C. Gen. Stat. § 62-172(b)(1)c. requires a public utility petitioning the Commission for a financing order to indicate "the level of the storm recovery reserve that the public utility proposes to establish or replenish." At this time, DEC does not intend to use any of the process of the issuance of storm recovery bonds to fund storm recovery reserves.

¹⁹ N.C. Gen. Stat. § 62-172(b)(1)d. requires a public utility petitioning the Commission for a financing order to indicate whether the utility proposes to finance all or a portion of the storm recovery costs using storm recovery bonds.

²⁰ N.C. Gen. Stat. § 62-172(b)(1)a. requires that a public utility petitioning the Commission for a financing order shall provide "a description of the storm recovery activities that the public utility has undertaken or proposes to undertake and the reasons for undertaking the activities."

²¹ Direct Testimony of Rufus S. Jackson, Docket No. E-7, Sub 1214 (filed Sept. 30, 2019).

²² N.C. Gen. Stat. § 62-172(b)(1)c. requires a public utility petitioning the Commission for a Financing Order to indicate "the level of the storm recovery reserve that the public utility proposes to establish or replenish."

includes \$68.6 million in capital investment, \$556.6 million in O&M, plus \$113.8 million in carrying costs assuming a June 1, 2021 issuance date,²³ and approximately \$9 million of up-front financing costs as described above. The total amount of carrying costs is subject to the adjustment necessary to account for the number of days, as applicable, either greater than or less than assumed in the carrying cost calculations. Accordingly, DEP proposes to finance its total storm recovery costs through securitization subject to the prudence determination by the Commission undertaken in DEP's general rate proceeding, Docket No. E-2, Sub 1219.^{24,25} The details of DEP's storm recovery activities resulting in these costs are further described in the direct testimony of witness Jackson in DEP's general rate case proceeding, Docket No. E-2, Sub 1219, and exemplify that DEP's storm recovery costs were reasonable and prudently incurred.^{26,27} Note also at this time, DEP does not intend to use any of the proceeds of the issuance of storm recovery bonds to fund storm recovery reserves.²⁸

30. As exemplified in witness Abernathy's testimony and Abernathy DEP Exhibit 2, DEP's storm recovery costs, less carrying costs from August 31, 2020, to the issuance date of the storm recovery bonds, were included in DEP's general rate case proceeding, Docket No. E-2, Sub 1219, and have been subject to discovery and audit by

²³ See N.C. Gen. Stat. § 62-172(b)(1)b.

²⁴ N.C. Gen. Stat. § 62-172(b)(1)c. requires a public utility petitioning the Commission for a financing order to indicate "the level of the storm recovery reserve that the public utility proposes to establish or replenish." At this time, DEP does not intend to use any of the process of the issuance of storm recovery bonds to fund storm recovery reserves.

²⁵ N.C. Gen. Stat. § 62-172(b)(1)d. requires a public utility petitioning the Commission for a financing order to indicate whether the utility proposes to finance all or a portion of the storm recovery costs using storm recovery bonds.

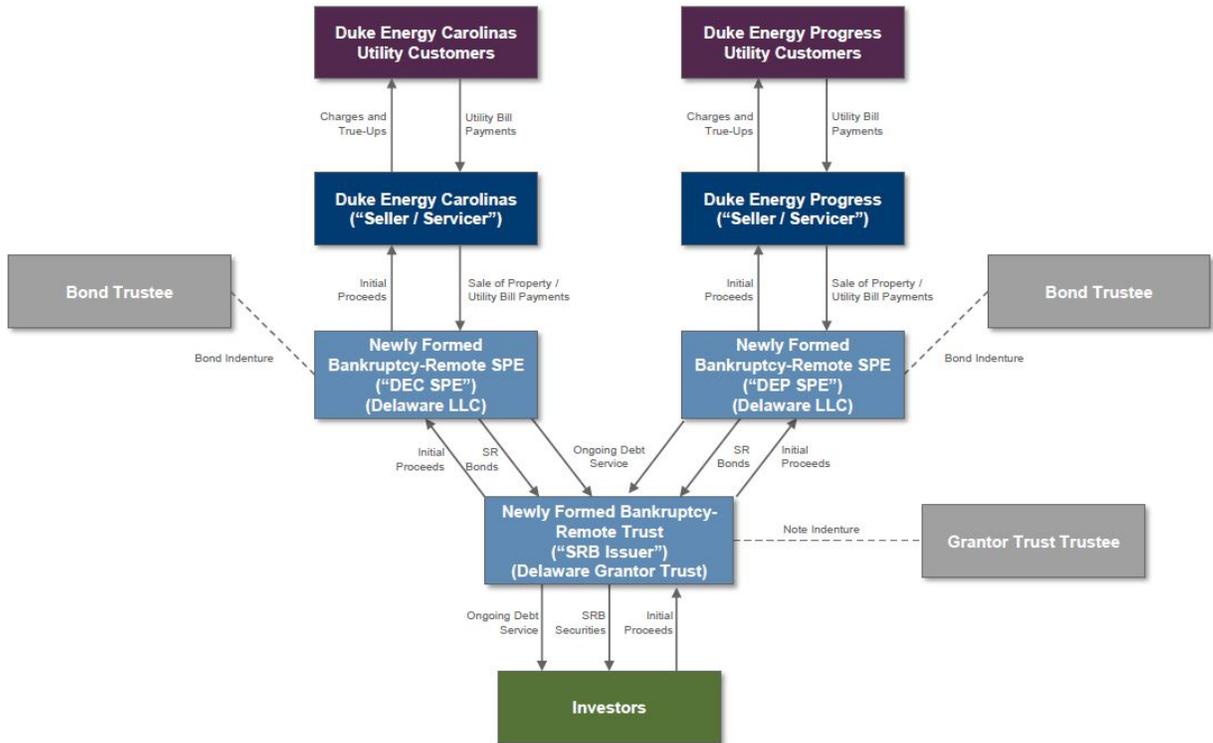
²⁶ N.C. Gen. Stat. § 62-172(b)(1)a.

²⁷ Direct Testimony of Rufus S. Jackson, Docket No. E-2, Sub 1219 (filed Oct. 30, 2019).

²⁸ N.C. Gen. Stat. § 62-172(b)(1)c. requires a public utility petitioning the Commission for a Financing Order to indicate "the level of the storm recovery reserve that the public utility proposes to establish or replenish."

the Public Staff and interveners as part of that proceeding. No party to DEP’s general rate case proceeding has contested the Company’s storm recovery costs, and the Public Staff has specifically concluded that DEP’s storm recovery costs were reasonable and prudently incurred. DEP requests recovery of such storm recovery costs through securitization.

STRUCTURE OF ISSUANCE



31. As further discussed in the testimony of witnesses Atkins and Heath, to facilitate the proposed securitization, DEC and DEP will each create one or more wholly-owned, bankruptcy-remote special purpose storm recovery funding entities (“SPE”),²⁹ which will purchase the applicable storm recovery property of each Company including the rights to impose, bill, charge, collect, and receive storm recovery charges and issue the

²⁹ For purposes of this Petition, all references to SPE shall be applicable to all SPEs that are created to issue any separate series of storm recovery bonds.

applicable storm recovery bonds.³⁰ DEC and DEP will perform the necessary servicing and administrative functions for their respective SPE,³¹ and the sole member of each SPE will be the respective utility. The proposed structure will ensure a true sale of the storm recovery property to a bankruptcy-remote issuer pursuant to N.C. Gen. Stat. § 62-172(2)(e)(3) and help ensure that securitization of the storm recovery costs provides quantifiable benefits to customers, as discussed further below.

32. The storm recovery bonds can be issued in a registered public offering or unregistered exempt offering and will be structured to achieve the highest possible credit rating from applicable rating agencies. In either case, there will be extensive marketing of the storm recovery bonds to ensure a broad solicitation of potential, unaffiliated investors, as further described in testimony of witness Atkins.

33. Upon issuance of the storm recovery bonds, each SPE will transfer the net proceeds from the sale of the storm recovery bonds to DEC and DEP as consideration for the transfer of the storm recovery property. Thus, each SPE will be a transferee, purchaser, acquirer, assignee, or pledgee of the applicable storm recovery property as provided for in N.C. Gen. Stat. §62-172(e)(1)e.

34. To maximize flexibility, the Companies are also seeking authority to issue storm recovery bonds to a special purpose trust jointly formed by the Companies or formed by Duke Energy Corp. (the “SRB Issuer”). Notes or similar instruments would be issued by the SRB Issuer and backed by each SPE’s storm recovery bonds held by the SRB Issuer

³⁰ DEC and DEP will enter into a limited liability company agreement for each SPE. A limited liability company agreement is the key organizational and governing document for the SPE.

³¹ DEC and DEP will enter into an administration agreement and servicing agreement with each SPE, which will provide for the servicing and administrative functions that DEC or DEP, as the case may be, would provide to the relevant SPE.

(“SRB Securities”). The SRB Issuer would engage in no activities other than the holding of storm recovery bonds and the issuance of SRB Securities and related activities. The SRB Securities would be sold either through a registered public offering or unregistered exempt offering, and structured to achieve the highest possible credit rating from applicable rating agencies based upon the underlying structure of the SRB Issuer-owned storm recovery bonds secured by storm recovery property and supported by the true-up mechanism. Finally, the SRB Issuer would transfer an allocable portion of net proceeds from the sale of the SRB Securities to each SPE and each such SPE would then transfer those proceeds to DEC and DEP in consideration of the storm recovery property sold to each SPE by DEC and DEP. In the proposed structure, none of the SPEs would be obligated, however, with respect to any other SPE’s storm recovery bonds; therefore, the customers of the respective Companies would not be obligated to pay storm recovery charges relating to storm recovery bonds issued by the wholly-owned SPE of another Company or be responsible for the adequacy of the storm recovery property of such other Company. This transaction is described more specifically in the testimonies of witnesses Heath and Atkins.

35. Similar to a sale of the storm recovery bonds directly to unaffiliated investors, storm recovery bonds sold to the SRB Issuer will be indirectly secured by and payable solely out of the storm recovery property created pursuant to the Financing Orders issued by the Commission. Combining the issuance of the storm recovery bonds by each of the Companies in one transaction through the use of the SRB Issuer is expected to result in lower issuance costs and other efficiencies, thereby lowering costs for each Company’s customers to help achieve the Statutory Cost Objectives.

36. By allowing the Companies flexibility to determine which of these structures are best tailored to then-existing rating agency considerations, market conditions, and investor preferences, the financing of storm recovery costs can achieve the Statutory Cost Objectives.

STORM RECOVERY CHARGES AND TARIFFS

37. Pursuant to a servicing agreement between each of DEC and DEP and their respective SPE,³² DEC and DEP will act as the initial servicer of the storm recovery charges for their respective SPE. As servicers, DEC and DEP will undertake to bill, receive, and collect such charges from their applicable retail customers, and will remit these collections to an indenture trustee for each series of storm recovery bonds on behalf, and for the account, of each of their respective SPEs. The Companies, as servicers, will be responsible for making any required or allowed true-ups of the storm recovery charges as provided for in each Financing Order.

38. The storm recovery charges collected by DEC and DEP pursuant to the servicing agreement will be calculated to ensure the collection of an amount sufficient to timely pay the principal and interest on the storm recovery bonds and the on-going financing costs. The total revenue requirement over the proposed 15-year bond period for the storm recovery charges is approximately \$262 million for DEC and \$842 million for DEP. The annual revenue requirement is shown in Abernathy Exhibit 4 for each Company. The storm recovery charges will be allocated to the various customer classes in the manner determined by the Commission and set forth in the Financing Orders.

³² A servicing agreement details the services that DEC or DEP will provide, as servicer, to the relevant SPE, principally with respect to billing, collecting, and receiving of the applicable storm recovery charges.

39. The storm recovery charges will be billed, received, and collected pursuant to DEC and DEP's respective storm recovery tariffs, included as Byrd Exhibit 2 attached to witness Jonathan Byrd's testimony.

40. Although the exact calculation of the storm recovery charges cannot be made until all the final terms of the storm recovery bonds are known, DEC estimates that the initial storm recovery charges imposed on the monthly electric bill of one of its residential customers using 1,000 kWh will be \$0.57 per month.³³ DEP estimates that the initial storm recovery charges imposed on the monthly electric bill of one of its residential customers using 1,000 kWh will be \$2.81 per month.³⁴

41. In order to synchronize the collection of storm recovery charges with the first payment on the storm recovery bonds, the tariffs for each utility that apply the storm recovery charges will become effective as of the date of issuance of the storm recovery bonds.

42. The Companies, as servicers of the storm recovery bonds, will make, at least semi-annually (quarterly beginning 12 months prior to the scheduled final payment date of the latest maturing tranche of a series of storm recovery bonds), 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 connection with the storm recovery bonds pursuant to N.C. Gen. § 62-172(b)(3)b.6. In addition, each servicer will make optional interim true-up adjustments at any time in order to ensure the recovery of

³³ N.C. Gen. Stat. § 62-172(b)(1)f., requires DEC and DEP to estimate the storm recovery charges necessary to recover the storm recovery costs and financing costs and the period for recovery of such costs.

³⁴ *Id.*

revenues sufficient to provide for the timely payment of the storm recovery bonds and all on-going financing costs payable in connection with the storm recovery bonds. The true-up mechanism is discussed in the testimony of witness Shana Angers.

SECURITIZATION BENEFITS

43. N.C. Gen. Stat. § 62-172(b)(1)g. requires the Companies to demonstrate that the issuance of the storm recovery bonds to recover the storm recovery costs are expected to result in quantifiable benefits to customers. To demonstrate quantifiable benefits, the Companies must provide a comparison between the net present value of the costs to customers that are estimated to result from the issuance of storm recovery bonds and the costs to customers that would result from the application of the traditional method of financing and recovering storm recovery costs.

44. In both the DEC and DEP Settlements, the Companies and the Public Staff jointly agreed to demonstrate quantifiable benefits to customers, in accordance with N.C. Gen. Stat. § 62-172(b)(1)g., by showing that the net present value of the costs to customers using securitization is less than the net present value of the costs that would result under traditional storm cost recovery using a specific set of assumptions that must be followed in making such comparison.³⁵ Having made this comparison in accordance with N.C. Gen. Stat. § 62-172(b)(1)g. and the DEC and DEP Settlements, DEC calculates that approximately \$58 million, or 32%, in customer savings are expected to be achieved

³⁵ As discussed in witness Abernathy's testimony, the DEC and DEP Settlements require the Companies to make the following assumptions: (1) For traditional storm cost recovery, 12 months of amortization for each Storm was expensed prior to the new rates going into effect; (2) 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) 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) For traditional cost recovery, the amortization period for the Storms is a minimum of 10 years; and (5) For securitization, the imposition of the storm recovery charge begins nine months after the new rates go into effect.

through securitization of its Storm recovery costs. Similarly, DEP calculates that approximately \$199 million, or 33%, in customer savings will be achieved through securitization of its storm recovery costs. These calculations are further discussed and supported by witness Abernathy in her testimony and in Abernathy Exhibits 5 – 7.

45. N.C. § 62-172(b)(3)b.2. requires the Commission to find that the proposed issuances of storm recovery bonds and the imposition and collections of storm recovery charges are expected to provide quantifiable benefits to customers as compared to the costs that would have been incurred absent the issuance of storm recovery bonds. As explained above and shown specifically in the calculations provided in Abernathy Exhibit 5 to witness Abernathy's testimony, the net present value of the costs to customers using securitization is less than the net present value of the costs that would result under traditional storm cost recovery for customers using the agreed-upon set of assumptions utilized in making such comparison.

46. In addition, N.C. Gen. Stat. § 62-172(b)(3)b.3. requires the Commission find that the proposed structuring and pricing of the storm recovery bonds are reasonably expected to result in the lowest storm recovery charges consistent with market conditions at the time the storm recovery bonds are priced and the terms of the Financing Orders. The final structure and terms of the storm recovery bonds will be determined shortly before their issuance, in accordance with the Financing Orders. As described in the testimony of witness Atkins, the Companies will work with an underwriter(s) to tailor the bond structure to the then-existing market conditions, rating agency considerations, and investor preferences, in order that the financing of storm recovery costs achieve the Statutory Cost Objectives.

47. As described above, the Companies may jointly issue SRB Securities through the SRB Issuer. In doing so, the Companies will be able to enhance the marketability of the transactions and increase efficiencies to achieve the Statutory Cost Objectives. The Companies will also be able to engage in joint marketing, resulting in additional cost savings and the marketing of larger bonds to a broader group of investors. Combining the transactions will also allow for a larger aggregate principal amount to better position the SRB Securities to be listed on the Bloomberg Barclays Aggregate Bond index, which should increase investor demand resulting lower overall interest rates.

48. To maximize the benefits from securitization for customers, it is necessary to obtain AAA-equivalent credit ratings for the storm recovery bonds and, if applicable, the SRB Securities. Necessary elements for such credit ratings include, but are not limited to: (1) the nonbypassability of the storm recovery charges pursuant to N.C. Gen. Stat. § 62-172(b)(3)b.4; (2) a true sale of the storm recovery property to a bankruptcy-remote issuer, which will be each utility's respective SPE; (3) a mandatory periodic formula-based true-up mechanism to adjust storm recovery charges to ensure that storm recovery bond debt service and ongoing financing costs are paid on time as scheduled; (4) the requirement that the Commission will not amend, modify, or terminate the Financing Orders or otherwise adjust the storm recovery charges, except for the periodic true-ups, as required by N.C. Gen. Stat. §§ 62-172(b)(3)e. and (k); (5) the pledge to the holders of storm recovery bonds of the SPE collection accounts established for timely remittances of storm recovery charges; (6) a statutory pledge that neither the State nor the Commission may impair the rights of storm recovery bond holders; (7) provisions for successor servicers and related fees; and (8) demonstration that the proposed transaction structures are designed to

satisfy specified rating agency stress case cash flow scenarios. These elements are discussed further in the testimony of witness Atkins.

49. The proposed transactions and the proposed form of Commission Financing Orders authorizing the transactions have been carefully structured to provide these assurances to the rating agencies and thus to permit the storm recovery bonds to achieve AAA-equivalent credit ratings, which is essential in optimizing the customer benefits of securitization.

50. In sum, financing the Companies' storm recovery costs through securitization is expected to result in a lower revenue requirement for DEC and DEP, thereby providing quantifiable benefits to the Companies' customers than would otherwise be required without securitization. More specifically, DEC and DEP's revenue requirement related to storm recovery costs will be financed and calculated utilizing a lower cost capital structure through securitization than would be the case under traditional cost recovery. Therefore, financing the Companies' storm recovery costs using the proposed securitization structure is expected to result in quantifiable benefit to customers, in comparison to the traditional method of financing and recovering storm recovery costs.

SUPPORTING ATTACHMENTS

51. The Companies have attached hereto, and made part of this Joint Petition, the following documents in accordance with N.C. Gen. Stat. § 62-172(b)(1)h.:

- Joint Petition Exhibit A: Summary of Securitizable Balances
- Joint Petition Exhibit B: DEC Proposed Financing Order
- Joint Petition Exhibit C: DEP Proposed Financing Order

- Joint Petition Exhibit D: Proposed Registration, Rating Agency, and Bond Issuance Timeline
- Direct Testimony and Exhibits of Thomas J. Heath, Jr.
- Direct Testimony and Exhibits of Charles N. Atkins II
- Direct Testimony and Exhibits of Melissa Abernathy
- Direct Testimony and Exhibits of Jonathan Byrd
- Direct Testimony and Exhibits of Shana W. Angers

Additionally, the Companies request that the Commission incorporate by reference the DEC and DEP Settlements, direct testimony and exhibits of Rufus S. Jackson filed in Docket Nos. E-7, Sub 1214 and E-2, Sub 1219; the direct, rebuttal, and settlement supporting testimony of Stephen G. De May filed in Docket Nos. E-7, Sub 1214 and E-2, Sub 1219; the direct testimony and exhibits of Michelle M. Boswell on behalf of the Public Staff, filed in Docket No. E-7, Sub 1214 on February 18, 2020; and the supplemental direct testimony of Shawn L. Dorgan filed on behalf of the Public Staff, filed in Docket No. E-2, Sub 1219 on April 23, 2020, as well as take Administrative Notice of the Commission's final Orders in Docket Nos. E-2, Sub 1214 and E-7, Sub 1219.

CONCLUSION

WHEREFORE, Duke Energy Carolinas, LLC and Duke Energy Progress, LLC respectfully request that the Commission: (1) grant authorization for the financing of the Companies' storm recovery costs found to have been reasonable and prudently incurred as a result of the Storms using a securitization structure permitted by SB 559 in DEC's general rate case proceeding, Docket No. E-7, Sub 1214 and DEP's general rate case proceeding, Docket No. E-2, Sub 1219; (2) find that the Companies' storm recovery costs and up-front

financing costs are appropriately financed by debt secured by storm recovery property; (3) issue Financing Orders for DEC and DEP by which each utility may accomplish such securitization transaction, so that the Companies may recover their prudently incurred storm recovery costs; (4) approve the storm recovery charges for DEC and DEP; (5) approve the tariffs of DEC and DEP to apply the respective storm recovery charges; (6) establish a regulatory asset to defer any prudently incurred excess amounts of up-front financing costs to preserve for later recovery in their next respective general rate case proceeding; and (7) provide any further relief the Commission deems to be just and reasonable and in the public interest.

Respectfully submitted this 26th day of October, 2020.



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**Joint Petition Exhibit A:
Summary of Securitizable Balance**

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

**SUMMARY OF CALCULATION OF DUKE ENERGY CAROLINAS, LLC'S
SECURITIZABLE BALANCE**

Estimated Storm Recovery Costs (incremental O&M costs and capital investments)	\$ 188,374,000
Estimated Carrying Costs through bond issuance date ¹	\$ 37,196,000
Estimated Up-front Financing Costs ²	\$ 5,230,000
	<hr/>
Estimated Principal Amount of Storm Recovery Bonds	\$ 230,800,000

**SUMMARY OF CALCULATION OF DUKE ENERGY PROGRESS, LLC'S
SECURITIZABLE BALANCE**

Estimated Storm Recovery Costs (incremental O&M costs and capital investments)	\$ 625,193,000
Estimated Carrying Costs through bond issuance date ¹	\$ 113,815,000
Estimated Up-front Financing Costs ²	\$ 8,992,000
	<hr/>
Estimated Principal Amount of Storm Recovery Bonds	\$ 748,000,000

¹ Assuming the Storm Recovery Bonds are issued on approximately June 1, 2021.

² Final Up-front Financing Costs to be included in the Issuance Advice Letter.

**Joint Petition Exhibit B:
DEC Proposed Financing Order**

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

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BY THE COMMISSION: This Financing Order addresses the petition of Duke Energy Carolinas, LLC (“DEC,” “Petitioner” or the “Company”) under North Carolina General Statute (“N.C. Gen. Stat.”) § 62-172, filed jointly with Duke Energy Progress, LLC (“DEP,” and together with DEC, the “Companies”) (“Joint Petition”): (1) to finance its Securitizable Balance;¹ (2) for approval of the proposed securitization financing structure; (3) for approval to issue Storm Recovery Bonds,² secured by the pledge of Storm Recovery Property, in one or more series in an aggregate principal amount not to exceed the relevant Securitizable Balance (as of the date the first series Storm Recovery Bonds are issued); (4) for approval of the Financing Costs, including up-front Financing Costs (“Up-front Financing Costs”),³ incurred in connection with the issuance of Storm Recovery Bonds and on-going Financing Costs (“On-going Financing Costs” and together with Up-front Financing Costs, “Financing Costs”);⁴ (5) for approval to create Storm Recovery

¹ See page 8 defining “Securitizable Balance.”

² All capitalized terms not otherwise defined herein shall have the meaning assigned to them in N.C. Gen. Stat. 62-172 and refer specifically to DEC’s particular transaction approved herein.

³ Up-front Financing Costs are defined in the Evidence and Conclusions for Finding of Fact No. 6.

⁴ On-going Financing Costs are defined in the Evidence and Conclusions for Finding of Fact No. 23 & 24.

Property, including the right to (i) impose, bill, charge, collect and receive nonbypassable Storm Recovery Charges sufficient to recover the principal of, and interest on, the Storm Recovery Bonds plus On-going Financing Costs and (ii) obtain periodic formulaic adjustments to the Storm Recovery Charge as provided in this Financing Order; and (6) for approval of the tariff to implement the Storm Recovery Charge (“Tariff”).

PROCEDURAL HISTORY

In 2018, DEC incurred significant storm expenditures from Hurricanes Florence and Michael and Winter Storm Diego (collectively, the “Storms”).

Subsequently, on December 21, 2018, the Company filed a Petition for an Accounting Order to Defer Incremental Storm Damage Expenses Incurred as a Result of Hurricanes Florence and Michael and Winter Storm Diego, in Docket No. E-7, Sub 1187 (“Storm Deferral Docket”).

On September 30, 2019, DEC filed an application (“Application”) with the Commission in Docket No. E-7, Sub 1214 (“2019 DEC Rate Case”) requesting a general rate increase, pursuant to N.C. Gen. Stat. §§ 62-133 and -134 and Commission Rule R1-17, along with direct testimony and exhibits. The Application included a request to consolidate the Storm Deferral Docket with the rate case and sought to recover DEC’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 (“Storm Recovery Costs”).

On November 6, 2019, SB 559 was signed into law, amending N.C. Gen. Stat. § 62-172 to create a new financing tool that may be used by a utility to recover storm restoration costs, utility cost recovery charge securitization (or the “Securitization

Statute”). Under this financing tool, an electric public utility company can issue storm recovery bonds with lower financing costs that are secured by storm recovery property including a dedicated storm recovery charge that is separate and distinct from the utility's base rate.

After conducting substantial discovery on the issues raised in the Application, the Public Staff – North Carolina Utilities Commission (“Public Staff”) determined that Storm Recovery Costs were prudently incurred.⁵

On March 25, 2020, in Docket No. E-7, Sub 1214, DEC and the Public Staff reached an Agreement and Stipulation of Partial Settlement (“DEC Settlement”) with respect to several revenue requirement issues presented by the Company’s Application, including the ratemaking treatment of the deferred expenses associated with the Storms. Pursuant to the DEC Settlement, the Company agreed to remove certain capital and operation and maintenance (“O&M”) costs (“Storm Expenses”) associated with the Storms from its revenue requirement in the 2019 DEC Rate Case and instead file a petition for a financing order under the Securitization Statute. For purposes of settlement, DEC and the Public Staff also agreed on the assumptions to be used in the securitization docket to evaluate whether securitization provides quantifiable customer benefits when compared to traditional storm cost recovery as required by Section (b)(1)(g) of the Securitization Statute.

On October 16, 2020, pursuant to the Securitization Statute, DEC, along with DEP, filed its Joint Petition for issuance of a storm recovery financing order to recover their respective Storm Expenses.

⁵ Testimony of Michelle M. Boswell Public Staff—North Carolina Utilities Commission, at 27-28, Docket No. E-7, Sub 1214 (filed Feb. 28, 2020).

The Commission approved the DEC Settlement in Docket No. E-7, Sub 1214 on _____ (“DEC Rate Order”), removing from Commission consideration in that docket the Company’s initial request for recovery of its Storm Expenses, and recognizing the Company’s authority to instead file a petition for financing order under the Securitization Statute to securitize its Storm Expenses. Additionally, by the Commission’s DEC Rate Order, the Commission determined that the Storm Recovery Costs (as defined therein) were reasonable and prudently incurred.

STATUTORY FRAMEWORK

The Securitization Statute establishes the process by which a public utility may petition the Commission for a financing order authorizing the public utility to finance storm recovery costs associated with storm recovery activities with the proceeds of storm recovery bonds that are secured by the storm recovery property. Before granting a financing order, the Commission must find that the issuance of the storm recovery bonds and the imposition of storm recovery charges are expected to provide quantifiable benefits to customers as compared to the costs that would have been incurred absent the issuance of storm recovery bonds. *See* N.C. Gen. Stat. § 62-172(b)(3)b.2.

To support this finding, the utility must submit a petition that includes (a) a description of its storm recovery activities; (b) an estimate of the storm recovery costs; (c) the proposed level of storm recovery reserve, if any; (d) an indicator of the amount of storm recovery costs to be financed using storm recovery bonds; (e) an estimate of the financing costs related to the storm recovery bonds; (f) an estimate of the storm recovery charges necessary to recover storm recovery costs; and (g) a comparison between the net present value of the cost to customers estimated to result from the issuance of storm recovery bonds

and the cost that would result from the application of the traditional method of financing and recovering storm recovery costs; this comparison must demonstrate that the issuance of storm recovery bonds and the imposition of storm recovery charges are expected to provide quantifiable benefits to customers. *See* N.C. Gen. Stat. § 62-172 (b)(1)a.-g.

When issued, the financing order must include the amount of storm recovery costs to be financed using storm recovery bonds, the imposition and collection of storm recovery charges that are nonbypassable and paid by all existing and future retail customers receiving transmission or distribution service from the public utility or its successors or assignees, the maturity period of the bonds, a formula-based true-up mechanism, the creation of storm recovery property that will be used to secure the bonds, and a method of tracing funds collected as storm recovery charges. *See* N.C. Gen. Stat. § 62-172(b)(3)b.1.-12.

The Securitization Statute specifies that the financing order must also include a requirement that the public utility file with the Commission at least annually a letter applying the formula-based mechanism, and request adjustments in the storm recovery charge, if necessary, to a sufficient level to ensure the bond payment obligations. The Commission does not have the discretion to disapprove or alter the true-up calculation, except to correct mathematical and clerical errors.

Based on the entire record in this proceeding, the Commission now makes the following:

FINDINGS OF FACT

Jurisdiction

1. DEC is (1) a limited liability company duly organized and existing under the laws of the State of North Carolina; (2) duly authorized by its Articles of Organization to engage in the business of generating, transmitting, distributing and selling electric power and energy; (3) a public utility under the laws of North Carolina, and its operations in this State are subject to the jurisdiction of this Commission; (4) an investor-owned public utility; (5) a public utility under the laws of the State of South Carolina, and its operations in South Carolina are subject to the jurisdiction of the Public Service Commission of South Carolina; and (6) a public utility under the Federal Power Act, and certain of its operations are subject to the jurisdiction of the Federal Energy Regulatory Commission. DEC's service area covers 24,000 square miles in the central and western portions of North Carolina and western South Carolina. The service area includes 62 counties, 44 in North Carolina and 18 in South Carolina. The Company supplies retail electric service to approximately 2 million customers in North Carolina.

2. The Commission has jurisdiction over the rates and charges, rate schedules, classifications, and practices of DEC regarding its North Carolina operations under Chapter 62 of the General Statutes of North Carolina.

3. DEC is lawfully before the Commission based upon its petition for a financing order pursuant to N.C. Gen. Stat. §§ 62-133, and 62-172 and Commission Rule R1-17.

JOINT PETITION

4. On October 26, 2020, DEC and DEP filed its Joint Petition for a financing order pursuant to the Securitization Statute including DEC's request to issue Storm Recovery Bonds in the amount of approximately: \$230.8 million, which consists of \$225.6 million of Storm Recovery Costs (including carrying costs from the date of the Storms through the projected issuance date of the Storm Recovery Bonds, calculated at the Company's approved weighted average cost of capital ("Carrying Costs")⁶), plus Up-front Financing Costs of issuing the Storm Recovery Bonds of approximately \$5.2 million, which are subject to change and update prior to the pricing of the Storm Recovery Bonds plus or minus any adjustment to Carrying Costs necessary to account for the number of days, as applicable, either greater than or less than assumed in the Carrying Cost calculation based on the projected issuance date for the Storm Recovery Bonds. This amount is referred to herein as the "Securitizable Balance." The Joint Petition includes direct testimony and exhibits supporting the request, as well as a comparison between the net present value of the costs to customers that are estimated to result from the issuance of Storm Recovery Bonds and the costs that would result from the application of the traditional method of recovery of Storm Recovery Costs from customers, in accordance with the Securitization Statute.

COSTS ELIGIBLE FOR FINANCING

Storm Recovery Costs

5. Consistent with the Commission's findings and conclusions in its 2019 DEC Rate Case Order issued in Docket No. E-7, Sub 1214, Storm Recovery Costs subject

⁶ This amount assumes the Storm Recovery Bonds are issued on June 1, 2021.

to adjustments including the final amount of carrying costs through the issuance date of the Storm Recovery Bonds, are eligible for recovery through securitization and have been found to be reasonable and prudent. Furthermore, the Commission finds that (i) the proposed issuance of Storm Recovery Bonds and the imposition of Storm Recovery Charges will provide quantifiable benefits to customers as compared to the costs that would have been incurred absent the issuance of Storm Recovery Bonds and (ii) the structuring and pricing of the Storm Recovery Bonds are reasonably expected to result in the lowest Storm Recovery Charges consistent with market conditions at the time the Storm Recovery Bonds are priced and the terms set forth in this Financing Order (collectively, the “Statutory Cost Objectives”).

Up-front Financing Costs

6. DEC’s proposed Up-front Financing Costs, in the estimated amount of \$5.2 million, are reasonable and prudent and eligible for recovery through securitization.

7. DEC’s request to establish a regulatory asset to defer any prudently incurred Up-front Financing Costs in excess of the amounts appearing in the issuance advice letter is approved.

STRUCTURE OF ISSUANCE

8. DEC’s proposed financing structure adheres to the requirements of the Securitization Statute.

Special Purpose Entities

9. For purposes of securitization it is reasonable for DEC to create one or more Special Purpose Entities (“SPEs”),⁷ each of which will be a Delaware limited liability

⁷ For purposes of this Financing Order, all references to the SPE shall be applicable to all SPEs that are created to issue other series of Storm Recovery Bonds pursuant to this Financing Order.

company (“LLC”) with DEC as its sole member. Any such SPE will be an “assignee” as defined in N.C. Gen. Stat. § 62-172(a)(2), when an interest in Storm Recovery Property is transferred, other than as security, to such SPE, and such SPE may issue Storm Recovery Bonds in accordance with this Financing Order.

Storm Recovery Property

10. It is reasonable for DEC to sell or otherwise transfer Storm Recovery Property to the SPE pursuant to the terms of this Financing Order. Upon the transfer by DEC of the Storm Recovery Property to the SPE, that SPE will have all of the rights, title and interest of DEC with respect to such Storm Recovery Property, including the right to impose, bill, charge, collect, and receive the Storm Recovery Charge authorized by this Financing Order and to obtain periodic formulaic adjustments to each Storm Recovery Charge. Such Storm Recovery Property is expected to be pledged by the SPE to and held and administered by an indenture trustee as collateral for payment of the Storm Recovery Bonds to ensure the Statutory Cost Objectives are achieved.

11. The State of North Carolina and its agencies, including this Commission, has pledged to and agrees with bondholders, the owners of the Storm Recovery Property, and other financing parties that the State and its agencies, including this Commission, will not alter the provisions of the Securitization Statute, which authorize the Commission to create Storm Recovery Property or take or permit any action that impairs the value of the Storm Recovery Property, as further described in N.C. Gen. Stat. § 62-172(k)(1).

Form of Transaction Documents

12. The form Purchase and Sale Agreement,⁸ Administration Agreement,⁹ Limited Liability Company Agreement (“LLC Agreement”),¹⁰ form of Indenture,¹¹ and Servicing Agreement,¹² filed as exhibits to witness Thomas J. Heath Jr.’s testimony, (“Transaction Documents”) are in the public interest and necessary to facilitate the transaction.

Offering and Sale of Bonds

13. DEC is hereby authorized to issue the Storm Recovery Bonds through a negotiated sale or other sales option to achieve the Statutory Cost Objectives.

14. In the alternative, DEC is authorized to sell the Storm Recovery Bonds in combination with DEP to a grantor trust (the “SRB Issuer”) that will issue secured pass-through notes that are backed by the Storm Recovery Bonds and storm recovery bonds issued by DEP in one transaction through the use of the SRB Issuer.

Amortization, Interest Rates, and Credit Ratings of Storm Recovery Bonds

15. The expected term of the scheduled final payment date of the last maturing tranche of bonds issued pursuant to the authority granted herein, as determined in the reasonable discretion of DEC, should be no more than 15 years from the issuance of the series of Storm Recovery Bonds. The legal maturity date of each tranche may be longer than the scheduled final payment date for that tranche.

⁸ See Heath Exhibit 2a.

⁹ See Heath Exhibit 2d.

¹⁰ See Heath Exhibit 2e.

¹¹ See Heath Exhibit 2c.

¹² See Heath Exhibit 2b.

16. We find that each tranche of the Storm Recovery Bonds should have a fixed interest rate, determined consistent with current market conditions. If market conditions change, and it becomes necessary to achieve the Statutory Cost Objectives for the one or more tranches of bonds to be issued in floating-rate mode, DEC is authorized to issue such bonds but will be required to execute agreements to swap the floating payments to fixed-rate payments.

17. DEC should strive to achieve AAA credit ratings, and DEC is authorized to provide the necessary credit enhancements, with recovery of related costs as On-going Financing Costs, to achieve such ratings.

Security for the Storm Recovery Bonds

18. DEC's utilization of a Collection Account, including a General Subaccount, a Capital Subaccount, and an Excess Funds Subaccount, is reasonable and appropriate. DEC may include other subaccounts in the Collection Account, if necessary, to obtain AAA ratings on a series of Storm Recovery Bonds.

DEC as Initial Servicers of the Storm Recovery Bonds

19. DEC's proposal to act as initial servicer of the Storm Recovery Bonds is reasonable and appropriate.

20. The on-going servicing fee for DEC, acting as the initial servicer, in the amount of 0.05 percent of the initial principal amount of the Storm Recovery Bonds plus out-of-pocket expenses provided for in the Servicing Agreement is necessary to compensate the servicer adequately and ensure the high credit quality of the Storm Recovery Bonds.

DEC as Administrator of the SPE

21. DEC's proposal to act as an administrator of the SPE under the proposed financing transaction is reasonable and appropriate.

22. The on-going fee to be paid to the administrator of \$50,000 per year plus out-of-pocket expenses included in the Administration Agreement is necessary to cover the costs and expenses of administering the SPE and to preserve the integrity of the bankruptcy-remote structure of the SPE and the high credit quality of the Storm Recovery Bonds.

On-going Financing Costs

23. The On-going Financing Costs identified in DEC's Joint Petition and that are identified in Attachment 4 of the form Issuance Advice Letter ("IAL") qualify as "financing costs" eligible for recovery pursuant to N.C. Gen. Stat. § 62-172(a)(4).

24. It is appropriate for DEC to credit back to customers all periodic servicing and administration fees in excess of DEC's or an affiliate of DEC's incremental cost of performing the servicer or administrator function in the next rate case when costs and revenues associated with the servicing and administration fees will be included in the cost of service.

Storm Recovery Bonds to be Treated as "Debt" for Federal Income Tax Purposes

25. DEC shall structure the Storm Recovery Bond transactions in a way that meets all requirements for the Internal Revenue Service's ("IRS") safe harbor treatment.

STORM RECOVERY CHARGES

Imposition and Computation of Storm Recovery Charges

26. To repay the Storm Recovery Bonds and On-going Financing Costs, DEC is authorized to impose Storm Recovery Charges to be collected on a per-kWh basis from all applicable customer rate classes until the Storm Recovery Bonds and related Financing Costs are paid in full.

27. The Securitizable Balance to be financed using Storm Recovery Bonds shall be determined in accordance with the calculation shown in Appendix A to this Financing Order.

28. The proposed allocation methodology of the Storm Recovery Charges is based upon DEC's existing (and previously approved)¹³ allocation methodology in the proposed Tariff and should be approved.

29. The State of North Carolina and its agencies, including this Commission, has pledged to and agrees with bondholders, the owners of the Storm Recovery Property, and other financing parties that the State and its agencies, including this Commission, will not, except for changes made pursuant to the True-Up Mechanism (as defined in Finding of Fact No. 32), reduce, alter, or impair the Storm Recovery Charges 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, as further described in N.C. Gen. Stat. § 62-172(k)(1)d.

¹³ See 2019 Rate Order at ____.

Treatment of Storm Recovery Charge in Tariff and on Retail Customer Bills

30. DEC's proposed Tariff complies with N.C. Gen. Stat. § 62-172(d)(1) and is appropriate for use in this proceeding.

31. DEC is authorized and directed to include the Storm Recovery Charge on each customer's bill as a separate line item and include both the rate and the amount of the charge on each bill as required by N.C. Gen. Stat. § 62-172(d)(2) and a statement that the SPE is the owner of the rights to the Storm Recovery Charges and that DEC is acting as a servicer for the SPE as required by N.C. Gen. Stat. § 62-172(d)(1).

True-Up of Storm Recovery Charges

32. The formulaic true-up mechanism ("True-Up Mechanism") and associated procedures described in DEC's Tariff are reasonable and appropriate and are hereby approved.

ISSUANCE ADVICE LETTER PROCESS

33. Because the actual structure and pricing of the Storm Recovery Bonds are unknown as of the issuance of this Financing Order, following determination of the final terms of the Storm Recovery Bonds and before issuance of the Storm Recovery Bonds, DEC will file with the Commission for each series of Storm Recovery Bonds, an IAL, as well as a form of True-Up Adjustment Letter¹⁴ ("TUAL," and together with the IAL, the "IAL/TUAL") in the forms attached hereto as Appendices B and C. The initial Storm Recovery Charges and the final terms of the Storm Recovery Bonds described in the IAL/TUAL will be final unless before noon on the third business day after pricing the Commission issues an order finding that the proposed issuance does not comply with the

¹⁴ The True-Up Adjustment Letter is defined in the Evidence and Conclusions for Finding of Fact No. 33.

Standards of this Financing Order in this Finding of Fact No. 33. The “Standards of this Financing Order” are: 1) the issuance of Storm Recovery Bonds and imposition and collection of Storm Recovery Charges as authorized in this Financing Order provide quantifiable benefits to customers as compared to the costs that would have been incurred absent the issuance of Storm Recovery Bonds; 2) the aggregate principal amount of Storm Recovery Bonds issued does not exceed the Securitizable Balance; 3) the SRB Securities (as defined in Evidence and Conclusions for Finding of Fact Nos. 13 and 14) and Storm Recovery Bonds will be issued in one or more series comprised of one or more tranches having scheduled final payment date of no longer than 15 years; 4) the SRB Securities have received a rating of Aaa(sf) / AAA(sf) from at least two of the three major rating agencies; 5) the SRB Securities and Storm Recovery Bonds are structured to achieve substantially level debt service payments on an annual basis; 6) the issuance of the SRB Securities and Storm Recovery Bonds has been structured in accordance with IRS Rev. Proc. 2005-62; and 7) the structuring and pricing of the Storm Recovery Bonds, including the issuance of SRB Securities, resulted in the lowest Storm Recovery Charges consistent with market conditions at the time the Storm Recovery Bonds are priced and the terms set forth in this Financing Order.

MITIGATION OF RATE IMPACTS

34. The issuance of Storm Recovery Bonds and imposition and collection of Storm Recovery Charges as authorized in this Financing Order are expected to provide quantifiable benefits to customers as compared to the costs that would have been incurred absent the issuance of Storm Recovery Bonds. The calculation of quantifiable benefits to

customers was prepared by the Company in accordance with the requirements set forth in the DEC Settlement.

FLEXIBILITY

35. It is appropriate to allow DEC flexibility in establishing the final terms and conditions of the Storm Recovery Bonds and therefore the ability, at its option, to cause one or more series of storm recovery bonds to be issued, in order to achieve the Statutory Cost Objectives.

CONCLUSION

36. This Financing Order adheres to the statutory requirements outlined by the Securitization Statute necessary to issue a financing order authorizing a public utility to finance storm recovery costs.

DISCUSSION AND CONCLUSIONS

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NOS. 1-3

Jurisdiction

The evidence supporting these findings of fact and conclusions is contained in the verified Joint Petition of DEC, the testimony and exhibits of the witnesses, and the entire record in this proceeding. These findings and conclusions are informational, procedural, and jurisdictional in nature, and are not contested by any party.

JOINT PETITION

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 4

The Joint Petition included a description of DEC's storm recovery activities, an estimate of the Storm Recovery Costs, the proposed level of storm recovery reserve, an indicator of the amount of Storm Recovery Costs to be financed using Storm Recovery

Bonds, an estimate of the Financing Costs related to the bonds, an estimate of the Storm Recovery Charges necessary to recover costs, and a comparison between the net present value of the cost to customers estimated to result from the issuance of Storm Recovery Bonds and the cost that would result from the application of the traditional method of financing and recovering its Storm Recovery Costs. As illustrated in the testimony of witness Melissa Abernathy, DEC's comparison demonstrated that issuance of Storm Recovery Bonds and the imposition of Storm Recovery Charges is expected to provide quantifiable benefits to customers.

The Commission finds and concludes that the Joint Petition satisfies the requirements of the Securitization Statute, as discussed further herein, by including each of the necessary items required by subsection (b)(1). Therefore, pursuant to the Securitization Statute, the Commission has jurisdiction to consider DEC's Joint Petition and the information necessary to issue a financing order as well as any other relief necessary for DEC to finance its Storm Recovery Costs.

COSTS ELIGIBLE FOR RECOVERY

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NOS. 5—7

Storm Recovery Costs

In its Joint Petition, DEC requested the authority to finance its Storm Recovery Costs through securitization of approximately \$230.8 million in Storm Recovery Costs, which includes \$18.6 million in capital investment, \$169.8 million in O&M expense, plus Carrying Costs in the amount of \$37.2 million (plus or minus any adjustment to such carrying costs necessary to account of the number of days, as applicable, either greater than or less than assumed in the carrying costs calculation), plus an estimated \$5.2 million in

Up-front Financing Costs. The amount of Carrying Costs DEC requests is calculated at the Company's approved weighted average cost of capital. The requested amount is also premised on a Storm Recovery Bond issuance date of June 1, 2021. DEC states that it will report to the Commission the final Carrying Cost so financed in the IAL as described below. N.C. Gen. Stat. § 62-172(a)(14) requires that DEC's Storm Recovery Costs eligible for financing be reasonable and prudent. Except for the Carrying Costs to be calculated as described herein, the Storm Recovery Costs were included in the Company's rate case application in Docket No. E-7, Sub 1214 and have been the subject of discovery and audit by the Public Staff and other interested parties to that proceeding. The Commission's DEC Rate Order found and concluded that DEC's Storm Recovery Costs were reasonable and prudent. Consistent with that Order, the Commission finds that DEC's Storm Recovery Costs are reasonable and prudent and therefore eligible for recovery through financing. In addition, the Commission finds that DEC's Carrying Costs associated with the Storm Recovery Costs are also reasonable and prudent. Accordingly, the Commission finds that DEC should be permitted to finance its Storm Recovery Costs including Carrying Costs as provided in this Financing Order.

Up-front Financing Costs

DEC has also requested authority to finance certain financing costs associated with the issuance of the Storm Recovery Bonds. DEC's proposed Up-front Financing Costs include but are not limited to, legal fees, consulting fees, structuring adviser fees, placement and underwriting fees, rating agency fees, stock exchange listing and compliance fees, security registration fees, filing fees, information technology programming costs and any other costs necessary to issue the Storm Recovery Bonds (a

complete list of all Up-front Financing Costs will be included on Attachment 2 of the IAL, a form of such letter with preliminary estimates of Up-front Financing Costs, is included in Appendix C of this Financing Order).

In addition, the costs of any outside consultant and counsel retained by the Commission to assist the Commission in performing its responsibilities under N.C. Gen. Stat. § 62-172(b)(3)b., and the costs incurred by the Public Staff for any outside consultants or counsel retained in connection with this securitization of the Storm Recovery Costs are Up-front Financing Costs. DEC's Up-front Financing Costs include reimbursement to DEC for amounts advanced for payment of such costs, and may also include other types of credit enhancement, not specifically described herein, including letters of credit, reserve accounts, surety bonds, interest rate swaps, interest rate locks, and other mechanisms designed to promote the credit quality and marketability of the Storm Recovery Bonds or designed to achieve the Statutory Cost Objectives. The Up-front Financing Costs of any credit enhancements shall be included in the amount of costs to be financed by the sale of Storm Recovery Bonds. DEC has provided an estimate of Up-front Financing Costs of \$5.2 million based on a range of estimates in Heath Exhibit 1 attached to witness Heath's testimony.

The Commission is mindful of the fact that many of these Up-front Financing Costs, such as legal fees, will not be known until after the financing is completed. Further, other Up-front Financing Costs will vary depending on the size of the final issuance of the Storm Recovery Bonds. Specifically, the Commission realizes that the Securities and Exchange Commission ("SEC") registration fee, underwriters' fees, and rating agency fee are proportional to the amount of qualified costs actually financed. Other Up-front

Financing Costs, such as original issue discount, will be determined at the time of the sale. We also acknowledge that the (i) costs of any outside consultant to this Commission and any outside counsel to this Commission or its Designated Member (as defined herein) to assist us in performing our responsibilities under the Securitization Statute, including services provided in assisting us in our active role for the structuring and pricing of the Storm Recovery Bonds, are costs that are solely within the control of this Commission and (ii) costs of any outside consultant or counsel retained by Public Staff are costs which are solely within the control of Public Staff and that all such costs in (i) and (ii) above are fully recoverable from Storm Recovery Bond proceeds to the extent such costs are eligible for compensation and approved for payment under the terms of such party's contractual arrangements with the Commission or Public Staff, as the case may be, as such arrangements may be modified by any amendment entered into at the Commission's or Public Staff's sole discretion. Accordingly, actual Up-front Financing Costs will not be known until after the pricing of the Storm Recovery Bonds.

N.C. Gen. Stat. § 62-172(a)(4) defines "financing costs." The Commission finds that DEC's proposed Up-front Financing Costs fall squarely within this definition, and that these issuance costs are therefore financing costs eligible for recovery pursuant to the Securitization Statute. Due to the unknown aspect of these costs, the Commission orders that to the extent the actual Up-front Financing Costs are less than the amount appearing in the final IAL filed within one business day after actual pricing of the Storm Recovery Bonds, such unspent amount will be reflected in the next True-Up Adjustment Letter (as defined herein). Conversely, to the extent that the actual Up-front Financing Costs are in excess of the amount appearing in the final IAL filed within one business day after actual

pricing of the Storm Recovery Bonds, that DEC shall book such prudently incurred excess amounts to a regulatory asset to be recovered in the Company's next rate case.

STRUCTURE OF ISSUANCE

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 8

General Structure of Issuance

A description of DEC's proposed transaction is contained in its Joint Petition and the filing package submitted therewith. A brief summary of the proposed transaction is provided in this section.

DEC has proposed a transaction structure that includes all of the following:

- The use of (depending on whether more than one series of Storm Recovery Bonds are issued) one or more SPEs as issuer(s) of Storm Recovery Bonds, limiting the risks to bondholders of any adverse impact resulting from a bankruptcy proceeding of DEC or any affiliate.
- The right to impose, bill, charge, collect and receive Storm Recovery Charges that are nonbypassable and which must be true-up at least semi-annually, but may be true-up more frequently at the option of the servicer, to ensure the timely payment of the debt service and On-going Financing Costs as scheduled.
- The use of a collection account which includes, without limitation, a Capital Subaccount at the SPE funded initially by a deposit from DEC equal to at least 0.5 percent of the initial principal amount of the Storm Recovery Bonds issued by the SPE.
- A servicer (initially DEC) responsible for billing and collecting the Storm Recovery Charge from existing and future retail customers.
- The Federal income tax consequences of the transaction are consistent with satisfaction of the provisions established in IRS Revenue Procedure 2005-62.

More specifically, and to facilitate the proposed securitization, DEC proposed that the SPE will be created and then DEC will transfer the rights to impose, bill, charge, collect, and receive Storm Recovery Charges and to obtain true-up adjustments along with the other rights arising pursuant to this Financing Order. Upon such transfer and

simultaneously with the issuance of Storm Recovery Bonds, these rights will become Storm Recovery Property as provided by the Securitization Statute.

DEC proposed that the SPE will issue Storm Recovery Bonds and will transfer the net proceeds from the sale of such bonds to DEC in consideration for the transfer of the Storm Recovery Property. The SPE will be organized and managed in a manner designed to achieve the objective of maintaining the SPE as a bankruptcy-remote entity that would not be affected by the bankruptcy of DEC or any other affiliate of DEC or any of their respective successors. The Company has submitted several form agreements for approval, discussed further herein, facilitating DEC's utilization of an SPE.

Specifically, DEC has proposed that the Storm Recovery Bonds be issued pursuant to an Indenture and administered by an indenture trustee. The Storm Recovery Bonds will be secured by and payable solely from the Storm Recovery Property created pursuant to this Financing Order. The Storm Recovery Property and other collateral will be pledged to the indenture trustee for the benefit of the holders of the Storm Recovery Bonds and to secure payment of principal, interest on the Storm Recovery Bonds and On-going Financing Costs.

DEC proposed that the servicer of the Storm Recovery Bonds collect the Storm Recovery Charges and remit those amounts to the indenture trustee on behalf of the SPE. The servicer will be responsible for making any required or allowed true-ups of the Storm Recovery Charges. If the servicer defaults on its obligations under the Servicing Agreement, the indenture trustee may, acting for the benefit of holders of Storm Recovery Bonds, appoint a successor servicer. DEC also proposed to act as the initial servicer for the Storm Recovery Bonds.

Under DEC's proposal, the Storm Recovery Charges will be calculated to ensure the collection of an amount sufficient to pay the debt service due on the Storm Recovery Bonds together with the related Financing Costs. These related Financing Costs, or more specifically, On-going Financing Costs, include the servicing fee, administration fees for the SPE, rating agencies' fees, trustee fees and expenses, legal and accounting fees, other ongoing fees and expenses and the cost of replenishing the Capital Subaccount (or overcollateralization subaccount, if required). These On-going Financing Costs are "financing costs" eligible for recovery pursuant to the Securitization Statute and are addressed further below in this Financing Order.

DEC has proposed that the Storm Recovery Charges will be calculated and adjusted pursuant to the formula-based method, the True-Up Mechanism, described in witness Shana W. Anger's testimony and included as Appendix B to this Financing Order. DEC has requested approval of Storm Recovery Charges sufficient to recover the principal and interest on the Storm Recovery Bonds plus On-going Financing Costs. DEC proposes that the Storm Recovery Charges be adjusted at least semi-annually until 12 months prior to the last scheduled payment date of a series of the Storm Recovery Bonds, at which point the Storm Recovery Charges shall be adjusted at least quarterly, to ensure that the amount collected from Storm Recovery Charges is sufficient to pay the debt service on the Storm Recovery Bonds and all On-going Financing Costs.

Witness Charles N. Atkins II states that DEC's proposed bond structure is designed to provide substantially level annual debt service and revenue requirements over the life of the bond issue and would result in declining Storm Recovery Charges over time, assuming growth in customer energy consumption, other factors being equal. The Commission finds

DEC's proposed transaction structure reasonable, and compliant with the Securitization Statute. Moreover, portions of DEC's proposed transaction structure, described in this Financing Order, are necessary to enable the Storm Recovery Bonds to obtain the highest bond credit rating possible, with an objective of AAA or equivalent bond credit ratings, so as to further ensure that the proposed issuance of the Storm Recovery Bonds on behalf of DEC and the imposition of the Storm Recovery Charges will provide quantifiable benefits to customers as compared to the costs that would have been incurred absent the issuance of Storm Recovery Bonds and meet the Statutory Cost Objectives. Accordingly, DEC's issuance structure is hereby approved.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 9

Special Purpose Entity

Under DEC's financing structure, DEC will create one or more SPEs, each as a bankruptcy remote, Delaware LLC with DEC as its sole member, as set forth in the LLC Agreement discussed further below. Each SPE will be formed for the limited purpose of acquiring Storm Recovery Property from DEC, issuing Storm Recovery Bonds in one or more series (each of which may be issued in one or more tranches), and performing other activities relating thereto or otherwise authorized by the LLC Agreement. The rights, obligations, structure and restrictions described in this Financing Order with respect to the SPE are applicable to each such purchaser of Storm Recovery Property to the extent of the Storm Recovery Property acquired by it and the Storm Recovery Bonds issued by it.

DEC proposed (i) that the SPE(s) may issue Storm Recovery Bonds in an aggregate amount not to exceed the Securitizable Balance approved by this Financing Order and (ii) to pledge to an indenture trustee, as collateral for payment of the Storm Recovery Bonds,

the Storm Recovery Property, including each SPE's right to receive the Storm Recovery Charges as and when collected, and other collateral described in the Indenture. The SPE(s) will not be permitted to engage in any other activities and will have no assets other than storm recovery property and related assets to support its obligations under the storm recovery bonds. DEC states that these restrictions on the activities of the SPE and restrictions on the ability of DEC to take action on the SPE's behalf are imposed to achieve the objective that the SPE will be bankruptcy-remote and not be affected by a bankruptcy of DEC or any affiliate or successor of DEC.

DEC proposed that the SPE will be managed by a board of managers with rights and duties set forth in its organizational documents. As long as the Storm Recovery Bonds remain outstanding, the SPE will have at least one independent manager with no organizational affiliation with DEC other than possibly acting as independent manager(s) for another bankruptcy-remote subsidiary of DEC or its affiliates. The SPE will not be permitted to amend the provisions of its LLC Agreement or other organizational documents that relate to bankruptcy-remoteness of the SPE without the consent of the independent manager(s). Similarly, the SPE will not be permitted to institute bankruptcy or insolvency proceedings or to consent to the institution of bankruptcy or insolvency proceedings against it, or to dissolve, liquidate, consolidate, convert, or merge without the consent of the independent manager(s). Other restrictions to facilitate bankruptcy-remoteness may also be included in the organizational documents of the SPE as required by the rating agencies. The Commission agrees with DEC that these restrictions are reasonable and help ensure that the SPEs are bankruptcy-remote.

The SPE will have no staff to perform administrative services (such as routine corporate maintenance, reporting and accounting functions). DEC proposed that these services will be provided by DEC pursuant to the terms of the Administration Agreement between the SPE and DEC.

Per rating agency and IRS requirements, DEC will transfer to the SPE an amount required to capitalize each of its SPEs adequately (the “SPE Capitalization Level”) for deposit into the Capital Subaccount. The SPE Capitalization Level is expected to be 0.50 percent¹⁵ of the initial principal amount of the Storm Recovery Bonds to be issued by the SPE or such greater amount as might be needed to meet IRS or rating agency requirements. The actual SPE Capitalization Level will depend on tax and rating agency requirements. The Commission finds that DEC may earn a return on this capital contribution in an amount equal to the rate of interest payable on the longest maturing tranche of Storm Recovery Bonds. Moreover, the Commission confirms that the SPE will be an “assignee” as defined in N.C. Gen. Stat. § 62-172(a)(2), when an interest in Storm Recovery Property is transferred, other than as security, to such SPE, and such SPE may issue Storm Recovery Bonds in accordance with this Financing Order as discussed further herein.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NOS. 10 & 11

Storm Recovery Property

The Commission determines, consistent with N.C. § 62-172(a)(15), that Storm Recovery Property consists of: (1) all rights and interests of DEC or any successor or assignee of DEC under this Financing Order, including the right to impose, bill, charge, collect, and receive storm recovery charges authorized in this Financing Order and to

¹⁵ See IRS Rev. Proc. 2005-62 5.04(2).

obtain true-up adjustments to such storm recovery charges as provided in this Financing Order, and (2) all revenues, collections, claims, rights to payments, payments, money, or proceeds arising from the rights and interests specified in this Financing Order, 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.

Pursuant to N.C. Gen. Stat. § 62-172(b)(3)c., DEC has requested that this Financing Order provide that the creation of the Storm Recovery Property will be conditioned upon, and simultaneous with, the sale of such Storm Recovery Property to the SPE and the pledge of such Storm Recovery Property to secure the Storm Recovery Bonds.

In addition, the Commission determines that the creation of Storm Recovery Property pursuant to this Financing Order is conditioned upon, and shall be simultaneous with, the sale or other transfer of the Storm Recovery Property to the SPE and the pledge of the Storm Recovery Property to secure the Storm Recovery Bonds.

The Storm Recovery Property shall constitute an existing, present intangible property right or interest therein, notwithstanding that the imposition and collection of Storm Recovery Charges depends on DEC performing its servicing functions relating to the collection of Storm Recovery Charges and on future electricity consumption. Such property shall exist regardless of whether or not the revenues or proceeds arising from the property have been billed, have accrued, or have been collected and notwithstanding the fact that the value or amount of the property is dependent on the future provision of service to retail customers by DEC or its successors or assignees and future consumption of

electricity by retail customers. Furthermore, the Storm Recovery Property shall continue to exist until the Storm Recovery Bonds are paid in full and all Financing Costs and other costs of the Storm Recovery Bonds have been recovered in full.

The Storm Recovery Property also constitutes a present property right for purposes of contracts concerning the sale or pledge of property. The interest of a transferee, purchaser, acquirer, assignee, or pledgee in the Storm Recovery Property, and in the revenue and collections arising from that property, is not subject to setoff, counterclaim, surcharge, or defense by DEC or any other person or in connection with the reorganization, bankruptcy, or other insolvency of DEC or any other entity. *See* N.C. Gen. Stat. § 62-172(e)(1).

The creation, attachment, granting, perfection, priority and enforcement of liens and security interests in Storm Recovery Property are governed by N.C. Gen. Stat. § 62-172(e)(2).

Pursuant to by N.C. Gen. Stat. § 62-172(e)(2)e., the priority of a security interest in Storm Recovery Property is not affected by the commingling of Storm Recovery Charges with other amounts. Any pledgee or secured party shall have a perfected security interest in the amount of all Storm Recovery Charges that are deposited in the collection account or any other cash or deposit account of DEC in which Storm Recovery Charges have been commingled with other funds and any other security interest that may apply to those funds shall be terminated when such funds are transferred to the collection account.

When DEC transfers Storm Recovery Property to the SPE pursuant to this Financing Order under an agreement that expressly states that the transfer is a sale or other absolute transfer in accordance with the “absolute transfer” provisions of N.C. Gen. Stat.

§ 62-172(e)(3), that transfer shall constitute an absolute transfer and true sale and not a pledge of or secured transaction or other financing arrangement, and title (both legal and equitable) to the Storm Recovery Property shall immediately pass to the SPE. After such a transfer, the Storm Recovery Property shall not be subject to any claims of DEC or its creditors, other than creditors holding a properly perfected prior security interest in the Storm Recovery Property perfected by N.C. Gen. Stat. § 62-172(e).

As provided by N.C. Gen. Stat. § 62-172(e)(3)b., the characterization of the sale, conveyance, assignment, or transfer of Storm Recovery Property as an absolute transfer and true sale or other absolute transfer and the corresponding characterization of the transferee's property interest shall not be affected by: (1) commingling of Storm Recovery Charges arising with respect to the Storm Recovery Property with other amounts; (2) the retention by DEC of a (i) partial or residual interest, including an equity interest, in the Storm Recovery Property, whether direct or indirect, or whether subordinate or otherwise or (ii) the right to recover costs associated with taxes, franchise fees or license fees imposed on the collection of storm recovery charges; (3) any recourse that the transferee may have against DEC other than any such recourse created, contingent upon, or otherwise occurring or resulting from one or more of DEC's retail customers' inability to timely pay all or a portion of the Storm Recovery Charge; (4) any indemnification rights, obligations, or repurchase rights made or provided by DEC, other than indemnity or repurchase rights based solely upon DEC's retail customers' inability or failure to timely pay all or a portion of the Storm Recovery Charge; (5) the obligation of DEC to collect Storm Recovery Charges on behalf of the SPE; (6) DEC acting as the servicer of the Storm Recovery Charges or the existence of any contract that authorizes or requires DEC, to the extent that

any interest in Storm Recovery Property is sold or assigned, to contract with the assignee or any financing party that it will continue to operate its system to provide service to its customers for the benefit and account of such assignee or financing party, and will account for and remit such amounts to or for the account of such assignee or financing party; (7) the treatment of the sale, conveyance, assignment, or other transfer for tax, financial reporting, or other purposes; (8) granting or providing to holders of the Storm Recovery Bonds a preferred right to the Storm Recovery Property or credit enhancement by DEC or its affiliates with respect to the Storm Recovery Bonds; or (9) any application of the True-Up Mechanism.

The Commission finds that the terms and conditions discussed above regarding Storm Recovery Property are reasonable and adhere to the requirements of the Securitization Statute. In addition, the Storm Recovery Property and all other collateral is to be held and administered by an indenture trustee pursuant the Indenture, which helps ensure lower Storm Recovery Charges, and that the Statutory Cost Objectives can be achieved. Accordingly, the Commission approves of the (i) creation of Storm Recovery Property, including the rights to impose, bill, charge, collect and receive Storm Recovery Charges and obtain periodic adjustments to the Storm Recovery Charges and (ii) DEC's sale of the Storm Recovery Property to the SPE.

If DEC defaults on any required remittance of amounts collected in respect of Storm Recovery Property specified in this Financing Order, the Superior Court in Wake County, upon application by an interested party, and without limiting any other remedies available to the applying party, shall order the sequestration and payment of the revenues arising from such Storm Recovery Property to the other financing parties. Any such order shall

remain in full force and effect notwithstanding any reorganization, bankruptcy, or other insolvency proceedings with respect to DEC or its successors or assignees, provided; however, that in no circumstances shall the retail customers of DEC be responsible to pay storm recovery charges issued on behalf of DEP or the retail customers of DEP be responsible to pay the Storm Recovery Charges for Storm Recovery Bonds issued on behalf of DEC.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 12

Transaction Documents

DEC has submitted in connection with its Joint Petition a form of the Purchase and Sale Agreement, the Administration Agreement, and the Servicing Agreement, which set out in substantial detail certain terms and conditions relating to the transaction structure for each issuance of Storm Recovery Bonds, including the proposed sale of Storm Recovery Property to the SPE, the administration of the SPE, and the servicing of the Storm Recovery Charges and Storm Recovery Bonds. DEC requested that we approve the substance of the form of the agreements between DEC and the SPE in connection with issuance of this Financing Order.

Drafts of these agreements were filed in order that this Commission may evaluate the principal rights and responsibilities of the parties thereto. The final versions of these agreements, however, will be subject to change based on the input from rating agencies, investors and other parties involved in the structuring and marketing of the Storm Recovery Bonds.

DEC has also submitted a form of Indenture between the SPE and an indenture trustee, which sets forth proposed security and terms for the Storm Recovery Bonds. DEC

requested that we approve the substance of the Indenture, subject to such changes based on the input from rating agencies, investors and other parties involved in the structuring and marketing of the Storm Recovery Bonds.

DEC has also submitted a form of the LLC Agreement with DEC as the sole member that DEC proposed would constitute the organizing document of the SPE. DEC requested that we approve the substance of the LLC Agreement, which would be executed substantially in the form submitted to this Commission, subject to such changes as DEC deems necessary or advisable to satisfy bankruptcy opinion and rating agency considerations. In addition, DEC proposed to execute a Servicing Agreement with the SPE which may be amended, renewed, or replaced by another servicing agreement in accordance with its terms. DEC will be the initial servicer but may be succeeded as servicer as detailed in the Servicing Agreement. Pursuant to the Servicing Agreement, the servicer is required, among other things, to impose, bill, charge, collect and receive the Storm Recovery Charges for the benefit and account of the SPE, to make the periodic true-up adjustments of Storm Recovery Charges required or allowed by this Financing Order and to account for and remit its collection of Storm Recovery Charges to or for the account of the SPE in accordance with the remittance procedures contained in the Servicing Agreement without any charge, deduction, or surcharge of any kind, other than the servicing fee specified in the Servicing Agreement.

Under the Servicing Agreement, if any servicer fails to fully perform its servicing obligations, the indenture trustee or its designee may, and upon the instruction of the requisite percentage of holders of the outstanding bonds shall, appoint an alternate party to replace the defaulting servicer. The obligations of the servicer under the Servicing

Agreement, the circumstances under which an alternate servicer may be appointed, and the conditions precedent for any amendment of such agreement will be more fully specified in the Servicing Agreement. The rights of the SPE under its Servicing Agreement will be included in the collateral pledged to the indenture trustee under its Indenture for the benefit of holders of the Storm Recovery Bonds and holders of the SRB Securities.

The Commission determines that the Transaction Documents described above are necessary to facilitate the proposed financing structure approved herein. Moreover, the Transaction Documents are reasonable and will help to achieve the Statutory Cost Objectives. Accordingly, the form Transaction Documents are approved.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NOS. 13 & 14

Offering and Sale of the Bonds

DEC has proposed that the Storm Recovery Bonds be offered pursuant to an SEC-registered offering. The Company has provided testimony to the effect that virtually all utility securitizations have been sold as SEC-registered public transactions. Further, DEC has provided testimony to the effect that an SEC-registered, public offering, is likely to result in a lower cost of funds relative to a non SEC-registered offering, including a Rule 144A qualified institutional offering, all else being equal, due to the enhanced transparency and liquidity of publicly-registered securities. Accordingly, subject to the IAL procedure described further below, the Commission finds that an SEC-registered public offering is most likely to result in the lowest costs to consumers, and should be approved. However, the Commission further finds DEC, subject to the IAL procedures described in the Evidence and Conclusions for Finding of Fact No. 33, may also pursue a Rule 144A qualified institutional offering of the Storm Recovery Bonds.

DEC has proposed that the Storm Recovery Bonds be sold pursuant to a sale to one or more underwriters in a negotiated offering as described in the testimony of witness Atkins. DEC, consistent with its other securities offerings, will select the lead managing underwriter(s) to achieve its Statutory Cost Objectives. DEC has testified that a negotiated underwriting is likely to provide greater flexibility and availability of investor funds.

The Commission finds, subject to the IAL procedures, that the issuance of the Storm Recovery Bonds pursuant to an SEC-registered negotiated sale is likely to result in lower overall costs and satisfy the Statutory Cost Objectives, and should therefore be approved. However, DEC, subject to the IAL procedures, is also authorized to pursue other sale options, including a Rule 144A offering, in order to satisfy the Statutory Cost Objectives. The Commission therefore finds it necessary to grant DEC flexibility and authority to pursue other sale options that result in the lowest Storm Recovery Charges for customers consistent with market conditions at the time the Storm Recovery Bonds are priced.

DEC has testified that the SPE may, as an alternative to directly issuing and marketing the Storm Recovery Bonds to unaffiliated investors through either a registered public offering or unregistered exempt offering, issue the Storm Recovery Bonds to a single special purpose trust, the SRB Issuer, established jointly by DEC and DEP or by Duke Energy Corporation.

In this case, notes or similar instruments would be issued by the SRB Issuer to investors backed by the SPE's Storm Recovery Bonds and storm recovery bonds issued by an SPE wholly-owned by DEP pursuant to DEP's financing order held by the SRB Issuer (the "SRB Securities"). The SRB Issuer would engage in no activities other than the

holding of the Storm Recovery Bonds and the storm recovery bonds issued by an SPE wholly-owned by DEP, issuing the SRB Securities and engaging in other related activities. A form of the proposed Declaration of Trust is attached to the testimony of witness Heath as Heath Exhibit 2f and co-sponsored by witness Atkins. DEC asks the Commission to approve the substance of the Declaration of Trust, subject to such changes based on input from rating agencies, investors and other parties involved in the structuring and marketing of the SRB Securities.

The SRB Securities would be sold either through a registered public offering or unregistered exempt offering described above. The SRB Securities would be structured in order to achieve the highest possible credit rating from applicable rating agencies based upon the underlying structure of the SRB Issuer secured by Storm Recovery Property and the storm recovery property owned by a SPE wholly-owned by DEP and supported by the True-Up Mechanism.

Combining the issuance of DEC's Storm Recovery Bonds and DEP's storm recovery bonds in one transaction through the use of the SRB Issuer will likely, as detailed in the testimony of witness Atkins and witness Heath, result in enhanced marketability and other efficiencies, thereby lowering costs for both DEC's and DEP's customers. None of the SPEs would be obligated, however, with respect to any other SPE's storm recovery bonds; therefore, the customers of DEC would not be affected by the actions of DEP or the adequacy of the storm recovery property of DEP. The SRB Issuer would transfer an allocable portion of net proceeds from the sale of the SRB Securities to each SPE and each such SPE would in turn transfer those proceeds to DEC or DEP, as applicable in consideration for the storm recovery property sold to such SPE by DEC or DEP.

The Commission finds the testimony of witness Heath and witness Atkins to be persuasive, and agrees that combining the issuance of DEC's Storm Recovery Bonds and DEP's storm recovery bonds in one transaction through the use of the SRB Issuer may result in lower Storm Recovery Charges for customers, and help ensure that the Statutory Cost Objectives can be met. Accordingly, the Commission hereby grants DEC the authority in this Financing Order to issue Storm Recovery Bonds in a combined transaction with DEP through the use of the SRB Issuer. By allowing the Companies flexibility to determine which of the above issuance structures are best tailored to then-existing rating agency considerations, market conditions, and investor preferences, the financing of Storm Recovery Costs can be reasonably expected to result in the lowest Storm Recovery Charges consistent with market conditions at the time the Storm Recovery Bonds are priced.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NOS. 15—17

Amortization, Interest Rates, and Credit Ratings of Storm Recovery Bonds

Regarding the principal amortization, the Commission determines that the expected term of the scheduled final payment date of the last maturing tranche should be no later than 15 years from the issuance of the series of Storm Recovery Bonds. The legal maturity date of each tranche may be longer than the scheduled final payment date for that tranche. Annual payments of principal of and interest on the Storm Recovery Bonds shall be substantially level over the expected term of the Storm Recovery Bonds.

The first payment of principal and interest for each series of Storm Recovery Bonds shall occur within 12 months of issuance. Payments of principal and interest thereafter shall be no less frequent than semi-annually. The Commission finds that this proposed

structure—providing substantially level annual debt service and revenue requirements over the life of the Storm Recovery Bonds—is in the public interest and should be utilized.

As to interest rates, the Commission determines that each tranche of the Storm Recovery Bonds should have a fixed interest rate, based on current market conditions. If market conditions change, and it becomes necessary to achieve the Statutory Cost Objectives for the one or more tranches of bonds to be issued in floating-rate mode, DEC is authorized to issue such bonds but will be required to execute agreements to swap the floating payments to fixed-rate payments. This flexibility will ensure that DEC can achieve economic benefits for customers.

The Company anticipates that each series of Storm Recovery Bonds will have a AAA or equivalent rating from at least two nationally recognized rating agencies. The Commission hereby grants DEC authority to provide necessary credit enhancements, with recovery of related costs as a form of On-going Financing Costs, to achieve such ratings.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 18

Security for Storm Recovery Bonds

DEC proposed that the payment of the Storm Recovery Bonds and related Storm Recovery Charges authorized by this Financing Order is to be secured by the Storm Recovery Property created by this Financing Order and by certain other collateral as described herein. The Storm Recovery Bonds will be issued pursuant to an Indenture under which the indenture trustee will administer the trust.

DEC proposed that the SPE will establish a Collection Account as a trust account to be held by its indenture trustee as collateral to facilitate the payment of the principal of, interest on, and On-going Financing costs related to, the Storm Recovery Bonds in full and

on a timely basis. Each Collection Account will include the General Subaccount, the Capital Subaccount and the Excess Funds Subaccount, and may include other subaccounts if required to obtain AAA ratings on the Storm Recovery Bonds.

DEC proposes that Storm Recovery Charge remittances from the servicer with respect to the Storm Recovery Bonds will be deposited into the General Subaccount for the SPE. On a periodic basis, the money in the General Subaccount will be allocated to pay expenses of the SPE, to pay principal of and interest on the Storm Recovery Bonds, and to meet the funding requirements of the other subaccounts, according to specified payment priority established in the Indenture. Funds in the General Subaccount will be invested by the indenture trustee in short-term, high-quality investments and such funds (including, to the extent necessary, investment earnings) will be applied by the indenture trustee to pay principal of and interest on the Storm Recovery Bonds and all other components of the Ongoing Financing Costs payable by the SPE.

When the Storm Recovery Bonds are issued, DEC proposes that it will make a capital contribution to its SPE, which the SPE will deposit into its Capital Subaccount. The storm recovery proceeds will not be used to fund this capital contribution. The amount of the capital contribution will be at least 0.5 percent of the original principal amount of the Storm Recovery Bonds issued by the SPE. Each Capital Subaccount will serve as collateral to facilitate timely payment of principal of and interest on the Storm Recovery Bonds. To the extent that a Capital Subaccount must be drawn upon to pay these amounts due to a shortfall in the Storm Recovery Charge collections, it will be replenished to its original level through the true-up process described below. The funds in each Capital Subaccount will be invested in short-term, high-quality investments and, if necessary, such funds

(including investment earnings) will be used by the indenture trustee to pay principal of and interest on the Storm Recovery Bonds and the On-going Financing Costs payable by the SPE. DEC will be permitted to earn a rate of return on its invested capital in the SPE equal to the rate of interest payable on the longest maturing tranche of Storm Recovery Bonds and this return on invested capital should be a component of the Periodic Payment Requirement (as defined below), and accordingly, recovered from Storm Recovery Charges.

DEC proposed that any Excess Funds Subaccount will hold any Storm Recovery Charge collections and investment earnings on the Collection Account in excess of the amounts needed to pay current principal of and interest on the Storm Recovery Bonds and to pay all of the On-going Financing Costs payable by the SPE including, but not limited to, funding or replenishing each Capital Subaccount. Any balance in or amounts allocated to such Excess Funds Subaccount on a true-up adjustment date will be subtracted from any amounts required for such period for purposes of the true-up adjustment. The funds in the Excess Funds Subaccount will be invested in short-term, high-quality investments, and such funds (including investment earnings thereon) will be available to pay principal of and interest on the Storm Recovery Bonds and the On-going Financing Costs payable by the SPE.

DEC also proposed that any Collection Account and the subaccounts described above are intended to facilitate the full and timely payment of scheduled principal of and interest on the Storm Recovery Bonds and all other authorized components of the On-going Financing Costs payable by the SPE. If the amount of Storm Recovery Charge collections in the General Subaccount is insufficient to make, on a timely basis, all scheduled payments

of principal of and interest on the Storm Recovery Bonds and to make payment on all of the other components of the On-going Financing Costs payable by the SPE, the relevant Excess Funds Subaccount and the relevant Capital Subaccount will be drawn down, in that order, to make such payments. Any deficiency in a Capital Subaccount due to such withdrawals must be replenished on a periodic basis through the true-up process.

In addition to the foregoing, there may be such additional accounts and subaccounts as are necessary to segregate amounts received from various sources, or to be used for specified purposes. Upon the maturity of the Storm Recovery Bonds and upon the discharge of all obligations with respect to such bonds, amounts remaining in each Collection Account will be released to the appropriate SPE and will be available for distribution by the SPE to DEC. As noted in this Financing Order, equivalent amounts, less the amount of any Capital Subaccount, will be booked to a regulatory liability and credited back to customers in the Company's next rate case following the maturity of the Storm Recovery Bonds.

Based upon the foregoing, the Commission finds that utilization of a Collection Account, including a General Subaccount, a Capital Subaccount and an Excess Funds Subaccount, as proposed by DEC is reasonable and should help achieve the Statutory Cost Objectives. Moreover, it is necessary to grant DEC the flexibility and authority to include other subaccounts in the Collection Account where required to obtain AAA ratings on the series of Storm Recovery Bonds, which will in turn lower Storm Recovery Charges for customers.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NOS. 19 & 20

DEC as Initial Servicers of the Storm Recovery Bonds

DEC proposes to execute a Servicing Agreement with the SPE, the final version of which shall be filed with this Commission concurrent with its filing with the SEC.

Under the Servicing Agreement, the servicer shall be required, among other things, to impose, bill, charge, collect and receive the Storm Recovery Charges for the benefit of its SPE, to make the true-up adjustments of Storm Recovery Charges required or allowed by this Financing Order, and to account for and remit the Storm Recovery Charges to or for the account of its SPE in accordance with the remittance procedures contained in the Servicing Agreement without any charge, deduction, or surcharge of any kind, other than the servicing fee specified in the Servicing Agreement. The appropriate servicing fee shall be as set forth in this Financing Order.

To preserve the integrity of the bankruptcy-remote structure of the SPE and ensure the high credit quality of the Storm Recovery Bonds, the servicer must be adequately compensated for the services it provides, including the calculation, billing, and collection of Storm Recovery Charges, remittance of those charges to the indenture trustee, and the preparation, filing, and processing of the TUAL. DEC's proposed form of Servicing Agreement provides for an on-going servicing fee for the initial servicer in the amount of 0.05 percent of the initial principal amount of the Storm Recovery Bonds plus out-of-pocket expenses. DEC has submitted testimony on the costs anticipated to be incurred by it in connection with the servicing functions under the Servicing Agreement, and we find such costs to be reasonable and appropriate.

DEC's proposed form of Servicing Agreement provides for an annual fee for on-going services of 0.05 percent of the initial principal amount of the Storm Recovery Bonds so long as DEC acts as servicer plus out-of-pocket expenses. In addition to the annual on-going servicing fee, DEC proposes to recover as an Up-front Financing Cost, approximately \$5.2 million, to recover set-up costs of the servicer, including information technology programming costs to adapt DEC's existing systems to bill, charge, collect, receive and process Storm Recovery Charges, and to set up necessary servicing functions. The evidence shows that these amounts represent a prudently incurred cost to DEC, and we find that those costs are reasonable.

However, the servicing fees collected by DEC, or any affiliate acting as the servicer under the Servicing Agreement, will be reflected in DEC's ongoing cost of service such that any amounts in excess of DEC's incremental costs of servicing the Storm Recovery Bonds shall be returned to DEC's retail customers in the Company's next rate case. The expenses incurred by DEC or such affiliate to perform obligations under the Servicing Agreement not otherwise recovered through the Storm Recovery Charges will likewise be included in DEC's cost of service.

DEC has proposed that it will not be permitted voluntarily to resign from its duties as a servicer if the resignation will harm the credit rating on Storm Recovery Bonds issued by its SPE. Even if DEC's resignation as servicer would not harm the credit rating on the Storm Recovery Bonds issued by the SPE, we find and direct that DEC shall not be permitted to voluntarily resign from its duties as servicer without consent of the Commission. If DEC defaults on its duties as servicer or is required for any reason to discontinue those functions, then DEC proposes that a successor servicer acceptable to the

indenture trustee be named to replace DEC as servicer so long as such replacement would not cause any of the then current credit ratings of the Storm Recovery Bonds to be suspended, withdrawn or downgraded. We find that any successor servicer to DEC also should be acceptable to the Commission.

DEC has proposed that, and we find and direct that, the servicing fee payable to a substitute servicer should not exceed 0.60 percent per annum on the initial principal balance of the Storm Recovery Bonds issued by the SPE, unless a higher fee is approved by the Commission.

DEC shall indemnify its retail customers to the extent retail customers incur losses associated with higher servicing fees payable to a substitute servicer as a result of DEC's negligence, recklessness or willful misconduct in acting as a servicer. This indemnification provision shall be reflected in the Transaction Documents for these Storm Recovery Bonds.

We find and direct that the SPE and the indenture trustee shall not be permitted to waive any material obligations of DEC as transferor or as servicer of Storm Recovery Property without express written consent of this Commission.

Furthermore, it is contemplated that DEC shall act as the servicer for the Storm Recovery Bonds until the Storm Recovery Bonds are fully amortized. If the State of North Carolina or this Commission decides to allow billing, collection, and remittance of the Storm Recovery Charges by a third party supplier within the DEC service territory, such authorization must be consistent with the rating agencies' requirements, as outlined in the testimony of witness Atkins necessary for the Storm Recovery Bonds to maintain the targeted AAA or equivalent rating.

The Commission finds and concludes that it is reasonable for DEC to act as initial servicer under the proposed financing transaction and that such will reduce risk associated with the proposed securitization therefore resulting in lower Storm Recovery Charges and greater benefits to ratepayers. Accordingly, this Financing Order grants DEC authority and flexibility to act as initial servicer pursuant to the Servicing Agreement under the proposed financing structure.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NOS. 21 & 22

DEC Administrator of the SPE

Under the above-described Administration Agreement, DEC will perform the administrative duties necessary to maintain the SPE. The appropriate administration fee shall be as set forth in this Financing Order.

DEC's proposed form of Administration Agreement provides for a \$50,000 annual fee plus out-of-pocket expenses paid to an administrator for performing the services required by the Administration Agreement. Witness Heath discusses the costs anticipated to be incurred by it in connection with the Administration Agreement in his testimony. We find that DEC has demonstrated that this annual fee is necessary to cover any costs to be incurred by DEC in performing services as administrator.

The Commission finds and concludes that it is reasonable for DEC to act as an administrator of the SPE under the proposed financing transaction. Accordingly, this Financing Order grants DEC authority and flexibility to act as administrator pursuant to the Administration Agreement under the proposed financing structure.

The administration fees collected by DEC or any affiliate acting as the administrator under the Administration Agreement will be included in DEC's cost of

service such that any amounts in excess of DEC's incremental costs of administering the SPE shall be returned to DEC's retail customers. The expenses incurred by DEC or such affiliate to perform obligations under the Administration Agreement not otherwise recovered through the Storm Recovery Charges will likewise be included in DEC's cost of service.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NOS. 23 & 24

On-going Financing Costs

Heath Exhibit 1, attached to the testimony of witness Heath, provides an estimate of the On-going Financing Costs associated with the Storm Recovery Bonds, which DEC proposes to recover through the Storm Recovery Charge. DEC's On-going Financing Costs include, without limitation, rating agency surveillance fees, servicing fees, administration fees, legal and auditing fees, regulatory assessment fees, trustee fees, independent manager(s) fees and the return on invested capital.

Certain of these On-going Financing Costs, such as the administration fees and the amount of the servicing fees for DEC (as the initial servicer) are determinable, either by reference to an established dollar amount or a percentage as discussed above, on or before the issuance of the Storm Recovery Bonds. Other On-going Financing Costs will vary over the term of the Storm Recovery Bonds.

Having reviewed DEC's proposal, the Commission determines that the proposed On-going Financing Costs identified in DEC's Joint Petition and Attachment 4 of the form of IAL qualify as "financing costs" pursuant to N.C. Gen. Stat. § 62-172(a)(4) and are therefore eligible for recovery through a storm recovery charge. Additionally, consistent with the Commission's conclusions for Finding of Fact Nos. 20 and 22, the Commission

reiterates that it is appropriate for DEC to credit back to customers all periodic servicing and administration fees in excess of DEC's or an affiliate of DEC's incremental cost of performing the servicer or administrator function in the next rate case when costs and revenues associated with the servicing and administration fees will be included in DEC's cost of service.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 25

Storm Recovery Bonds to Be Treated as “Debt” for Federal Income Tax Purposes

In light of the IRS safe harbor rules, we find that DEC shall be responsible to structure the Storm Recovery Bond transactions in a way that clearly meets all requirements for the IRS' safe harbor treatment, including that, for federal income tax purposes, the Storm Recovery Bonds shall be treated as debt of DEC.

STORM RECOVERY CHARGES

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NOS. 26—29

Imposition and Computation of Storm Recovery Charges

DEC seeks authorization to collect from its customers, in the manner provided in this Financing Order and/or the Tariffs approved hereby, Storm Recovery Charges in an amount sufficient to provide for the timely payment of principal of and interest on the Storm Recovery Bonds and all other On-going Financing Costs as described in the Evidence and Conclusions for Finding of Fact Nos. 23 & 24.

To repay the Storm Recovery Bonds and On-going Financing Costs, DEC is hereby authorized to implement Storm Recovery Charges to be collected on a per-kWh basis from all applicable customer rate classes until the Storm Recovery Bonds and associated Financing Costs are paid in full. The Storm Recovery Charges are nonbypassable, and must be paid by all existing or future retail customers receiving transmission or distribution

services from DEC or its successors or assignees under Commission-approved rate schedules or under special contracts, even if the retail customer elects to purchase electricity from an alternative electricity supplier following a fundamental change in regulation of public utilities in this state. *See* N.C. Gen. Stat. § 62-172(a)(13) and (b)(3)b.4. In the event there is a fundamental change in the regulation of public utilities, the Storm Recovery Charges shall be collected in a manner that will not adversely affect the rating on the Storm Recovery Bonds.

In summary, the Securitization Statute provides for the recovery of storm recovery costs through storm recovery bonds. Accordingly, to compute the Storm Recovery Charges, DEC first applied the allocation factors to the total first year revenue requirements as presented in witness Abernathy DEC Exhibit 3 in order to allocate the revenue requirements to each customer rate class. These revenue requirements were grossed-up to reflect uncollectible account write-offs and the regulatory fees to arrive at the storm recovery revenue requirements by rate class. Next, the rate was calculated by dividing total revenue requirements for each customer rate class by the effective kWh sales forecast for each customer rate class.

DEC applied the allocation factors to the customer rate classes in the manner in which these costs or their equivalent costs were allocated in the cost-of-service study proposed by DEC in Docket No. E-7, Sub 1214, as required by the Securitization Statute. DEC used the allocation factors as well as the sales forecast (based on the 2021 retail sales forecast filed in the Company's most recent Integrated Resource Plan) to calculate the proposed initial Storm-Recovery Charge per kWh by customer rate class. The resulting

Storm Recovery Charges were then set forth in proposed Tariffs, as shown in witness Jonathan Byrd's Exhibit 2, needed to implement the Storm Recovery Charge.

A formula-based mechanism as described in N.C. Gen. Stat. § 62-172(b)(3)b.6., the True-Up Mechanism, to calculate, and adjust from time to time, the Storm Recovery Charges for each customer rate class was submitted by DEC. DEC submitted with the Joint Petition the supporting testimony of witness Angers, which provided the True-Up Mechanism to determine the Periodic Payment Requirement (defined further below) to be recovered from the Storm Recovery Charge. This True-Up Mechanism is attached as Appendix B.

DEC also submitted with its Joint Petition the supporting testimony of witness Byrd with respect to allocation of these periodic costs and the computation of the Storm Recovery Charges for each customer rate class for DEC. As discussed in the testimony of witness Abernathy and shown in Abernathy DEC Exhibits 1-4, DEC computed the estimated Storm Recovery Charges, as described in N.C. Gen. Stat. § 62-172(a)(13).

We hereby find that the cost allocation formula described in DEC's testimony and embedded in the True-Up Mechanism is consistent with N.C. Gen. Stat. § 62-172(b)(3)b.6. and is reasonable.

In the event DEC chooses to issue Storm Recovery Bonds to a trust or another SPE, as described in Finding of Fact No. 14, the obligations of customers of DEC to pay relevant storm recovery bonds shall not be joint and several with customers of the other utility meaning that each storm recovery charge shall only be adjusted pursuant to the True-up Mechanism to ensure the collection of amounts sufficient to pay principal of, interest on and other on-going financing costs related to the relevant storm recovery bonds.

In N.C. Gen. Stat. § 62-172(k), the State pledges to and agrees with the bondholders, the owners of Storm Recovery Property, and other financing parties that the State and its agencies, including this Commission will not: (1) alter the provisions of the Securitization Statute, which authorize this Commission to create an irrevocable contract right or chose in action by the issuance of this Financing Order irrevocable binding, or nonbypassable charges, to create Storm Recovery Property, and make the Storm Recovery Charges imposed by this Financing Order; (2) take or permit any action that impairs or would impair the value of Storm Recovery Property or revises the Storm Recovery Costs for which recovery is authorized; (3) in any way impair the rights and remedies of the bondholders, assignees, and other financing parties; or (4) except for changes made pursuant to the True-Up Mechanism, reduce, alter, or impair Storm Recovery Charges that are to be imposed, billed, charged, collected, and remitted for the benefit of the bondholders, any assignee, 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. This Commission finds that this State Pledge will constitute a contract with the bondholders, the owners of Storm Recovery Property, the SRB Issuer, holders of SRB Securities and other financing parties.

This Commission anticipates stress case analyses, as described in witness Atkins' testimony, will show that the broad-based nature of the True-Up Mechanism under N.C. Gen. Stat. § 62-172(b)(3)b.6., and the State Pledge under N.C. Gen. Stat. § 62-172(k), will serve to minimize credit risk associated with the Storm Recovery Bonds (i.e., that sufficient funds will be available and paid to discharge the principal and interest when due).

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NOS. 30 & 31

Treatment of Storm Recovery Charge in Tariff and on Retail Customer Bills

DEC submitted a proposed Tariff included as Byrd DEC Exhibit 2 attached to witness Byrd's testimony to impose the Storm Recovery Charge. Pursuant to N.C. Gen. Stat. § 62-172(d)(1), the tariffs must "explicitly reflect that a portion of the charges on such bill represents storm recovery charges approved in a financing order issued to the public utility and, if the storm recovery property has been transferred to an assignee, must include a statement to the effect that the assignee is the owner of the rights to storm recovery charges and that the public utility or other entity, if applicable, is acting as a collection agent or servicer for the assignee." In addition, the "tariff applicable to customers must indicate the storm recovery charge and the ownership of the charge." N.C. Gen. Stat. § 62-172(d)(1).

The Commission finds that DEC's proposed Tariff included as Byrd DEC Exhibit 2 and attached to witness Byrd's testimony include the required language necessary to effectuate N.C. Gen. Stat. § 62-172(d) and is hereby approved.

In addition, and in accordance with N.C. Gen. Stat. § 62-172(d)(2), the Commission determines that DEC's applicable Storm Recovery Charge must be recognized as a separate line item on retail customer bills entitled Storm Securitization Charge and include both the rate and the amount of the charge. Moreover, all electric bills issued by DEC must state that, as approved in a financing order, all rights to the Storm Recovery Charge are owned by the SPE and that DEC is acting as collection agent or servicer for its SPE.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 32

True-Up of Storm Recovery Charges

Pursuant to N.C. Gen. Stat. § 62-172(b)(3)b.6., the servicer of the Storm Recovery Property will file for standard true-up adjustments to the Storm Recovery Charges at least semi-annually to ensure Storm Recovery Charge collections are sufficient to provide for the timely payment of the principal of and interest on the Storm Recovery Bonds and of all of the On-going Financing Costs payable by the SPE in respect of Storm Recovery Bonds as approved under this Financing Order. This required periodic payment of all such amounts will also include deficiencies on past due amounts for any reason for a series of Storm Recovery Bonds.

Pursuant to N.C. Gen. Stat. § 62-172(b)(3)b.6., this Financing Order must include a formula-based true-up mechanism for making expeditious periodic adjustments in the Storm Recovery Charges that retail customers are required to pay pursuant to this Financing Order and for making any adjustments that are necessary to correct for any overcollection or undercollection of the charges or to otherwise ensure the timely payment of the Periodic Payment Requirement (as defined below).

Consistent with Section N.C. Gen. Stat. § 62-172(b)(3)d., DEC proposed to file with the Commission at least semi-annually (and at least quarterly beginning 12 months prior to the last scheduled payment date for the latest maturing tranche of a series of Storm Recovery Bonds) a letter applying the formula-based True-Up Mechanism and, based on estimates of consumption for each rate class and other mathematical factors, requesting administrative approval to make the necessary adjustments.

In addition to the semi-annual true-up adjustments, DEC proposed that the servicer of the Storm Recovery Property also be authorized to make optional interim true-up adjustments at any time and for any reason in order to ensure the recovery of revenues sufficient to provide for the timely payment of Periodic Payment Requirement.

The Commission accepts the Company's true-up proposals as reasonable, and finds that DEC shall adhere to the following requirements:

After issuance of Storm Recovery Bonds on behalf of DEC, the servicer will submit at least semi-annually (and at least quarterly beginning 12 months prior to the last scheduled final payment date of the last maturing tranche of a series of Storm Recovery Bonds) a letter in this docket for Commission review, as described in N.C. Gen. Stat. § 62-172(b)(3)d., and in the form attached hereto as Appendix B.

The TUAL will apply the formula-based True-Up Mechanism described herein and in Appendix B to this Financing Order for making expeditious periodic adjustments in the relevant Storm Recovery Charge to correct for any over-collection or under-collection of the charges or to otherwise ensure the timely payment of the Periodic Payment Requirement for each series of Storm Recovery Bonds.

The "Periodic Payment Requirement" will be composed of the following components for each collection period: (i) the payments of the principal of and interest on the Storm Recovery Bonds issued by the SPE, in accordance with the expected amortization schedule, including deficiencies on past-due principal and interest for any reason, (ii) On-going Financing Costs payable during the collection period and the costs of funding and/or replenishing the Capital Subaccount and any other credit enhancements

established in connection with the Storm Recovery Bonds and other related fees and expenses.

The first Periodic Payment Requirement established through the IAL procedures may be calculated based upon a set of collection periods greater or less than twelve collection periods. Notwithstanding the foregoing, in the event that any Storm Recovery Bonds are outstanding following the last scheduled payment date for the tranche of the latest maturing series of Storm Recovery Bonds, the Periodic Payment Requirement will be calculated so that collections are sufficient to make all payments on those Storm Recovery Bonds, and in respect of Financing Costs, no later than the immediately following payment date.

Along with each TUAL, the servicer shall provide workpapers showing all inputs and calculations, including its calculation of the Storm Recovery Charge and by customer rate class. Pursuant to N.C. Gen. Stat. § 62-172(b)(3)d., the Commission, upon the filing of a TUAL made pursuant to this Financing Order, shall render an administrative approval of the request or inform the servicer of any mathematical or clerical errors in its calculation as expeditiously as possible, but no later than 30 days following the servicer's true-up filing. Notification and correction of any mathematical or clerical errors shall be made so that the true-up is implemented within 30 days of the servicer's true-up filing. If no action is taken within 30 days of the filing of the TUAL, the true-up calculation shall be deemed approved. Upon approval or the passage of 30 days without notification of a mathematical or clerical error, no further action of this Commission will be required prior to implementation of the true-up.

To ensure adequate Storm Recovery Charge collections and to avoid large over-collections and under-collections over time, we direct that the servicer shall reconcile Storm Recovery Charges using DEC's most recent forecast of electricity deliveries (i.e., forecasted billing units and Commission-approved customer class allocations) used for all corporate purposes and DEC's estimates of related expenses. Each periodic true-up adjustment should ensure that Storm Recovery Charge collections are sufficient to meet the Periodic Payment Requirement. The calculation of the Storm Recovery Charges will also reflect both a projection of uncollectible Storm Recovery Charges and a projection of payment lags between the billing and collection of Storm Recovery Charges based upon DEC's most recent experience regarding collection of Storm Recovery Charges.

This Commission hereby approves the True-Up Mechanism and determines that each TUAL shall be based upon the cumulative differences, regardless of the reason, between the Periodic Payment Requirement (including scheduled principal and interest payments on the Storm Recovery Bonds) and the amount of Storm Recovery Charge collections and estimated Storm Recovery Charge collections to the indenture trustee.

ISSUANCE ADVICE LETTER

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 33

DEC shall file a combined IAL/TUAL in final form with the Commission within one business day after actual pricing. As shown in the form of IAL/TUAL, the combined IAL/TUAL shall include the following information: the actual structure of the Storm Recovery Bond issuance; the scheduled final payment dates and legal maturities of the Storm Recovery Bonds shall be under the direct control of DEC and its counsel at the Company's sole discretion; over-collateralization levels (if any); any other credit

enhancements; revised estimates of the Up-front Financing Costs proposed to be financed and estimates of debt service and other On-going Financing Costs for the first collection period and other information specific to the Storm Recovery Bonds from proceeds of the Storm Recovery Bonds. Finally, the combined IAL/TUAL shall include certifications from DEC, if required, that the structuring and pricing of the Storm Recovery Bonds achieved the Statutory Cost Objectives. The actual details of the transaction, including certifications from DEC, included with the IAL/TUAL shall be provided no later than the first business day after pricing (unless the Commission, acting through its representatives agree to a longer time). Unless the Commission issues an order stopping the Storm Recovery Bond issuance before noon on the third business day after pricing because the Commission determines that the IAL/TUAL and all required certifications have not been delivered or the transaction does not comply with the Standards of this Financing Order, the transaction proceeds without any further action of this Commission. The Commission shall only issue an order to stop the transaction if the Commission determines that (a) the transaction does not comply with the Standards of this Financing Order, or (b) DEC has not delivered the required certification in a form acceptable to the Commission. However, this Commission retains discretion either to allow the transaction to be completed or to issue an order to stop the transaction if DEC fails to deliver the required certification or is unable or unwilling to deliver the required certification in a form acceptable to this Commission. The Commission will not issue an order to stop the transaction for any other reason, including, but not limited to, a change in market conditions after the moment of pricing.

Prior to the filing of the IAL/TUAL and through the period ending with the issuance of the Storm Recovery Bonds, DEC will, to the extent requested by this Commission,

provide this Commission or a designated Commissioner or member of Commission Staff (the “Designated Member”) with timely information so that the Commission acting for itself or through its Designated Member can participate fully and in advance regarding all material aspects relating to the structuring and pricing of , and Financing Costs relating to the Storm Recovery Bonds.

DEC will retain sole discretion regarding whether or when to assign, sell or otherwise transfer any rights concerning Storm Recovery Property arising under this Financing Order, or to cause the issuance of any Storm Recovery Bonds authorized in this Financing Order; *provided*, that any issuance must satisfy the Statutory Costs Objectives. Subject to the IAL procedures described above, the SPE will issue the Storm Recovery Bonds on or after the fifth business day after pricing of the Storm Recovery Bonds.

In the event either (i) DEC determines that the issuance of the Storm Recovery Bonds would not achieve the Statutory Cost Objectives or (ii) the Commission will not permit issuance of the Storm Recovery Bonds by issuing an order to stop the transaction in accordance with the IAL procedures, then DEC shall not be precluded from seeking to recover Financing Costs incurred and Carrying Costs accrued post issuance of the DEC Rate Order.

MITIGATION OF RATE IMPACTS

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 34

N.C. Gen. Stat. § 62-172(b)(1)g., requires a public utility petitioning the Commission for a financing order to provide “a comparison between the net present value of the costs to customers that are estimated to result from the issuance of storm recovery bonds and the costs that would result from the application of the traditional method of

financing and recovering storm recovery costs from customers.” In addition, N.C. Gen. Stat. § 62-172(b)1.g. requires a public utility petitioning the Commission for a financing order to demonstrate that “the comparison should demonstrate that the issuance of storm recovery bonds and the imposition of storm recovery charges are expected to provide quantifiable benefits to customers.”

In the DEC Settlement, DEC and the Public Staff agreed that to demonstrate quantifiable benefits to customers in accordance with N.C. Gen. Stat. § 62-172(b)(1)g., that DEC must show that the net present value of the costs to customers using securitization is less than the net present value of the costs that would result under traditional storm cost recovery. For purposes of settlement, DEC and the Public Staff also agreed on the assumptions to be used in evaluating whether securitization of the Storm Recovery Costs provides quantifiable customer benefits when compared to traditional storm cost recovery. Specifically, the DEC Settlement requires that when conducting this comparison, DEC will make the following assumptions in determining what the “new rates” under the traditional method of recovery would have been absent the issuance of the Storm Recovery Bonds:

- 1) for traditional storm cost recovery, 12 months of amortization for each Storm was expensed prior to the new rates associated with traditional storm cost recovery going into effect;
- 2) 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) for traditional storm cost recovery, no carrying charges were accrued on the deferred balance during the 12-month period following the dates of the Storms;

4) for traditional storm cost recovery, the amortization period for the Storms is a minimum of 10 years; and

5) for an issuance of storm recovery bonds, the imposition of the storm recovery charges begins nine months after the new rates associated with traditional storm cost recovery would go into effect.

DEC provided the cost comparison required by N.C. Gen. Stat. § 62-172(b)(1)g. in witness Abernathy's DEC Exhibit 5. Abernathy DEC Exhibit 5 calculates both the total estimated net present value of costs to customers under the Storm Recovery Charges as well as the total cumulative costs to customers under the traditional cost recovery method. In addition, witness Abernathy included the aforementioned DEC Settlement assumptions in Abernathy DEC Exhibits 5-7, and explained in her testimony that the Company utilized the assumptions and adhered to the DEC Settlement in calculating its costs for the comparison. Therefore, as an initial matter, the Commission concludes that DEC has provided the necessary comparison required by N.C. Gen. Stat. § 62-172(b)(1)g. and properly adhered to the DEC Settlement.

As shown in Abernathy DEC Exhibit 5, using the traditional method of cost recovery, the net present value of total retail costs to customers is approximately \$180 million. Using the storm securitization method of cost recovery and recovering Storm Recovery Costs through the Storm Recovery Charge, the net present value of total retail costs to customers is approximately \$122 million. This results in approximately \$58 million, or approximately 32.0 percent, in quantifiable benefits to customers. The calculation of these costs are detailed in Abernathy DEC Exhibits 5, 6 and 7.

Thus, we find that the issuance of the Storm Recovery Bonds and the imposition of the Storm Recovery Charges authorized by this Financing Order have a significant likelihood of providing quantifiable benefits to customers as compared to the costs that would have been incurred absent the issuance of Storm Recovery Bonds.

FLEXIBILITY

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 35

In this Financing Order, we approve the financing of DEC's Storm Recovery Costs and Up-front Financing Costs through Storm Recovery Bonds with terms to be established by DEC, at the time of pricing, subject to compliance with the IAL procedures outlined in this Financing Order. As discussed above, in the Evidence and Conclusions for Finding of Fact No. 34, DEC provided testimony establishing that the proposed issuance of Storm Recovery Bonds by DEC and the imposition and collection of the Storm Recovery Charge from DEC's retail customers are expected to provided quantifiable benefits to such customers as compared to the costs that would have been incurred absent the issuance of Storm Recovery Bonds.

N.C. Gen. Stat. § 62-172(b)(3)b.8. requires this Commission to specify the degree of flexibility to be afforded to DEC in establishing the terms and conditions of the Storm Recovery Bonds, including, but not limited to, repayment schedules, expected interest rates, and other financing costs consistent with N.C. Gen. Stat. § 62-172(b)(3)b.1.-7.

DEC proposed that its SPE issue Storm Recovery Bonds with a scheduled final payment date of no more than 15 years from the date of the issuance of the Storm Recovery Bonds and that the legal maturity date may be longer in accordance with rating agency requirements. Pursuant to witness Atkins' testimony, this difference provides additional

credit protection, allowing shortfalls in principal payments to be recovered over an additional time period and therefore helping in achieving the targeted AAA or equivalent ratings. The Commission finds that the recovery period proposed by DEC to recover the Storm Recovery Charges is appropriate.

We find that Storm Recovery Bonds should be issued in one or more series, each series of Storm Recovery Bonds should be issued in one or more tranches, and the Storm Recovery Bonds should be structured by DEC to achieve the Statutory Cost Objectives. Further, the Storm Recovery Bonds shall be structured such that the expected payment of the principal of and interest on the Storm Recovery Bonds is expected to be substantially level on an annual basis over those expected terms.

Subject to the IAL procedures, DEC shall be afforded flexibility in determining the final terms of the Storm Recovery Bonds, including payment and maturity dates, interest rates (or the method of determining interest rates), the terms of any interest rate swap agreement, interest rate lock or similar agreement, the creation and funding of any supplemental capital, reserve or other subaccount, and the issuance of Storm Recovery Bonds through either one SPE or multiple SPEs, except as otherwise provided in this Financing Order.

As noted above, certain costs, such as debt service on the Storm Recovery Bonds, as well as the on-going fees of the trustee, rating agency surveillance fees, regulatory assessment fees and the On-going Financing Costs of any other credit enhancement or interest rate swaps, will not be known until after the pricing of a series of Storm Recovery Bonds. This Financing Order provides flexibility to recover such costs through the Storm Recovery Charge and the true-up of such charge. At the same time, we have established

the IAL procedures of this Financing Order which are intended to ensure that the structuring and pricing of Storm Recovery Bonds achieves the Statutory Cost Objectives.

The Commission finds that a bond structure, providing for substantially leveled annual revenue requirements over the expected life of the Storm Recovery Bonds, is in the general public interest and should be used. This structure offers the benefit of not relying upon public utility customer growth and will allow the resulting overall weighted average Storm Recovery Charges to remain level or decline over time, if billing determinants remain level or grow.

CONCLUSION

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 36

Based on the statutory criteria and procedures, the record in this proceeding, and other provisions of this Financing Order, the statutory requirements for issuance of a financing order have been met, specifically that the issuance of the Storm Recovery Bonds and the imposition and collecting of Storm Recovery Charges authorized by this Financing Order are expected to provide quantifiable benefits to customers of DEC as compared to the costs that would have been incurred absent the issuance of Storm Recovery Bonds and that the structuring and pricing of the Storm Recovery Bonds issued on behalf of DEC are reasonably expected to result in the lowest Storm Recovery Charges payable by the customers of DEC consistent with market conditions at the time such Storm Recovery Bonds are priced and the terms set forth in this Financing Order.

IT IS, THEREFORE, SO ORDERED, as follows:

Approvals

1. **Approval of Application.** DEC's Joint Petition for the issuance of a financing order pursuant to the Securitization Statute is approved, as provided in this Financing Order.

2. **Authority to Securitize.** DEC's Joint Petition for Financing Orders authorizing the issuances by DEC and DEP of storm recovery bonds in one or more series is granted, subject to the terms set forth in the body of this Financing Order and the related financing order for DEP. DEC is hereby authorized to issue Storm Recovery Bonds secured by the pledge of Storm Recovery Property, in one or more series in an aggregate principal amount not to exceed the Securitizable Balance (as of the date the first series of Storm Recovery Bonds are issued). The proceeds are to be used to finance the equivalent of (i) recovery of Storm Recovery Costs, which includes Carrying Costs necessary to account for the number of days, as applicable, either greater than or less than assumed in the carrying costs calculation, calculated at the Company's approved weighted average cost of capital plus (ii) recovery of the Up-front Financing Costs incurred in connection with issuance of the Storm Recovery Bonds. Carrying Costs and Up-front Financing Costs are subject to update, adjustment and approval pursuant to the terms of this Financing Order and the IAL procedures as provided by this Financing Order.

3. **Approval of Regulatory Asset.** DEC's request to establish a regulatory asset to defer any prudently incurred excess amounts of Up-front Financing Costs is approved.

4. **Recovery of Storm Recovery Charges.** DEC shall impose on, and shall collect, as initial servicer, from all existing and future customers receiving transmission or distribution service, or both, from DEC, even if such customer elects to purchase electricity from an alternative supplier, as provided in this Financing Order, Storm Recovery Charges in an amount sufficient to provide for the timely recovery of its Periodic Payment Requirement detailed in this Financing Order (including, without limitation, payment of principal and interest on the Storm Recovery Bonds).

5. **Approval of Tariffs.** The form of the Tariff schedule as shown in Byrd DEC Exhibit 2 is approved.

6. **True-Up Mechanism.** The True-Up Mechanism identified in Appendix B to this Financing Order is approved and shall be applied at least semi-annually (and at least quarterly beginning 12 months prior to the last scheduled final payment date of the last maturing tranche of a series of Storm Recovery Bonds).

7. **Form Agreements.** The Commission finds good cause to authorize DEC to provide service to the SPE under the Servicing Agreement and for the Servicing Agreement to become effective following the effectiveness of the IAL. The Commission finds good cause to authorize DEC to administer the SPE under the Administration Agreement and for the Administration Agreement to become effective following the effectiveness of the IAL. The Commission finds good cause to authorize DEC to enter into a Purchase and Sale Agreement with the SPE to become effective following the effectiveness of the IAL.

8. **State Pledge.** The SPE issuing Storm Recovery Bonds is authorized, pursuant to N.C. Gen. Stat. § 62-172(k)(2) and this Financing Order, to include the State

of North Carolina pledge, which includes a pledge by this Commission, with respect to Storm Recovery Property and Storm Recovery Bonds and related documentation as provided for in N.C. Gen. Stat. § 62-172(k)(1). The Commission finds that this State Pledge will constitute a contract with the bondholders, the owners of Storm Recovery Property, the SRB Issuer, holders of SRB Securities and other financing parties. The Commission further acknowledges that the SRB Issuer and any holder of SRB Securities would be considered financing parties for purposes of N.C. Gen. Stat. § 62-172(k).

9. **Structure.** The proposed transaction structure for the Storm Recovery Bonds, as set forth in the body of this Financing Order is approved.

10. **Mitigation of Rate Impacts.** DEC's comparison between the net present value of the costs to customers that are estimated to result from Storm Recovery Bonds and the costs that would result from the application of the traditional method of financing and recovering Storm Recovery Costs from customers satisfies the terms of the DEC Settlement.

Reports and Accounting

11. **Issuance Advice Letter.** DEC shall file a combined IAL/TUAL in final form with the Commission within one business day after actual pricing, substantially in the form of Appendix C to this Financing Order describing the final structure and terms of the Storm Recovery Bond issuance, including an updated accounting of the Up-front Financing Costs and the final Carrying Costs. Finally, the combined IAL/TUAL shall include certifications from DEC if required, that the structuring, pricing and Financing Costs of the Storm Recovery Bonds achieved the Statutory Cost Objectives. Unless the Commission issues an order stopping the Storm Recovery Bond issuance before noon on the third

business day after pricing because the Commission determines that the IAL/TUAL and all required certifications have not been delivered or the transaction does not comply with the Standards of this Financing Order, the transaction proceeds without any further action of this Commission. The Commission shall only issue an order to stop the transaction if the Commission determines that (a) the transaction does not comply with the Standards of this Financing Order, or (b) DEC has not delivered the required certification in a form acceptable to the Commission.

Prior to the filing of the IAL/TUAL and through the period ending with the issuance of the Storm Recovery Bonds, DEC will, to extent requested by this Commission, provide this Commission or its Designated Member with timely information so that the Commission acting for itself or through its Designated Member can participate fully and in advance regarding all material aspects relating to the structuring and pricing of, and Financing Costs relating to the Storm Recovery Bonds.

12. **True-Up Adjustment Letter.** DEC or its assignee(s) are authorized to recover the Periodic Payment Requirement and shall file with the Commission at least semi-annually (and at least quarterly beginning 12 months prior to the last scheduled payment date of the latest maturing tranche of Storm Recovery Bonds) a TUAL as described in this Financing Order and shall be based upon the cumulative differences, regardless of the reason, between the Periodic Payment Requirement and the actual amount of Storm Recovery Charge remittances to the indenture trustee for the series of Storm Recovery Bonds. Upon the filing of a TUAL made pursuant to this Financing Order, the Commission shall either administratively approve the requested true-up calculation in writing or inform the servicer of any mathematical or clerical errors in its calculation as

expeditiously as possible but no later than 30 days following the servicer's true-up filing. Notification and correction of any mathematical or clerical errors shall be made so that the true-up is implemented within 30 days of the servicer's filing of a TUAL and no potential modification to correct an error in a TUAL shall delay its effective date and any correction or modification which could not be made prior to the effective date shall be made in the next TUAL. Upon administrative approval or the passage of 30 days without notification of a mathematical or clerical error, no further action of this Commission will be required prior to implementation of the true-up.

13. **Changes to Storm Recovery Charges.** Upon any change to customer rates and charges stemming from the True-Up Mechanism, DEC shall file appropriately-revised tariff sheets with this Commission, provided, however, that approval of the Storm Recovery Charges shall not be delayed or otherwise adversely impacted by the Commission's decision with respect to the tariff.

14. **Special Purpose Trust.** In the alternative to directly issuing and marketing the Storm Recovery Bonds to unaffiliated investors through either a registered public offering or unregistered exempt offering, the Storm Recovery Bonds may be sold to a single special purpose trust established by Duke Energy Corporation, parent of DEC as described in the Discussion and Conclusions.

15. **Imposition and Collection, Nonbypassability.** DEC is authorized to impose, bill, charge, collect, receive, and adjust from time to time pursuant to the True-Up Mechanism (as described in this Order) a Storm Recovery Charge, to be collected on a per kWh basis from each of its existing and future retail customers until the related Storm Recovery Bonds are paid in full and all related Financing Costs and other costs of the bonds

have been recovered in full. Such Storm Recovery Charges shall be nonbypassable charges that are separate and apart from DEC's base rates and shall be paid by all DEC jurisdictional existing and future customers receiving transmission or distribution service, or both, from DEC or its successors or assignees under Commission-approved rate schedules as provided in this Financing Order. Such Storm Recovery Charges shall be in amounts sufficient to ensure the timely recovery of DEC's Storm Recovery Costs and Financing Costs (Up-front and On-going) detailed in this Financing Order and the IAL (including payment of principal of and interest on the Storm Recovery Bonds).

16. **Allocation.** The Storm Recovery Charges shall be allocated to the customer rate classes in accordance with the description included in witness Abernathy's testimony, in the manner in which these costs or its equivalent were allocated in the cost-of-service study filed by the Company and approved on ___ in the DEC Rate Order, until altered by a subsequent rate case order.

17. **Collection Period.** This Financing Order and the Storm Recovery Charges authorized hereby shall remain in effect until the Storm Recovery Bonds and all Financing Costs (including tax liabilities) related thereto have been paid or recovered in full. This Financing Order shall remain in effect and unabated notwithstanding the reorganization, bankruptcy, or other insolvency proceedings of DEC or its successors or assignees.

18. Following repayment of Storm Recovery Bonds and the relevant Financing Costs authorized in this Financing Order and release of the funds by the indenture trustee, each SPE shall distribute the final balance of its Collection Account to DEC and DEC shall credit other electric rates and charges by a like amount, less the amount of the relevant

Capital Subaccount and any unpaid return on invested capital due to DEC as set forth in the body of this Financing Order.

19. **Ownership Notification and Separate Line Item Charge.** The electric bills of DEC must explicitly reflect that a portion of the charges on such bill represents Storm Recovery Charges approved in this Financing Order and must include a statement to the effect that the SPE is the owner of the rights to Storm Recovery Charges and that DEC is acting as servicer for the SPE. The tariff applicable to customers must indicate the Storm Recovery Charge and the ownership of that charge. DEC shall identify amounts owed with respect to its Storm Recovery Property as a separate line item on individual electric bills.

Storm Recovery Property

20. **Outside Costs.** Costs associated with the Commission or Public Staff's outside consultant and outside counsel, to the extent such costs are eligible for compensation and approved for payment under the terms of such party's contractual arrangements with the Commission or Public Staff, as such arrangements may be modified by any amendment entered into at the Commission or Public Staff's sole discretion, will qualify as Up-front Financing Costs and be paid from proceeds of Storm Recovery Bonds.

21. **Creation of Storm Recovery Property.** The creation of the DEC's Storm Recovery Property as described in this Financing Order is approved and, upon transfer of the Storm Recovery Property to the SPE, shall be created, and shall consist of: (1) all rights and interests of DEC or its successors or assignees under this Financing Order, including the right to impose, bill, charge, collect, and receive Storm Recovery Charges authorized in this Financing Order and to obtain periodic adjustments to such charges as provided in

this Financing Order, and (2) all revenues, collections, claims, rights to payments, payments, money, or proceeds arising from the rights and interests specified in this Financing Order, regardless of whether such revenues, collections, claims, rights to payment, payments, money, or proceeds are imposed, billed, charged, received, collected, or maintained together with or commingled with other revenues, collections, rights to payment, payments, money, or proceeds. The creation of Storm Recovery Property is conditioned upon, and shall be simultaneous with, the sale or other transfer of the Storm Recovery Property to the SPE, the issuance of the Storm Recovery Bonds and the pledge of the Storm Recovery Property to secure a series of Storm Recovery Bonds.

22. **Irrevocability.** Upon the earlier of either (i) the transfer of the Storm Recovery Property or (ii) issuance of the Storm Recovery Bonds, this Financing Order is irrevocable and, except for changes made pursuant to the formula-based mechanism authorized in this Financing Order, the Commission may not amend, modify, or terminate this Financing Order by any subsequent action or reduce, impair, postpone, terminate, or otherwise adjust the Storm Recovery Charges approved in this Financing Order.

Structure of Securitization

23. **SPE.** DEC is authorized to form one or more SPEs to be structured as discussed in this Financing Order. DEC is authorized to execute one or more LLC Agreements, consistent with the form included as Heath Exhibit 2e to witness Heath's testimony and the terms and conditions of this Financing Order. The SPE shall be funded with an amount of capital that is sufficient for the SPE to carry out its intended functions as contemplated in the Joint Petition and this Financing Order. The Commission approves an initial capital contribution of 0.5 percent of the initial aggregate principal amount of a

series of Storm Recovery Bonds. The capital contributions by DEC to the SPE shall be funded by DEC and not from the proceeds of the sale of Storm Recovery Bonds. DEC will be permitted to earn a rate of return on its invested capital in its SPE equal to the rate of interest payable on the longest maturing tranche of Storm Recovery Bonds and this return on invested capital should be a component of the Periodic Payment Requirement.

24. **Servicing and Administration Fees.** The servicing and administration fees collected by DEC or any affiliate of DEC, acting as either the servicer or the administrator under the Servicing Agreement or Administration Agreement, respectively, will be included in DEC's cost of service such that DEC will credit back all periodic servicing fees in excess of DEC's or an affiliate of DEC's incremental costs of performing servicing as administration functions. The expenses incurred by DEC, or such affiliate to perform obligations under the Servicing Agreement or Administration Agreement not otherwise recovered through the Storm Recovery Charges will likewise be included in DEC's cost of service.

25. **DEC as Servicer.** DEC shall act as initial servicer under the proposed financing transaction, and is granted flexibility to act as initial servicer pursuant to the Servicing Agreement discussed in this Financing Order.

26. **Third Party Supplier.** If the State of North Carolina or this Commission decides to allow billing, collection and remittance of the Storm Recovery Charges by a third party supplier within the DEC service territory, such authorization will be consistent with the rating agencies' requirements necessary for the Storm Recovery Bonds and SRB Securities to receive and maintain the targeted triple-A rating as described in Findings of Fact No. 17.

27. **Issuance.** In accordance with the terms of this Financing Order and subject to the criteria and procedures described herein, the SPE is authorized to issue Storm Recovery Bonds in an aggregate principal amount not to exceed the Securitizable Balance (as of the date the Storm Recovery Bonds are issued) and may pledge to an indenture trustee, as collateral for payment of the Storm Recovery Bonds, the Storm Recovery Property, including the SPE's right to receive the related Storm Recovery Charges as and when collected, the SPE's rights under the Servicing Agreement and other collateral described in the Indenture. As provided in N.C. Gen. Stat. § 62-172(c)(2)., DEC retains sole discretion regarding whether to assign, sell, or otherwise transfer Storm Recovery Property or to cause the Storm Recovery Bonds to be issued, including the right to defer or postpone such assignment, sale, transfer or issuance and this Commission will not refuse to allow DEC to recover Storm Recovery Costs in an otherwise permissible fashion.

28. **IRS Safe Harbor Provisions.** DEC shall be responsible to structure the Storm Recovery Bond transactions in a way that complies with the "safe harbor" provisions of IRS Revenue Procedure 2005-62.

ISSUED BY ORDER OF THE COMMISSION.

This the ____ day of _____, 2021.

NORTH CAROLINA UTILITIES COMMISSION

APPENDIX A

**SUMMARY OF CALCULATION OF DEC'S
SECURITIZABLE BALANCE**

Estimated Storm Recovery Costs (incremental O&M costs and capital investments)	\$ 188,374,000
Estimated Carrying Costs through bond issuance date ¹	\$ 37,196,000
Estimated Up-front Financing Costs ²	\$ 5,230,000
	<hr/>
Estimated Principal Amount of Storm Recovery Bonds	\$ 230,800,000

¹ Assuming the Storm Recovery Bonds are issued on approximately June 1, 2021.

² Final Up-front Financing Costs to be included in the Issuance Advice Letter.

APPENDIX B

[Form of Standard True-Up Adjustment Letter]



[, 20]

VIA ELECTRONIC FILING

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

**Re: Duke Energy Carolinas, LLC's True-Up Adjustment Letter
Docket No. E-7, Sub 1243**

Dear Clerk Campbell:

Pursuant to the North Carolina Utilities Commission's ("Commission") [, 20] Order in Docket No. E-7, Sub 1243 (the "DEC Financing Order"), Duke Energy Carolinas, LLC ("DEC") as Servicer of the [] ("Storm Recovery Bonds") has filed a request for an adjustment to the storm recovery bond charges ("Storm Recovery Charges"). This adjustment is intended to satisfy the requirements of N.C. Gen. Stat. § 62-172(b)(3)d., and the Financing Order by ensuring that the Storm Recovery Charges will recover amounts sufficient to timely provide for payments of debt service and other required amounts in connection with the Storm Recovery Bonds.

Per the Financing Order, "After issuance of Storm Recovery Bonds on behalf of DEC, the servicer will submit at least semi-annually (and at least quarterly beginning 12 months prior to the last scheduled final payment date of the last maturing tranche of...Storm Recovery Bonds) a letter in this docket for Commission review, as described in N.C. Gen. Stat. § 62-172(b)(3)d., and in the form attached hereto...and as an exhibit to the Servicing Agreement" ("True-up Adjustment Letter" or, "TUAL"). The Storm Recovery Bonds were issued on [, 20]. DEC filed its first True-Up Adjustment Letter on [, 20].

Ordering Paragraph 11 of the Financing Order describes how such True-Up Adjustment Letters are to be handled.

Upon the filing of a TUAL made pursuant to this Financing Order, Commission Staff shall either administratively approve the requested true-up calculation in writing or inform the servicer of any mathematical or clerical errors in its calculation as expeditiously as possible but no later than 30 days following the

APPENDIX B

servicer's true-up filing. Notification and correction of any mathematical or clerical errors shall be made so that the true-up is implemented within 30 days of the servicer's filing of a TUAL and no potential modification to correct an error in a TUAL shall delay its effective date and any correction or modification which could not be made prior to the effective date shall be made in the next TUAL. Upon administrative approval or the passage of 30 days without notification of a mathematical or clerical error, no further action of this Commission will be required prior to implementation of the true-up.

Attached is the [TBD] Revised Sheet No. [] reflecting the change in the Storm Recovery Charge.

Per DEC's request in its True-Up Adjustment Letter and in accordance with the Financing Order, the proposed adjustments to the Storm Recovery Charges will be effective on [, 20].

Respectfully submitted,

Duke Energy Carolinas, LLC

Attachments

APPENDIX B

DUKE ENERGY CAROLINAS, LLC
Storm Recovery Charge True-Up Mechanism Form For the
Period , 20 through 20,

	Description		Calculation of the True-up (1)		Projected Revenue Requirement to be Billed and Collected (2)		Revenue Requirement for Projected Two Remittance Periods (1)+(2)=(3)
1	Storm Recovery Bond Repayment Charge (remitted to SPE)						
2	True-up for the Prior Remittance Period Beginning and Ending:						
3	Prior Remittance Period Revenue Requirements						
4	Prior Remittance Period Actual Cash Receipt Transfers Interest income:						
5	Cash Receipts Transferred to the SPE						
6	Interest income on Subaccounts at the SPE						
7	Total Current Period Actual Daily Cash Receipts Transfers and Interest Income (Line 5 + 6)						
8	(Over)/Under Collections of Prior Remittance Period Requirements (Line 3+7)						
9	Cash in Excess Funds Subaccount						
10	Cumulative (Over)/Under Collections through Prior Remittance Period (Line 9+10)		\$				\$
11	Current Remittance Period Beginning and Ending						
12	Principal						
13	Interest						
14	Servicing Costs						
15	Other On-Going Costs						
16	Total Current Remittance Period Revenue Requirement (Line		\$				

APPENDIX B

	2+3+4+5)						
17	Current Remittance Period Cash Receipt Transfers and Interest Income:						
18	Cash Receipts Transferred to SPE	(A)		(B)			
19	Interest Income on Subaccounts at SPE	(A)		(B)			
20	Total Current Remittance Period Cash Receipt Transfers and Interest Income (Line 18+19)		\$		\$		
21	Estimated Current Remittance Period (Over)/Under Collection (Line 19+24)		\$		\$		\$
22	Projected Remittance Period Beginning _____ and Ending _____						
23	Principal						
24	Interest						
25	Servicing Costs						
26	Other On-Going Financing Costs						
27	Projected Two Remittance Periods Revenue Requirement (Line 23+24+25+26)				\$		\$
28	Total Revenue Requirements to be Billed During Projected Two Remittance Periods (Line 10+21+27)						\$
29	Forecasted KWh Sales for the Projected Two Remittance Periods (adjusted for uncollectibles)						
30	Average Retail Storm Recovery Charge per kWh (Line 28/29)					(C)	
31	Notes:						
32	(A) Amounts are based on a billed and collected basis.						
33	(B) Includes estimated amounts for through .						
34	(C) Allocation of this amount to each rate class is addressed by witness Jonathan Byrd in his testimony.						

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[Form of Issuance Advice Letter]



[, 20]

VIA ELECTRONIC FILING

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

**Re: Duke Energy Carolinas, LLC's Issuance Advice Letter
Docket No. E-7, Sub 1243**

Dear Clerk Campbell:

Pursuant to the financing order in the above-captioned docket ("Financing Order"), Duke Energy Carolinas, LLC (the "Company") hereby transmits for filing this combined Issuance Advice Letter and Form of True-Up Adjustment Letter. Any terms not defined herein shall have the meanings ascribed thereto in the Financing Order or N.C. Gen. Stat. § 62-172.

In the Financing Order, the Commission requires the Company to file an Issuance Advice Letter following pricing of a series of Storm Recovery Bonds.

The terms of pricing and issuance of the first series of Storm Recovery Bonds are as follows:

Name of Storm Recovery Bonds: []
Name of SPE: []
Name of Storm Recovery Bond Trustee:
Name of SRB Securities: [SRB Notes]
Name of SRB Issuer: []
Name of SRB Trustee: []
Expected Closing Date: []
Preliminary Bond Ratings¹: Moody's, [Aaa(sf)]; Standard & Poor's, [AAA(sf)]; Fitch, [AAAsf] (final ratings to be received prior to closing)
Total Principal Amount of Storm Recovery Bonds to be Issued (i.e., Amount of Storm Recovery Costs and Up-Front Financing Costs to be Financed): \$[] (See Attachment 1)
Estimated Up-Front Financing Costs: \$[] (See Attachment 2)
Interest Rates and Expected Amortization Schedules of the Storm Recovery Bonds and

¹ The Company anticipates receiving bond ratings from at least two of the three major rating agencies.

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SRB Notes (See Attachment 3):

Distributions to Investors: Semi-annually

Weighted Average Coupon Rate²: []%

Annualized Weighted Average Yield³: []%

Initial Balance of Capital Subaccount: \$[]

Estimated/Actual On-going Financing Costs for first year of Storm Recovery Bonds: \$[] (See Attachment 4)

The Financing Order requires the Company to confirm, using the methodology approved therein, that the actual terms of the SRB Notes and Storm Recovery Bonds result in compliance with the standards set forth in the Financing Order. These standards are:

1. the issuance of Storm Recovery Bonds and imposition and collection of Storm Recovery Charges as authorized in this Financing Order provide quantifiable benefits to customers as compared to the costs that would have been incurred absent the issuance of Storm Recovery Bonds;
2. the aggregate principal amount of Storm Recovery Bonds issued does not exceed the Securitizable Balance;
3. the SRB Notes and Storm Recovery Bonds will be issued in one or more series comprised of one or more tranches having target final payment of 15 years;
4. the SRB Notes have received a rating of Aaa(sf) / AAA(sf) from at least two of the three major rating agencies;
5. the SRB Notes and Storm Recovery Bonds are structured to achieve substantially level debt service payments on an annual basis;
6. the issuance of the SRB Notes and Storm Recovery Bonds has been structured in accordance with IRS Rev. Proc. 2005-62; and
7. the structuring and pricing of the Storm Recovery Bonds, including the issuance of SRB Notes, resulted in the lowest Storm Recovery Charges consistent with market conditions at the time the Storm Recovery Bonds are priced and the terms set forth in this Financing Order.

The initial storm recovery charge (the “Initial Charge”) has been calculated in accordance with the methodology described in the Financing Order and based upon the structuring and pricing terms of the Storm Recovery Bonds set forth in this combined Issuance Advice Letter and Form of True-Up Adjustment Letter.

Attachment 5 provides the Revenue Requirements for calculating the Initial Charge. Attachment 6 calculates the Initial Charge based upon the cost allocation formula approved in the Financing

² Weighted by modified duration and principal amount of each tranche.

³ Weighted by modified duration and principal amount, calculated including selling commissions.

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Order. Attachment 7 is a comparison between the net present value of costs to customers that are estimated to result from the issuance of Storm Recovery Bonds and the costs that would result from the application of the traditional method of recovering Storm Recovery Costs from customers. Also attached are the calculations and supporting data for such tables. The Company's certification is Attachment 8.

Pursuant to the Financing Order, the transaction may proceed and the Initial Charge will take effect unless **a stop order is issued by the Commission prior to noon on [, 20](3 business days after pricing)**; and the Company, as servicer, or any successor servicer and on behalf of the trustee as assignee of the SPE, is required to apply at least semi-annually for mandatory periodic adjustment to the Storm Recovery Charges. The Initial Charge shall remain in effect until changed in accordance with the provisions of Ordering Paragraph [12] of the Financing Order.

The Company's certification required by the Financing Order is set forth in Attachment 8, which also includes the statement of the actions taken by the Company to achieve the Statutory Objectives as required by the Financing Order.

Respectfully submitted,

Duke Energy Carolinas, LLC

Attachments

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Attachment 1

**TOTAL PRINCIPAL AMOUNT OF STORM RECOVERY BONDS TO BE ISSUED
(TOTAL AMOUNT OF STORM RECOVERY COSTS AND UP- FRONT FINANCING
COSTS TO BE FINANCED)**

Storm Recovery Costs, including carrying costs through [date of the Rate Order]	\$
Carrying costs subsequent to [the date of the Rate Order] to bond issuance date	
Estimated Up-front Financing Costs included in Proposed Structure (refer to attachment 2)	\$
Total Storm Recovery Bond Issuance (rounded up)	\$

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Attachment 2

ESTIMATED UP-FRONT FINANCING COSTS

Underwriters' Fees and Expenses	\$
Servicer Set-up Fee (including IT Programming Costs)	\$
Legal Fees	\$
Rating Agency Fees	\$
Public Staff Financial Advisor Fees	\$
Public Staff Legal Fees	\$
DEC Structuring Advisor Fee	\$
Accounting Fees	\$
SEC Fees	\$
SPE Set-up Fee	\$
SRB Trust Set-up Fee allocable to DEC	\$
Marketing and Miscellaneous Fees and Expenses	\$
Printing / Edgarizing Expenses	\$
Trustees/Trustees Counsels Fee and Expenses	\$
Original Issue Discount	\$
Other Ancillary Agreements	\$
TOTAL ESTIMATED UP-FRONT FINANCING COSTS	\$

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Series [], Tranche [A-3]					
Payment Date	Beginning Principal Balance	Interest	Principal	Total Payment	Ending Principal Balance

Series [], Tranche [A-4]					
Payment Date	Beginning Principal Balance	Interest	Principal	Total Payment	Ending Principal Balance

Series [], Tranche [A-5]					
Payment Date	Beginning Principal Balance	Interest	Principal	Total Payment	Ending Principal Balance

C. Scheduled Amortization Requirement of Storm Recovery Bonds

Series [], Tranche [A-1]					
Payment Date	Beginning Principal Balance	Interest	Principal	Total Payment	Ending Principal Balance

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Series [], Tranche [A-2]					
Payment Date	Beginning Principal Balance	Interest	Principal	Total Payment	Ending Principal Balance

Series [], Tranche [A-3]					
Payment Date	Beginning Principal Balance	Interest	Principal	Total Payment	Ending Principal Balance

Series [], Tranche [A-4]					
Payment Date	Beginning Principal Balance	Interest	Principal	Total Payment	Ending Principal Balance

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Attachment 4

ESTIMATED ANNUAL ON-GOING FINANCING COSTS

	Annual Amount
Servicing Fee ¹	\$
Return on Invested Capital	\$
Administration Fee	\$
Accounting Fees	\$
Regulatory Assessment Fees	\$
Legal Fees	\$
Rating Agency Surveillance Fees	\$
Trustee Fees	\$
SRB Trustee Fees Allocable to DEC	\$
Independent Manager Fees	\$
Miscellaneous Fees and Expenses	\$
TOTAL ESTIMATED ANNUAL ON-GOING FINANCING COSTS	\$

¹ Low end of the range assumes the Company is the servicer (0.05%). Upper end of the range reflects an alternative servicer (0.60%).

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Attachment 5

REVENUE REQUIREMENT AND INPUT VALUES

Initial Payment Period from [, 20] to [, 20]	Bond Repayment	Total
Forecasted retail kWh sales		
Percent of billed amounts expected to be charged-off		%
Forecasted % of billings paid in the applicable period		%
Forecasted retail kWh sales billed and collected		
Storm Recovery Bond principal payment	\$	\$
Storm Recovery Bond interest payment	\$	\$
Forecasted On-going Financing Costs (excluding principal and interest)	\$	\$
Total collection requirement for applicable period	\$	\$

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Attachment 6

Rate Class	Applicable Schedules	(A) Revenue Requirement Allocated by Class ⁽¹⁾ (\$'000)	(B) Effective Sales ⁽²⁾ (MWh)	(C) Storm Recovery Charge (c/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.*

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Attachment 7

Quantifiable Benefits to Customers

[To be updated]

[Workpapers to be attached]

APPENDIX C

Attachment 8

Form of Company Certification



[, 20]

Ms. Kimberly A. Campbell
Chief Clerk
North Carolina Utilities Commission
4325 Mail Service Center
Raleigh, North Carolina 27603-5918

**Re: Duke Energy Carolinas, LLC's Company Certification
 Docket No. E-7, Sub 1243**

Dear Clerk Campbell,

Duke Energy Carolinas, LLC (the "Company") submits this Certification pursuant to Ordering Paragraphs [10 and 11] of the Financing Order in Docket No. E-7, Sub 1243 (the "Financing Order"). All capitalized terms not defined in this letter shall have the meanings ascribed to them in the Financing Order.

In its issuance advice letter dated [, 20], the Company has set forth the following particulars of the Storm Recovery Bonds:

Name of Storm Recovery Bonds:

Name of SPE: []

Name of Storm Recovery Bond Trustee:

Name of SRB Issuer: []

Name of SRB Securities: [SRB Notes]

Name of SRB Trustee: []

Closing Date: [, 20]

Preliminary Bond Ratings⁴: Moody's [Aaa(sf)]; Standard & Poor's [AAA(sf)]; Fitch [AAAsf] (final ratings to be received prior to closing)

Total Principal Amount of Storm Recovery Bonds to be Issued: \$ (See Attachment 1)

Estimated Up-front Financing Costs: \$ (See Attachment 2)

Interest Rates and Expected Amortization Schedule: (See Attachment 3)

Distributions to Investors: Semi-annually

⁴ The Company anticipates receiving bond ratings from at least two of the three major rating agencies.

APPENDIX C

Weighted Average Coupon Rate⁵: %
Annualized Weighted Average Yield⁶: %
Initial Balance of Capital Subaccount: \$
Estimated/Actual On-going Financing Costs for first year of Storm Recovery Bonds:
\$[]

As required by the Financing Order, the Company prepared a comparison between the net present value of costs to customers that are estimated to result from the issuance of Storm Recovery Bonds and the costs that would result from the application of the traditional method of recovering storm recovery costs from customers.

In accordance with the procedures set forth in the Financing Order, the following actions were taken in connection with the structuring and pricing and financing costs of the Storm Recovery Bonds in order to satisfy the statutory cost objectives:

- [Included credit enhancements in the form of the true-up mechanism and an equity contribution to [] of 0.50% of the original principal amount of the bonds;
- Structured the financing so that the SRB Notes would not be asset backed securities within the meaning of Item 1101(c) of Regulation AB;
- Sold the Storm Recovery Bonds to [], a Delaware grantor trust, which offered SRB Notes secured by the Storm Recovery Bonds and storm recovery bonds issued by DEP;
- Ensured the Registration Statement contained proper disclosures to communicate the superior credit features of the SRB Notes, which are secured by the Storm Recovery Bonds;
- Developed rating agency presentations and worked actively with the rating agencies during the rating agency process to achieve Aaa(sf) / AAAsf from at least two of the three major rating agencies;
- Worked to select key transaction participants, including lead underwriters and co-managers through an RFI process to determine that they have relevant experience and execution capabilities, and who were aligned with DEC's objectives, namely broad distribution to investors and willingness to market the bonds in a manner consistent with the superior credit quality and uniqueness of the bonds;
- Hired a diverse group of underwriters, including underwriters with international and mid-tier expertise in order to attract a wide variety of potential investors;
- Reviewed detailed marketing plans submitted by each lead underwriter;
- Developed all bond transaction documents, marketing materials and legal opinions in a plain English manner while balancing SEC disclosure requirements, in an effort to

⁵ Weighted by modified duration and principal amount of each tranche.

⁶ Weighted by modified duration and principal amount, calculated including selling commissions.

APPENDIX C

ensure investors could more easily understand the high-quality nature of the bond offering;

- Allowed sufficient time for investors to review [relevant marketing materials] and preliminary prospectus and to ask questions regarding the transaction;
- Attended telephonic pre-marketing investor meetings throughout 2021;
- Arranged issuance of rating agency pre-sale reports during the marketing period;
- During the period that the bonds were marketed, held numerous market update discussions with the underwriting team, [and the Commission or its Designated Member] to develop recommendation for pricing;
- Had multiple conversations with all of the members of the underwriting team during the marketing phase in which we stressed the requirements of the Financing Order;
- Developed and implemented a marketing plan designed to encourage each of the underwriters to aggressively market the bonds to a broad base of prospective corporate and asset backed securities investors, including investors who have not previously purchased this type of security;
- Conducted in person and telephonic roadshows with over [] investors in [] cities;
- Provided other potential investors with access to an internet roadshow for viewing at investors' convenience;
- Adapted the bond offering to market conditions and investor demand at the time of pricing consistent with the guidelines outlined within the Financing Order. Variables impacting the final structure of the transaction were evaluated including the length of the average lives and maturity of the bonds and the interest rate requirements at the time of pricing so that the structure of the transaction would correspond to investor preferences and rating agency requirements for the highest rating possible; and
- Developed bond allocations, underwriter compensation and preliminary price guidance designed to achieve customer savings.]

Based on the statutory criteria and procedures, the record in this proceeding, and other provisions of this Financing Order, DEC certifies the statutory requirements for issuance of a financing order and Storm Recovery Bonds have been met, specifically that the issuance of the SRB Notes and underlying Storm Recovery Bonds on behalf of DEC and the imposition and collecting of storm recovery charges authorized by this Financing Order provide quantifiable benefits to customers of DEC as compared to the costs that would have been incurred absent the issuance of Storm Recovery Bonds and that the structuring and pricing of the SRB Notes and underlying Storm Recovery Bonds issued on behalf of DEC result in the lowest storm recovery charges payable by the customers of DEC consistent with market conditions at the time such SRB Notes and underlying Storm Recovery Bonds are priced and the terms set forth in the Financing Order.

This certification is being provided to the Commission by the Company in accordance with the terms of the Financing Order, and no one other than the

APPENDIX C

Commission shall be entitled to rely on the certification provided herein for any purpose.

Respectfully Submitted,

Duke Energy Carolinas, LLC

**Joint Petition Exhibit C:
DEP Proposed Financing Order**

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

**STATE OF NORTH CAROLINA
UTILITIES COMMISSION
RALEIGH**

DOCKET NO. E-2, SUB 1262

In the Matter of

Petition of Duke Energy Carolinas, LLC and)
Duke Energy Progress, LLC For Issuance of) **PROPOSED FINANCING ORDER OF**
a Storm Cost Recovery Docket Financing) **DUKE ENERGY PROGRESS, LLC**
Order)
)

BEFORE: Chair Charlotte A. Mitchell, Presiding; Commissioners ToNola D. Brown-Bland; Lyons Gray; Daniel G. Clodfelter; Kimberly W. Duffley; Jeffrey A. Hughes; and Floyd B. McKissick, Jr.

APPEARANCES:

For Duke Energy Carolinas, LLC and Duke Energy Progress, LLC:

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For the Using and Consuming Public:

Dianna W. Downey, Chief Counsel
William E. Grantmyre, Counsel
William E. H. Creech, Counsel
Public Staff – North Carolina Utilities Commission (“Public Staff”)
4326 Mail Service Center, Raleigh, North Carolina 27699

BY THE COMMISSION: This Financing Order addresses the petition of Duke Energy Progress, LLC (“DEP,” “Petitioner” or the “Company”) under North Carolina General Statute (“N.C. Gen. Stat.”) § 62-172, filed jointly with Duke Energy Carolinas, LLC (“DEC,” and together with DEP, the “Companies”) (“Joint Petition”): (1) to finance its Securitizable Balance;¹ (2) for approval of the proposed securitization financing structure; (3) for approval to issue Storm Recovery Bonds,² secured by the pledge of Storm Recovery Property, in one or more series in an aggregate principal amount not to exceed the relevant Securitizable Balance (as of the date the first series Storm Recovery Bonds are issued); (4) for approval of the Financing Costs, including up-front Financing Costs (“Up-front Financing Costs”),³ incurred in connection with the issuance of Storm Recovery Bonds and on-going Financing Costs (“On-going Financing Costs” and together with Up-front Financing Costs, “Financing Costs”);⁴ (5) for approval to create Storm Recovery Property, including the right to (i) impose, bill, charge, collect and receive nonbypassable

¹ See page 8 defining “Securitizable Balance.”

² All capitalized terms not otherwise defined herein shall have the meaning assigned to them in N.C. Gen. Stat. 62-172 and refer specifically to DEP’s particular transaction approved herein.

³ Up-front Financing Costs are defined in the Evidence and Conclusions for Finding of Fact No. 6.

⁴ On-going Financing Costs are defined in the Evidence and Conclusions for Finding of Fact No. 23 & 24.

Storm Recovery Charges sufficient to recover the principal of, and interest on, the Storm Recovery Bonds plus On-going Financing Costs and (ii) obtain periodic formulaic adjustments to the Storm Recovery Charge as provided in this Financing Order; and (6) for approval of the tariff to implement the Storm Recovery Charge (“Tariff”).

PROCEDURAL HISTORY

In 2018 and 2019, DEP incurred significant storm expenditures from Hurricanes Florence, Michael, and Dorian and Winter Storm Diego (collectively, the “Storms”).

Subsequently, on December 21, 2018, the Company filed a Petition for an Accounting Order to Defer Incremental Storm Damage Expenses Incurred as a Result of Hurricanes Florence and Michael and Winter Storm Diego, in Docket No. E-2, Sub 1193 (“Storm Deferral Docket”). DEP further requested deferral treatment for costs related to Hurricane Dorian.

On October 30, 2019, DEP filed an application (“Application”) with the Commission in Docket No. E-2, Sub 1219 (“2019 DEP Rate Case”) requesting a general rate increase, pursuant to N.C. Gen. Stat. §§ 62-133 and -134 and Commission Rule R1-17, along with direct testimony and exhibits. The Application included a request to consolidate the Storm Deferral Docket with the rate case and sought to recover DEP’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 (“Storm Recovery Costs”).

On November 6, 2019, SB 559 was signed into law, amending N.C. Gen. Stat. § 62-172 to create a new financing tool that may be used by a utility to recover storm restoration costs, utility cost recovery charge securitization (or the “Securitization

Statute”). Under this financing tool, an electric public utility company can issue storm recovery bonds with lower financing costs that are secured by storm recovery property including a dedicated storm recovery charge that is separate and distinct from the utility's base rate.

After conducting substantial discovery on the issues raised in the Application, the Public Staff – North Carolina Utilities Commission (“Public Staff”) determined that Storm Recovery Costs were prudently incurred.⁵

On June 2, 2020, in Docket No. E-2, Sub 1219, DEP and the Public Staff reached an Agreement and Stipulation of Partial Settlement (“DEP Settlement”) with respect to several revenue requirement issues presented by the Company’s Application, including the ratemaking treatment of the deferred expenses associated with the Storms. Pursuant to the DEP Settlement, the Company agreed to remove certain capital and operation and maintenance (“O&M”) costs (“Storm Expenses”) associated with the Storms from its revenue requirement in the 2019 DEP Rate Case and instead file a petition for a financing order under the Securitization Statute. For purposes of settlement, DEP and the Public Staff also agreed on the assumptions to be used in the securitization docket to evaluate whether securitization provides quantifiable customer benefits when compared to traditional storm cost recovery as required by Section (b)(1)(g) of the Securitization Statute.

⁵ Direct Testimony of Shawn L. Dorgan on Behalf of the Public Staff, at 32, Docket No. E-2, Sub 1219 (filed Apr. 13, 2020) and 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).

On October 26, 2020, pursuant to the Securitization Statute, DEP, along with DEC, filed its Joint Petition for issuance of a storm recovery financing order to recover their respective Storm Expenses.

The Commission approved the DEP Settlement in Docket No. E-2, Sub 1219 on _____ (“DEP Rate Order”), removing from Commission consideration in that docket the Company’s initial request for recovery of its Storm Expenses, and recognizing the Company’s authority to instead file a petition for financing order under the Securitization Statute to securitize its Storm Expenses. Additionally, by the Commission’s DEP Rate Order, the Commission determined that the Storm Recovery Costs (as defined therein) were reasonable and prudently incurred.

STATUTORY FRAMEWORK

The Securitization Statute establishes the process by which a public utility may petition the Commission for a financing order authorizing the public utility to finance storm recovery costs associated with storm recovery activities with the proceeds of storm recovery bonds that are secured by the storm recovery property. Before granting a financing order, the Commission must find that the issuance of the storm recovery bonds and the imposition of storm recovery charges are expected to provide quantifiable benefits to customers as compared to the costs that would have been incurred absent the issuance of storm recovery bonds. *See* N.C. Gen. Stat. § 62-172(b)(3)b.2.

To support this finding, the utility must submit a petition that includes (a) a description of its storm recovery activities; (b) an estimate of the storm recovery costs; (c) the proposed level of storm recovery reserve, if any; (d) an indicator of the amount of storm recovery costs to be financed using storm recovery bonds; (e) an estimate of the financing

costs related to the storm recovery bonds; (f) an estimate of the storm recovery charges necessary to recover storm recovery costs; and (g) a comparison between the net present value of the cost to customers estimated to result from the issuance of storm recovery bonds and the cost that would result from the application of the traditional method of financing and recovering storm recovery costs; this comparison must demonstrate that the issuance of storm recovery bonds and the imposition of storm recovery charges are expected to provide quantifiable benefits to customers. *See* N.C. Gen. Stat. § 62-172 (b)(1)a.-g.

When issued, the financing order must include the amount of storm recovery costs to be financed using storm recovery bonds, the imposition and collection of storm recovery charges that are nonbypassable and paid by all existing and future retail customers receiving transmission or distribution service from the public utility or its successors or assignees, the maturity period of the bonds, a formula-based true-up mechanism, the creation of storm recovery property that will be used to secure the bonds, and a method of tracing funds collected as storm recovery charges. *See* N.C. Gen. Stat. § 62-172(b)(3)b.1.-12.

The Securitization Statute specifies that the financing order must also include a requirement that the public utility file with the Commission at least annually a letter applying the formula-based mechanism, and request adjustments in the storm recovery charge, if necessary, to a sufficient level to ensure the bond payment obligations. The Commission does not have the discretion to disapprove or alter the true-up calculation, except to correct mathematical and clerical errors.

Based on the entire record in this proceeding, the Commission now makes the following:

FINDINGS OF FACT

Jurisdiction

1. DEP is (1) a limited liability company duly organized and existing under the laws of the State of North Carolina; (2) duly authorized by its Articles of Organization to engage in the business of generating, transmitting, distributing and selling electric power and energy; (3) a public utility under the laws of North Carolina, and its operations in this State are subject to the jurisdiction of this Commission; (4) an investor-owned public utility; (5) a public utility under the laws of the State of South Carolina, and its operations in South Carolina are subject to the jurisdiction of the Public Service Commission of South Carolina; and (6) a public utility under the Federal Power Act, and certain of its operations are subject to the jurisdiction of the Federal Energy Regulatory Commission. DEP's service area covers 32,000 square miles including a substantial portion of the coastal plain of North Carolina and an area in the northeastern portion of South Carolina. The service area includes 55 counties, 52 in North Carolina and 3 in South Carolina. The Company supplies retail electric service to approximately 1.4 million customers in North Carolina.

2. The Commission has jurisdiction over the rates and charges, rate schedules, classifications, and practices of DEP regarding its North Carolina operations under Chapter 62 of the General Statutes of North Carolina.

3. DEP is lawfully before the Commission based upon its petition for a financing order pursuant to N.C. Gen. Stat. §§ 62-133, and 62-172 and Commission Rule R1-17.

JOINT PETITION

4. On October 26, 2020, DEP and DEC filed its Joint Petition for a financing order pursuant to the Securitization Statute including DEP's request to issue Storm Recovery Bonds in the amount of approximately: \$748.0 million, which consists of \$739.0 million of Storm Recovery Costs (including carrying costs from the date of the Storms through the projected issuance date of the Storm Recovery Bonds, calculated at the Company's approved weighted average cost of capital ("Carrying Costs")⁶), plus Up-front Financing Costs of issuing the Storm Recovery Bonds of approximately \$9.0 million, which are subject to change and update prior to the pricing of the Storm Recovery Bonds plus or minus any adjustment to Carrying Costs necessary to account for the number of days, as applicable, either greater than or less than assumed in the Carrying Cost calculation based on the projected issuance date for the Storm Recovery Bonds. This amount is referred to herein as the "Securitizable Balance." The Joint Petition includes direct testimony and exhibits supporting the request, as well as a comparison between the net present value of the costs to customers that are estimated to result from the issuance of Storm Recovery Bonds and the costs that would result from the application of the traditional method of recovery of Storm Recovery Costs from customers, in accordance with the Securitization Statute.

COSTS ELIGIBLE FOR FINANCING

Storm Recovery Costs

5. Consistent with the Commission's findings and conclusions in its 2019 DEP Rate Case Order issued in Docket No. E-2, Sub 1219, Storm Recovery Costs subject to

⁶ This amount assumes the Storm Recovery Bonds are issued on June 1, 2021.

adjustments including the final amount of carrying costs through the issuance date of the Storm Recovery Bonds, are eligible for recovery through securitization and have been found to be reasonable and prudent. Furthermore, the Commission finds that (i) the proposed issuance of Storm Recovery Bonds and the imposition of Storm Recovery Charges will provide quantifiable benefits to customers as compared to the costs that would have been incurred absent the issuance of Storm Recovery Bonds and (ii) the structuring and pricing of the Storm Recovery Bonds are reasonably expected to result in the lowest Storm Recovery Charges consistent with market conditions at the time the Storm Recovery Bonds are priced and the terms set forth in this Financing Order (collectively, the “Statutory Cost Objectives”).

Up-front Financing Costs

6. DEP’s proposed Up-front Financing Costs, in the estimated amount of \$9.0 million, are reasonable and prudent and eligible for recovery through securitization.

7. DEP’s request to establish a regulatory asset to defer any prudently incurred Up-front Financing Costs in excess of the amounts appearing in the issuance advice letter is approved.

STRUCTURE OF ISSUANCE

8. DEP’s proposed financing structure adheres to the requirements of the Securitization Statute.

Special Purpose Entities

9. For purposes of securitization it is reasonable for DEP to create one or more Special Purpose Entities (“SPEs”),⁷ each of which will be a Delaware limited liability

⁷ For purposes of this Financing Order, all references to the SPE shall be applicable to all SPEs that are created to issue other series of Storm Recovery Bonds pursuant to this Financing Order.

company (“LLC”) with DEP as its sole member. Any such SPE will be an “assignee” as defined in N.C. Gen. Stat. § 62-172(a)(2), when an interest in Storm Recovery Property is transferred, other than as security, to such SPE, and such SPE may issue Storm Recovery Bonds in accordance with this Financing Order.

Storm Recovery Property

10. It is reasonable for DEP to sell or otherwise transfer Storm Recovery Property to the SPE pursuant to the terms of this Financing Order. Upon the transfer by DEP of the Storm Recovery Property to the SPE, that SPE will have all of the rights, title and interest of DEP with respect to such Storm Recovery Property, including the right to impose, bill, charge, collect, and receive the Storm Recovery Charge authorized by this Financing Order and to obtain periodic formulaic adjustments to each Storm Recovery Charge. Such Storm Recovery Property is expected to be pledged by the SPE to and held and administered by an indenture trustee as collateral for payment of the Storm Recovery Bonds to ensure the Statutory Cost Objectives are achieved.

11. The State of North Carolina and its agencies, including this Commission, has pledged to and agrees with bondholders, the owners of the Storm Recovery Property, and other financing parties that the State and its agencies, including this Commission, will not alter the provisions of the Securitization Statute, which authorize the Commission to create Storm Recovery Property or take or permit any action that impairs the value of the Storm Recovery Property, as further described in N.C. Gen. Stat. § 62-172(k)(1).

Form of Transaction Documents

12. The form Purchase and Sale Agreement,⁸ Administration Agreement,⁹ Limited Liability Company Agreement (“LLC Agreement”),¹⁰ form of Indenture,¹¹ and Servicing Agreement,¹² filed as exhibits to witness Thomas J. Heath Jr.’s testimony, (“Transaction Documents”) are in the public interest and necessary to facilitate the transaction.

Offering and Sale of Bonds

13. DEP is hereby authorized to issue the Storm Recovery Bonds through a negotiated sale or other sales option to achieve the Statutory Cost Objectives.

14. In the alternative, DEP is authorized to sell the Storm Recovery Bonds in combination with DEC to a grantor trust (the “SRB Issuer”) that will issue secured pass-through notes that are backed by the Storm Recovery Bonds and storm recovery bonds issued by DEC in one transaction through the use of the SRB Issuer.

Amortization, Interest Rates, and Credit Ratings of Storm Recovery Bonds

15. The expected term of the scheduled final payment date of the last maturing tranche of bonds issued pursuant to the authority granted herein, as determined in the reasonable discretion of DEP, should be no more than 15 years from the issuance of the series of Storm Recovery Bonds. The legal maturity date of each tranche may be longer than the scheduled final payment date for that tranche.

⁸ See Heath Exhibit 2a.

⁹ See Heath Exhibit 2d.

¹⁰ See Heath Exhibit 2e.

¹¹ See Heath Exhibit 2c.

¹² See Heath Exhibit 2b.

16. We find that each tranche of the Storm Recovery Bonds should have a fixed interest rate, determined consistent with current market conditions. If market conditions change, and it becomes necessary to achieve the Statutory Cost Objectives for the one or more tranches of bonds to be issued in floating-rate mode, DEP is authorized to issue such bonds but will be required to execute agreements to swap the floating payments to fixed-rate payments.

17. DEP should strive to achieve AAA credit ratings, and DEP is authorized to provide the necessary credit enhancements, with recovery of related costs as On-going Financing Costs, to achieve such ratings.

Security for the Storm Recovery Bonds

18. DEP's utilization of a Collection Account, including a General Subaccount, a Capital Subaccount, and an Excess Funds Subaccount, is reasonable and appropriate. DEP may include other subaccounts in the Collection Account, if necessary, to obtain AAA ratings on a series of Storm Recovery Bonds.

DEP as Initial Servicers of the Storm Recovery Bonds

19. DEP's proposal to act as initial servicer of the Storm Recovery Bonds is reasonable and appropriate.

20. The on-going servicing fee for DEP, acting as the initial servicer, in the amount of 0.05 percent of the initial principal amount of the Storm Recovery Bonds plus out-of-pocket expenses provided for in the Servicing Agreement is necessary to compensate the servicer adequately and ensure the high credit quality of the Storm Recovery Bonds.

DEP as Administrator of the SPE

21. DEP's proposal to act as an administrator of the SPE under the proposed financing transaction is reasonable and appropriate.

22. The on-going fee to be paid to the administrator of \$50,000 per year plus out-of-pocket expenses included in the Administration Agreement is necessary to cover the costs and expenses of administering the SPE and to preserve the integrity of the bankruptcy-remote structure of the SPE and the high credit quality of the Storm Recovery Bonds.

On-going Financing Costs

23. The On-going Financing Costs identified in DEP's Joint Petition and that are identified in Attachment 4 of the form Issuance Advice Letter ("IAL") qualify as "financing costs" eligible for recovery pursuant to N.C. Gen. Stat. § 62-172(a)(4).

24. It is appropriate for DEP to credit back to customers all periodic servicing and administration fees in excess of DEP's or an affiliate of DEP's incremental cost of performing the servicer or administrator function in the next rate case when costs and revenues associated with the servicing and administration fees will be included in the cost of service.

Storm Recovery Bonds to be Treated as "Debt" for Federal Income Tax Purposes

25. DEP shall structure the Storm Recovery Bond transactions in a way that meets all requirements for the Internal Revenue Service's ("IRS") safe harbor treatment.

STORM RECOVERY CHARGES

Imposition and Computation of Storm Recovery Charges

26. To repay the Storm Recovery Bonds and On-going Financing Costs, DEP is authorized to impose Storm Recovery Charges to be collected on a per-kWh basis from all applicable customer rate classes until the Storm Recovery Bonds and related Financing Costs are paid in full.

27. The Securitizable Balance to be financed using Storm Recovery Bonds shall be determined in accordance with the calculation shown in Appendix A to this Financing Order.

28. The proposed allocation methodology of the Storm Recovery Charges is based upon DEP's existing (and previously approved)¹³ allocation methodology in the proposed Tariff and should be approved.

29. The State of North Carolina and its agencies, including this Commission, has pledged to and agrees with bondholders, the owners of the Storm Recovery Property, and other financing parties that the State and its agencies, including this Commission, will not, except for changes made pursuant to the True-Up Mechanism (as defined in Finding of Fact No. 32), reduce, alter, or impair the Storm Recovery Charges 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, as further described in N.C. Gen. Stat. § 62-172(k)(1)d.

¹³ See 2019 Rate Order at ____.

Treatment of Storm Recovery Charge in Tariff and on Retail Customer Bills

30. DEP's proposed Tariff complies with N.C. Gen. Stat. § 62-172(d)(1) and is appropriate for use in this proceeding.

31. DEP is authorized and directed to include the Storm Recovery Charge on each customer's bill as a separate line item and include both the rate and the amount of the charge on each bill as required by N.C. Gen. Stat. § 62-172(d)(2) and a statement that the SPE is the owner of the rights to the Storm Recovery Charges and that DEP is acting as a servicer for the SPE as required by N.C. Gen. Stat. § 62-172(d)(1).

True-Up of Storm Recovery Charges

32. The formulaic true-up mechanism ("True-Up Mechanism") and associated procedures described in DEP's Tariff are reasonable and appropriate and are hereby approved.

ISSUANCE ADVICE LETTER PROCESS

33. Because the actual structure and pricing of the Storm Recovery Bonds are unknown as of the issuance of this Financing Order, following determination of the final terms of the Storm Recovery Bonds and before issuance of the Storm Recovery Bonds, DEP will file with the Commission for each series of Storm Recovery Bonds, an IAL, as well as a form of True-Up Adjustment Letter¹⁴ ("TUAL," and together with the IAL, the "IAL/TUAL") in the forms attached hereto as Appendices B and C. The initial Storm Recovery Charges and the final terms of the Storm Recovery Bonds described in the IAL/TUAL will be final unless before noon on the third business day after pricing the Commission issues an order finding that the proposed issuance does not comply with the

¹⁴ The True-Up Adjustment Letter is defined in the Evidence and Conclusions for Finding of Fact No. 33.

Standards of this Financing Order in this Finding of Fact No. 33. The “Standards of this Financing Order” are: 1) the issuance of Storm Recovery Bonds and imposition and collection of Storm Recovery Charges as authorized in this Financing Order provide quantifiable benefits to customers as compared to the costs that would have been incurred absent the issuance of Storm Recovery Bonds; 2) the aggregate principal amount of Storm Recovery Bonds issued does not exceed the Securitizable Balance; 3) the SRB Securities (as defined in Evidence and Conclusions for Finding of Fact Nos. 13 and 14) and Storm Recovery Bonds will be issued in one or more series comprised of one or more tranches having scheduled final payment date of no longer than 15 years; 4) the SRB Securities have received a rating of Aaa(sf) / AAA(sf) from at least two of the three major rating agencies; 5) the SRB Securities and Storm Recovery Bonds are structured to achieve substantially level debt service payments on an annual basis; 6) the issuance of the SRB Securities and Storm Recovery Bonds has been structured in accordance with IRS Rev. Proc. 2005-62; and 7) the structuring and pricing of the Storm Recovery Bonds, including the issuance of SRB Securities, resulted in the lowest Storm Recovery Charges consistent with market conditions at the time the Storm Recovery Bonds are priced and the terms set forth in this Financing Order.

MITIGATION OF RATE IMPACTS

34. The issuance of Storm Recovery Bonds and imposition and collection of Storm Recovery Charges as authorized in this Financing Order are expected to provide quantifiable benefits to customers as compared to the costs that would have been incurred absent the issuance of Storm Recovery Bonds. The calculation of quantifiable benefits to

customers was prepared by the Company in accordance with the requirements set forth in the DEP Settlement.

FLEXIBILITY

35. It is appropriate to allow DEP flexibility in establishing the final terms and conditions of the Storm Recovery Bonds and therefore the ability, at its option, to cause one or more series of storm recovery bonds to be issued, in order to achieve the Statutory Cost Objectives.

CONCLUSION

36. This Financing Order adheres to the statutory requirements outlined by the Securitization Statute necessary to issue a financing order authorizing a public utility to finance storm recovery costs.

DISCUSSION AND CONCLUSIONS

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NOS. 1-3

Jurisdiction

The evidence supporting these findings of fact and conclusions is contained in the verified Joint Petition of DEP, the testimony and exhibits of the witnesses, and the entire record in this proceeding. These findings and conclusions are informational, procedural, and jurisdictional in nature, and are not contested by any party.

JOINT PETITION

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 4

The Joint Petition included a description of DEP's storm recovery activities, an estimate of the Storm Recovery Costs, the proposed level of storm recovery reserve, an indicator of the amount of Storm Recovery Costs to be financed using Storm Recovery

Bonds, an estimate of the Financing Costs related to the bonds, an estimate of the Storm Recovery Charges necessary to recover costs, and a comparison between the net present value of the cost to customers estimated to result from the issuance of Storm Recovery Bonds and the cost that would result from the application of the traditional method of financing and recovering its Storm Recovery Costs. As illustrated in the testimony of witness Melissa Abernathy, DEP's comparison demonstrated that issuance of Storm Recovery Bonds and the imposition of Storm Recovery Charges is expected to provide quantifiable benefits to customers.

The Commission finds and concludes that the Joint Petition satisfies the requirements of the Securitization Statute, as discussed further herein, by including each of the necessary items required by subsection (b)(1). Therefore, pursuant to the Securitization Statute, the Commission has jurisdiction to consider DEP's Joint Petition and the information necessary to issue a financing order as well as any other relief necessary for DEP to finance its Storm Recovery Costs.

COSTS ELIGIBLE FOR RECOVERY

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NOS. 5—7

Storm Recovery Costs

In its Joint Petition, DEP requested the authority to finance its Storm Recovery Costs through securitization of approximately \$748.0 million in Storm Recovery Costs, which includes \$68.6 million in capital investment, \$556.6 million in O&M expense plus Carrying Costs in the amount of \$113.8 million (plus or minus any adjustment to such carrying costs necessary to account of the number of days, as applicable, either greater than

or less than assumed in the carrying costs calculation), plus an estimated \$9.0 million in Up-front Financing Costs.

The amount of Carrying Costs DEP requests is calculated at the Company's approved weighted average cost of capital. The requested amount is also premised on a Storm Recovery Bond issuance date of June 1, 2021. DEP states that it will report to the Commission the final Carrying Cost so financed in the IAL as described below.

N.C. Gen. Stat. § 62-172(a)(14) requires that DEP's Storm Recovery Costs eligible for financing be reasonable and prudent. Except for the Carrying Costs to be calculated as described herein, the Storm Recovery Costs were included in the Company's rate case application in Docket No. E-2, Sub 1219 and have been the subject of discovery and audit by the Public Staff and other interested parties to that proceeding. The Commission's DEP Rate Order found and concluded that DEP's Storm Recovery Costs were reasonable and prudent. Consistent with that Order, the Commission finds that DEP's Storm Recovery Costs are reasonable and prudent and therefore eligible for recovery through financing. In addition, the Commission finds that DEP's Carrying Costs associated with the Storm Recovery Costs are also reasonable and prudent. Accordingly, the Commission finds that DEP should be permitted to finance its Storm Recovery Costs including Carrying Costs as provided in this Financing Order.

Up-front Financing Costs

DEP has also requested authority to finance certain financing costs associated with the issuance of the Storm Recovery Bonds. DEP's proposed Up-front Financing Costs include but are not limited to, legal fees, consulting fees, structuring adviser fees, placement and underwriting fees, rating agency fees, stock exchange listing and

compliance fees, security registration fees, filing fees, information technology programming costs and any other costs necessary to issue the Storm Recovery Bonds (a complete list of all Up-front Financing Costs will be included on Attachment 2 of the IAL, a form of such letter with preliminary estimates of Up-front Financing Costs, is included in Appendix C of this Financing Order).

In addition, the costs of any outside consultant and counsel retained by the Commission to assist the Commission in performing its responsibilities under N.C. Gen. Stat. § 62-172(b)(3)b., and the costs incurred by the Public Staff for any outside consultants or counsel retained in connection with this securitization of the Storm Recovery Costs are Up-front Financing Costs. DEP's Up-front Financing Costs include reimbursement to DEP for amounts advanced for payment of such costs, and may also include other types of credit enhancement, not specifically described herein, including letters of credit, reserve accounts, surety bonds, interest rate swaps, interest rate locks, and other mechanisms designed to promote the credit quality and marketability of the Storm Recovery Bonds or designed to achieve the Statutory Cost Objectives. The Up-front Financing Costs of any credit enhancements shall be included in the amount of costs to be financed by the sale of Storm Recovery Bonds. DEP has provided an estimate of Up-front Financing Costs of \$9.0 million based on a range of estimates in Heath Exhibit 1 attached to witness Heath's testimony.

The Commission is mindful of the fact that many of these Up-front Financing Costs, such as legal fees, will not be known until after the financing is completed. Further, other Up-front Financing Costs will vary depending on the size of the final issuance of the Storm Recovery Bonds. Specifically, the Commission realizes that the Securities and

Exchange Commission (“SEC”) registration fee, underwriters’ fees, and rating agency fee are proportional to the amount of qualified costs actually financed. Other Up-front Financing Costs, such as original issue discount, will be determined at the time of the sale. We also acknowledge that the (i) costs of any outside consultant to this Commission and any outside counsel to this Commission or its Designated Member (as defined herein) to assist us in performing our responsibilities under the Securitization Statute, including services provided in assisting us in our active role for the structuring and pricing of the Storm Recovery Bonds, are costs that are solely within the control of this Commission and (ii) costs of any outside consultant or counsel retained by Public Staff are costs which are solely within the control of Public Staff and that all such costs in (i) and (ii) above are fully recoverable from Storm Recovery Bond proceeds to the extent such costs are eligible for compensation and approved for payment under the terms of such party’s contractual arrangements with the Commission or Public Staff, as the case may be, as such arrangements may be modified by any amendment entered into at the Commission’s or Public Staff’s sole discretion. Accordingly, actual Up-front Financing Costs will not be known until after the pricing of the Storm Recovery Bonds.

N.C. Gen. Stat. § 62-172(a)(4) defines “financing costs.” The Commission finds that DEP’s proposed Up-front Financing Costs fall squarely within this definition, and that these issuance costs are therefore financing costs eligible for recovery pursuant to the Securitization Statute. Due to the unknown aspect of these costs, the Commission orders that to the extent the actual Up-front Financing Costs are less than the amount appearing in the final IAL filed within one business day after actual pricing of the Storm Recovery Bonds, such unspent amount will be reflected in the next True-Up Adjustment Letter (as

defined herein). Conversely, to the extent that the actual Up-front Financing Costs are in excess of the amount appearing in the final IAL filed within one business day after actual pricing of the Storm Recovery Bonds, that DEP shall book such prudently incurred excess amounts to a regulatory asset to be recovered in the Company's next rate case.

STRUCTURE OF ISSUANCE

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 8

General Structure of Issuance

A description of DEP's proposed transaction is contained in its Joint Petition and the filing package submitted therewith. A brief summary of the proposed transaction is provided in this section.

DEP has proposed a transaction structure that includes all of the following:

- The use of (depending on whether more than one series of Storm Recovery Bonds are issued) one or more SPEs as issuer(s) of Storm Recovery Bonds, limiting the risks to bondholders of any adverse impact resulting from a bankruptcy proceeding of DEP or any affiliate.
- The right to impose, bill, charge, collect and receive Storm Recovery Charges that are nonbypassable and which must be trued-up at least semi-annually, but may be trued-up more frequently at the option of the servicer, to ensure the timely payment of the debt service and On-going Financing Costs as scheduled.
- The use of a collection account which includes, without limitation, a Capital Subaccount at the SPE funded initially by a deposit from DEP equal to at least 0.5 percent of the initial principal amount of the Storm Recovery Bonds issued by the SPE.
- A servicer (initially DEP) responsible for billing and collecting the Storm Recovery Charge from existing and future retail customers.
- The Federal income tax consequences of the transaction are consistent with satisfaction of the provisions established in IRS Revenue Procedure 2005-62.

More specifically, and to facilitate the proposed securitization, DEP proposed that the SPE will be created and then DEP will transfer the rights to impose, bill, charge, collect, and receive Storm Recovery Charges and to obtain true-up adjustments along with the other

rights arising pursuant to this Financing Order. Upon such transfer and simultaneously with the issuance of Storm Recovery Bonds, these rights will become Storm Recovery Property as provided by the Securitization Statute.

DEP proposed that the SPE will issue Storm Recovery Bonds and will transfer the net proceeds from the sale of such bonds to DEP in consideration for the transfer of the Storm Recovery Property. The SPE will be organized and managed in a manner designed to achieve the objective of maintaining the SPE as a bankruptcy-remote entity that would not be affected by the bankruptcy of DEP or any other affiliate of DEP or any of their respective successors. The Company has submitted several form agreements for approval, discussed further herein, facilitating DEP's utilization of an SPE.

Specifically, DEP has proposed that the Storm Recovery Bonds be issued pursuant to an Indenture and administered by an indenture trustee. The Storm Recovery Bonds will be secured by and payable solely from the Storm Recovery Property created pursuant to this Financing Order. The Storm Recovery Property and other collateral will be pledged to the indenture trustee for the benefit of the holders of the Storm Recovery Bonds and to secure payment of principal, interest on the Storm Recovery Bonds and On-going Financing Costs.

DEP proposed that the servicer of the Storm Recovery Bonds collect the Storm Recovery Charges and remit those amounts to the indenture trustee on behalf of the SPE. The servicer will be responsible for making any required or allowed true-ups of the Storm Recovery Charges. If the servicer defaults on its obligations under the Servicing Agreement, the indenture trustee may, acting for the benefit of holders of Storm Recovery

Bonds, appoint a successor servicer. DEP also proposed to act as the initial servicer for the Storm Recovery Bonds.

Under DEP's proposal, the Storm Recovery Charges will be calculated to ensure the collection of an amount sufficient to pay the debt service due on the Storm Recovery Bonds together with the related Financing Costs. These related Financing Costs, or more specifically, On-going Financing Costs, include the servicing fee, administration fees for the SPE, rating agencies' fees, trustee fees and expenses, legal and accounting fees, other ongoing fees and expenses and the cost of replenishing the Capital Subaccount (or overcollateralization subaccount, if required). These On-going Financing Costs are "financing costs" eligible for recovery pursuant to the Securitization Statute and are addressed further below in this Financing Order.

DEP has proposed that the Storm Recovery Charges will be calculated and adjusted pursuant to the formula-based method, the True-Up Mechanism, described in witness Shana W. Anger's testimony and included as Appendix B to this Financing Order. DEP has requested approval of Storm Recovery Charges sufficient to recover the principal and interest on the Storm Recovery Bonds plus On-going Financing Costs. DEP proposes that the Storm Recovery Charges be adjusted at least semi-annually until 12 months prior to the last scheduled payment date of a series of the Storm Recovery Bonds, at which point the Storm Recovery Charges shall be adjusted at least quarterly, to ensure that the amount collected from Storm Recovery Charges is sufficient to pay the debt service on the Storm Recovery Bonds and all On-going Financing Costs.

Witness Charles N. Atkins II states that DEP's proposed bond structure is designed to provide substantially level annual debt service and revenue requirements over the life of

the bond issue and would result in declining Storm Recovery Charges over time, assuming growth in customer energy consumption, other factors being equal. The Commission finds DEP's proposed transaction structure reasonable, and compliant with the Securitization Statute. Moreover, portions of DEP's proposed transaction structure, described in this Financing Order, are necessary to enable the Storm Recovery Bonds to obtain the highest bond credit rating possible, with an objective of AAA or equivalent bond credit ratings, so as to further ensure that the proposed issuance of the Storm Recovery Bonds on behalf of DEP and the imposition of the Storm Recovery Charges will provide quantifiable benefits to customers as compared to the costs that would have been incurred absent the issuance of Storm Recovery Bonds and meet the Statutory Cost Objectives. Accordingly, DEP's issuance structure is hereby approved.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 9

Special Purpose Entity

Under DEP's financing structure, DEP will create one or more SPEs, each as a bankruptcy remote, Delaware LLC with DEP as its sole member, as set forth in the LLC Agreement discussed further below. Each SPE will be formed for the limited purpose of acquiring Storm Recovery Property from DEP, issuing Storm Recovery Bonds in one or more series (each of which may be issued in one or more tranches), and performing other activities relating thereto or otherwise authorized by the LLC Agreement. The rights, obligations, structure and restrictions described in this Financing Order with respect to the SPE are applicable to each such purchaser of Storm Recovery Property to the extent of the Storm Recovery Property acquired by it and the Storm Recovery Bonds issued by it.

DEP proposed (i) that the SPE(s) may issue Storm Recovery Bonds in an aggregate amount not to exceed the Securitizable Balance approved by this Financing Order and (ii) to pledge to an indenture trustee, as collateral for payment of the Storm Recovery Bonds, the Storm Recovery Property, including each SPE's right to receive the Storm Recovery Charges as and when collected, and other collateral described in the Indenture. The SPE(s) will not be permitted to engage in any other activities and will have no assets other than storm recovery property and related assets to support its obligations under the storm recovery bonds. DEP states that these restrictions on the activities of the SPE and restrictions on the ability of DEP to take action on the SPE's behalf are imposed to achieve the objective that the SPE will be bankruptcy-remote and not be affected by a bankruptcy of DEP or any affiliate or successor of DEP.

DEP proposed that the SPE will be managed by a board of managers with rights and duties set forth in its organizational documents. As long as the Storm Recovery Bonds remain outstanding, the SPE will have at least one independent manager with no organizational affiliation with DEP other than possibly acting as independent manager(s) for another bankruptcy-remote subsidiary of DEP or its affiliates. The SPE will not be permitted to amend the provisions of its LLC Agreement or other organizational documents that relate to bankruptcy-remoteness of the SPE without the consent of the independent manager(s). Similarly, the SPE will not be permitted to institute bankruptcy or insolvency proceedings or to consent to the institution of bankruptcy or insolvency proceedings against it, or to dissolve, liquidate, consolidate, convert, or merge without the consent of the independent manager(s). Other restrictions to facilitate bankruptcy-remoteness may also be included in the organizational documents of the SPE as required by the rating agencies.

The Commission agrees with DEP that these restrictions are reasonable and help ensure that the SPEs are bankruptcy-remote.

The SPE will have no staff to perform administrative services (such as routine corporate maintenance, reporting and accounting functions). DEP proposed that these services will be provided by DEP pursuant to the terms of the Administration Agreement between the SPE and DEP.

Per rating agency and IRS requirements, DEP will transfer to the SPE an amount required to capitalize each of its SPEs adequately (the “SPE Capitalization Level”) for deposit into the Capital Subaccount. The SPE Capitalization Level is expected to be 0.50 percent¹⁵ of the initial principal amount of the Storm Recovery Bonds to be issued by the SPE or such greater amount as might be needed to meet IRS or rating agency requirements. The actual SPE Capitalization Level will depend on tax and rating agency requirements. The Commission finds that DEP may earn a return on this capital contribution in an amount equal to the rate of interest payable on the longest maturing tranche of Storm Recovery Bonds. Moreover, the Commission confirms that the SPE will be an “assignee” as defined in N.C. Gen. Stat. § 62-172(a)(2), when an interest in Storm Recovery Property is transferred, other than as security, to such SPE, and such SPE may issue Storm Recovery Bonds in accordance with this Financing Order as discussed further herein.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NOS. 10 & 11

Storm Recovery Property

The Commission determines, consistent with N.C. § 62-172(a)(15), that Storm Recovery Property consists of: (1) all rights and interests of DEP or any successor or

¹⁵ See IRS Rev. Proc. 2005-62 5.04(2).

assignee of DEP under this Financing Order, including the right to impose, bill, charge, collect, and receive storm recovery charges authorized in this Financing Order and to obtain true-up adjustments to such storm recovery charges as provided in this Financing Order, and (2) all revenues, collections, claims, rights to payments, payments, money, or proceeds arising from the rights and interests specified in this Financing Order, 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.

Pursuant to N.C. Gen. Stat. § 62-172(b)(3)c., DEP has requested that this Financing Order provide that the creation of the Storm Recovery Property will be conditioned upon, and simultaneous with, the sale of such Storm Recovery Property to the SPE and the pledge of such Storm Recovery Property to secure the Storm Recovery Bonds.

In addition, the Commission determines that the creation of Storm Recovery Property pursuant to this Financing Order is conditioned upon, and shall be simultaneous with, the sale or other transfer of the Storm Recovery Property to the SPE and the pledge of the Storm Recovery Property to secure the Storm Recovery Bonds.

The Storm Recovery Property shall constitute an existing, present intangible property right or interest therein, notwithstanding that the imposition and collection of Storm Recovery Charges depends on DEP performing its servicing functions relating to the collection of Storm Recovery Charges and on future electricity consumption. Such property shall exist regardless of whether or not the revenues or proceeds arising from the property have been billed, have accrued, or have been collected and notwithstanding the

fact that the value or amount of the property is dependent on the future provision of service to retail customers by DEP or its successors or assignees and future consumption of electricity by retail customers. Furthermore, the Storm Recovery Property shall continue to exist until the Storm Recovery Bonds are paid in full and all Financing Costs and other costs of the Storm Recovery Bonds have been recovered in full.

The Storm Recovery Property also constitutes a present property right for purposes of contracts concerning the sale or pledge of property. The interest of a transferee, purchaser, acquirer, assignee, or pledgee in the Storm Recovery Property, and in the revenue and collections arising from that property, is not subject to setoff, counterclaim, surcharge, or defense by DEP or any other person or in connection with the reorganization, bankruptcy, or other insolvency of DEP or any other entity. *See* N.C. Gen. Stat. § 62-172(e)(1).

The creation, attachment, granting, perfection, priority and enforcement of liens and security interests in Storm Recovery Property are governed by N.C. Gen. Stat. § 62-172(e)(2).

Pursuant to by N.C. Gen. Stat. § 62-172(e)(2)e., the priority of a security interest in Storm Recovery Property is not affected by the commingling of Storm Recovery Charges with other amounts. Any pledgee or secured party shall have a perfected security interest in the amount of all Storm Recovery Charges that are deposited in the collection account or any other cash or deposit account of DEP in which Storm Recovery Charges have been commingled with other funds and any other security interest that may apply to those funds shall be terminated when such funds are transferred to the collection account.

When DEP transfers Storm Recovery Property to the SPE pursuant to this Financing Order under an agreement that expressly states that the transfer is a sale or other absolute transfer in accordance with the “absolute transfer” provisions of N.C. Gen. Stat. § 62-172(e)(3), that transfer shall constitute an absolute transfer and true sale and not a pledge of or secured transaction or other financing arrangement, and title (both legal and equitable) to the Storm Recovery Property shall immediately pass to the SPE. After such a transfer, the Storm Recovery Property shall not be subject to any claims of DEP or its creditors, other than creditors holding a properly perfected prior security interest in the Storm Recovery Property perfected by N.C. Gen. Stat. § 62-172(e).

As provided by N.C. Gen. Stat. § 62-172(e)(3)b., the characterization of the sale, conveyance, assignment, or transfer of Storm Recovery Property as an absolute transfer and true sale or other absolute transfer and the corresponding characterization of the transferee’s property interest shall not be affected by: (1) commingling of Storm Recovery Charges arising with respect to the Storm Recovery Property with other amounts; (2) the retention by DEP of a (i) partial or residual interest, including an equity interest, in the Storm Recovery Property, whether direct or indirect, or whether subordinate or otherwise or (ii) the right to recover costs associated with taxes, franchise fees or license fees imposed on the collection of storm recovery charges; (3) any recourse that the transferee may have against DEP other than any such recourse created, contingent upon, or otherwise occurring or resulting from one or more of DEP’s retail customers’ inability to timely pay all or a portion of the Storm Recovery Charge; (4) any indemnification rights, obligations, or repurchase rights made or provided by DEP, other than indemnity or repurchase rights based solely upon DEP’s retail customers’ inability or failure to timely pay all or a portion

of the Storm Recovery Charge; (5) the obligation of DEP to collect Storm Recovery Charges on behalf of the SPE; (6) DEP acting as the servicer of the Storm Recovery Charges or the existence of any contract that authorizes or requires DEP, to the extent that any interest in Storm Recovery Property is sold or assigned, to contract with the assignee or any financing party that it will continue to operate its system to provide service to its customers for the benefit and account of such assignee or financing party, and will account for and remit such amounts to or for the account of such assignee or financing party; (7) the treatment of the sale, conveyance, assignment, or other transfer for tax, financial reporting, or other purposes; (8) granting or providing to holders of the Storm Recovery Bonds a preferred right to the Storm Recovery Property or credit enhancement by DEP or its affiliates with respect to the Storm Recovery Bonds; or (9) any application of the True-Up Mechanism.

The Commission finds that the terms and conditions discussed above regarding Storm Recovery Property are reasonable and adhere to the requirements of the Securitization Statute. In addition, the Storm Recovery Property and all other collateral is to be held and administered by an indenture trustee pursuant the Indenture, which helps ensure lower Storm Recovery Charges, and that the Statutory Cost Objectives can be achieved. Accordingly, the Commission approves of the (i) creation of Storm Recovery Property, including the rights to impose, bill, charge, collect and receive Storm Recovery Charges and obtain periodic adjustments to the Storm Recovery Charges and (ii) DEP's sale of the Storm Recovery Property to the SPE.

If DEP defaults on any required remittance of amounts collected in respect of Storm Recovery Property specified in this Financing Order, the Superior Court in Wake County,

upon application by an interested party, and without limiting any other remedies available to the applying party, shall order the sequestration and payment of the revenues arising from such Storm Recovery Property to the other financing parties. Any such order shall remain in full force and effect notwithstanding any reorganization, bankruptcy, or other insolvency proceedings with respect to DEP or its successors or assignees, provided; however, that in no circumstances shall the retail customers of DEP be responsible to pay storm recovery charges issued on behalf of DEC or the retail customers of DEC be responsible to pay the Storm Recovery Charges for Storm Recovery Bonds issued on behalf of DEP.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 12

Transaction Documents

DEP has submitted in connection with its Joint Petition a form of the Purchase and Sale Agreement, the Administration Agreement, and the Servicing Agreement, which set out in substantial detail certain terms and conditions relating to the transaction structure for each issuance of Storm Recovery Bonds, including the proposed sale of Storm Recovery Property to the SPE, the administration of the SPE, and the servicing of the Storm Recovery Charges and Storm Recovery Bonds. DEP requested that we approve the substance of the form of the agreements between DEP and the SPE in connection with issuance of this Financing Order.

Drafts of these agreements were filed in order that this Commission may evaluate the principal rights and responsibilities of the parties thereto. The final versions of these agreements, however, will be subject to change based on the input from rating agencies,

investors and other parties involved in the structuring and marketing of the Storm Recovery Bonds.

DEP has also submitted a form of Indenture between the SPE and an indenture trustee, which sets forth proposed security and terms for the Storm Recovery Bonds. DEP requested that we approve the substance of the Indenture, subject to such changes based on the input from rating agencies, investors and other parties involved in the structuring and marketing of the Storm Recovery Bonds.

DEP has also submitted a form of the LLC Agreement with DEP as the sole member that DEP proposed would constitute the organizing document of the SPE. DEP requested that we approve the substance of the LLC Agreement, which would be executed substantially in the form submitted to this Commission, subject to such changes as DEP deems necessary or advisable to satisfy bankruptcy opinion and rating agency considerations. In addition, DEP proposed to execute a Servicing Agreement with the SPE which may be amended, renewed, or replaced by another servicing agreement in accordance with its terms. DEP will be the initial servicer but may be succeeded as servicer as detailed in the Servicing Agreement. Pursuant to the Servicing Agreement, the servicer is required, among other things, to impose, bill, charge, collect and receive the Storm Recovery Charges for the benefit and account of the SPE, to make the periodic true-up adjustments of Storm Recovery Charges required or allowed by this Financing Order and to account for and remit its collection of Storm Recovery Charges to or for the account of the SPE in accordance with the remittance procedures contained in the Servicing Agreement without any charge, deduction, or surcharge of any kind, other than the servicing fee specified in the Servicing Agreement.

Under the Servicing Agreement, if any servicer fails to fully perform its servicing obligations, the indenture trustee or its designee may, and upon the instruction of the requisite percentage of holders of the outstanding bonds shall, appoint an alternate party to replace the defaulting servicer. The obligations of the servicer under the Servicing Agreement, the circumstances under which an alternate servicer may be appointed, and the conditions precedent for any amendment of such agreement will be more fully specified in the Servicing Agreement. The rights of the SPE under its Servicing Agreement will be included in the collateral pledged to the indenture trustee under its Indenture for the benefit of holders of the Storm Recovery Bonds and holders of the SRB Securities.

The Commission determines that the Transaction Documents described above are necessary to facilitate the proposed financing structure approved herein. Moreover, the Transaction Documents are reasonable and will help to achieve the Statutory Cost Objectives. Accordingly, the form Transaction Documents are approved.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NOS. 13 & 14

Offering and Sale of the Bonds

DEP has proposed that the Storm Recovery Bonds be offered pursuant to an SEC-registered offering. The Company has provided testimony to the effect that virtually all utility securitizations have been sold as SEC-registered public transactions. Further, DEP has provided testimony to the effect that an SEC-registered, public offering, is likely to result in a lower cost of funds relative to a non SEC-registered offering, including a Rule 144A qualified institutional offering, all else being equal, due to the enhanced transparency and liquidity of publicly-registered securities. Accordingly, subject to the IAL procedure described further below, the Commission finds that an SEC-registered public offering is

most likely to result in the lowest costs to consumers, and should be approved. However, the Commission further finds DEP, subject to the IAL procedures described in the Evidence and Conclusions for Finding of Fact No. 33, may also pursue a Rule 144A qualified institutional offering of the Storm Recovery Bonds.

DEP has proposed that the Storm Recovery Bonds be sold pursuant to a sale to one or more underwriters in a negotiated offering as described in the testimony of witness Atkins. DEP, consistent with its other securities offerings, will select the lead managing underwriter(s) to achieve its Statutory Cost Objectives. DEP has testified that a negotiated underwriting is likely to provide greater flexibility and availability of investor funds.

The Commission finds, subject to the IAL procedures, that the issuance of the Storm Recovery Bonds pursuant to an SEC-registered negotiated sale is likely to result in lower overall costs and satisfy the Statutory Cost Objectives, and should therefore be approved. However, DEP, subject to the IAL procedures, is also authorized to pursue other sale options, including a Rule 144A offering, in order to satisfy the Statutory Cost Objectives. The Commission therefore finds it necessary to grant DEP flexibility and authority to pursue other sale options that result in the lowest Storm Recovery Charges for customers consistent with market conditions at the time the Storm Recovery Bonds are priced.

DEP has testified that the SPE may, as an alternative to directly issuing and marketing the Storm Recovery Bonds to unaffiliated investors through either a registered public offering or unregistered exempt offering, issue the Storm Recovery Bonds to a single special purpose trust, the SRB Issuer, established jointly by DEP and DEC or by Duke Energy Corporation.

In this case, notes or similar instruments would be issued by the SRB Issuer to investors backed by the SPE's Storm Recovery Bonds and storm recovery bonds issued by an SPE wholly-owned by DEC pursuant to DEC's financing order held by the SRB Issuer (the "SRB Securities"). The SRB Issuer would engage in no activities other than the holding of the Storm Recovery Bonds and the storm recovery bonds issued by an SPE wholly-owned by DEC, issuing the SRB Securities and engaging in other related activities. A form of the proposed Declaration of Trust is attached to the testimony of witness Heath as Heath Exhibit 2f and co-sponsored by witness Atkins. DEP asks the Commission to approve the substance of the Declaration of Trust, subject to such changes based on input from rating agencies, investors and other parties involved in the structuring and marketing of the SRB Securities.

The SRB Securities would be sold either through a registered public offering or unregistered exempt offering described above. The SRB Securities would be structured in order to achieve the highest possible credit rating from applicable rating agencies based upon the underlying structure of the SRB Issuer secured by Storm Recovery Property and the storm recovery property owned by a SPE wholly-owned by DEC and supported by the True-Up Mechanism.

Combining the issuance of DEP's Storm Recovery Bonds and DEC's storm recovery bonds in one transaction through the use of the SRB Issuer will likely, as detailed in the testimony of witness Atkins and witness Heath, result in enhanced marketability and other efficiencies, thereby lowering costs for both DEP's and DEC's customers. None of the SPEs would be obligated, however, with respect to any other SPE's storm recovery bonds; therefore, the customers of DEP would not be affected by the actions of DEC or the

adequacy of the storm recovery property of DEC. The SRB Issuer would transfer an allocable portion of net proceeds from the sale of the SRB Securities to each SPE and each such SPE would in turn transfer those proceeds to DEP or DEC, as applicable in consideration for the storm recovery property sold to such SPE by DEP or DEC.

The Commission finds the testimony of witness Heath and witness Atkins to be persuasive, and agrees that combining the issuance of DEP's Storm Recovery Bonds and DEC's storm recovery bonds in one transaction through the use of the SRB Issuer may result in lower Storm Recovery Charges for customers, and help ensure that the Statutory Cost Objectives can be met. Accordingly, the Commission hereby grants DEP the authority in this Financing Order to issue Storm Recovery Bonds in a combined transaction with DEC through the use of the SRB Issuer. By allowing the Companies flexibility to determine which of the above issuance structures are best tailored to then-existing rating agency considerations, market conditions, and investor preferences, the financing of Storm Recovery Costs can be reasonably expected to result in the lowest Storm Recovery Charges consistent with market conditions at the time the Storm Recovery Bonds are priced.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NOS. 15—17

Amortization, Interest Rates, and Credit Ratings of Storm Recovery Bonds

Regarding the principal amortization, the Commission determines that the expected term of the scheduled final payment date of the last maturing tranche should be no later than 15 years from the issuance of the series of Storm Recovery Bonds. The legal maturity date of each tranche may be longer than the scheduled final payment date for that tranche. Annual payments of principal of and interest on the Storm Recovery Bonds shall be substantially level over the expected term of the Storm Recovery Bonds.

The first payment of principal and interest for each series of Storm Recovery Bonds shall occur within 12 months of issuance. Payments of principal and interest thereafter shall be no less frequent than semi-annually. The Commission finds that this proposed structure—providing substantially level annual debt service and revenue requirements over the life of the Storm Recovery Bonds—is in the public interest and should be utilized.

As to interest rates, the Commission determines that each tranche of the Storm Recovery Bonds should have a fixed interest rate, based on current market conditions. If market conditions change, and it becomes necessary to achieve the Statutory Cost Objectives for the one or more tranches of bonds to be issued in floating-rate mode, DEP is authorized to issue such bonds but will be required to execute agreements to swap the floating payments to fixed-rate payments. This flexibility will ensure that DEP can achieve economic benefits for customers.

The Company anticipates that each series of Storm Recovery Bonds will have a AAA or equivalent rating from at least two nationally recognized rating agencies. The Commission hereby grants DEP authority to provide necessary credit enhancements, with recovery of related costs as a form of On-going Financing Costs, to achieve such ratings.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 18

Security for Storm Recovery Bonds

DEP proposed that the payment of the Storm Recovery Bonds and related Storm Recovery Charges authorized by this Financing Order is to be secured by the Storm Recovery Property created by this Financing Order and by certain other collateral as described herein. The Storm Recovery Bonds will be issued pursuant to an Indenture under which the indenture trustee will administer the trust.

DEP proposed that the SPE will establish a Collection Account as a trust account to be held by its indenture trustee as collateral to facilitate the payment of the principal of, interest on, and On-going Financing costs related to, the Storm Recovery Bonds in full and on a timely basis. Each Collection Account will include the General Subaccount, the Capital Subaccount and the Excess Funds Subaccount, and may include other subaccounts if required to obtain AAA ratings on the Storm Recovery Bonds.

DEP proposes that Storm Recovery Charge remittances from the servicer with respect to the Storm Recovery Bonds will be deposited into the General Subaccount for the SPE. On a periodic basis, the money in the General Subaccount will be allocated to pay expenses of the SPE, to pay principal of and interest on the Storm Recovery Bonds, and to meet the funding requirements of the other subaccounts, according to specified payment priority established in the Indenture. Funds in the General Subaccount will be invested by the indenture trustee in short-term, high-quality investments and such funds (including, to the extent necessary, investment earnings) will be applied by the indenture trustee to pay principal of and interest on the Storm Recovery Bonds and all other components of the On-going Financing Costs payable by the SPE.

When the Storm Recovery Bonds are issued, DEP proposes that it will make a capital contribution to its SPE, which the SPE will deposit into its Capital Subaccount. The storm recovery proceeds will not be used to fund this capital contribution. The amount of the capital contribution will be at least 0.5 percent of the original principal amount of the Storm Recovery Bonds issued by the SPE. Each Capital Subaccount will serve as collateral to facilitate timely payment of principal of and interest on the Storm Recovery Bonds. To the extent that a Capital Subaccount must be drawn upon to pay these amounts due to a

shortfall in the Storm Recovery Charge collections, it will be replenished to its original level through the true-up process described below. The funds in each Capital Subaccount will be invested in short-term, high-quality investments and, if necessary, such funds (including investment earnings) will be used by the indenture trustee to pay principal of and interest on the Storm Recovery Bonds and the On-going Financing Costs payable by the SPE. DEP will be permitted to earn a rate of return on its invested capital in the SPE equal to the rate of interest payable on the longest maturing tranche of Storm Recovery Bonds and this return on invested capital should be a component of the Periodic Payment Requirement (as defined below), and accordingly, recovered from Storm Recovery Charges.

DEP proposed that any Excess Funds Subaccount will hold any Storm Recovery Charge collections and investment earnings on the Collection Account in excess of the amounts needed to pay current principal of and interest on the Storm Recovery Bonds and to pay all of the On-going Financing Costs payable by the SPE including, but not limited to, funding or replenishing each Capital Subaccount. Any balance in or amounts allocated to such Excess Funds Subaccount on a true-up adjustment date will be subtracted from any amounts required for such period for purposes of the true-up adjustment. The funds in the Excess Funds Subaccount will be invested in short-term, high-quality investments, and such funds (including investment earnings thereon) will be available to pay principal of and interest on the Storm Recovery Bonds and the On-going Financing Costs payable by the SPE.

DEP also proposed that any Collection Account and the subaccounts described above are intended to facilitate the full and timely payment of scheduled principal of and

interest on the Storm Recovery Bonds and all other authorized components of the On-going Financing Costs payable by the SPE. If the amount of Storm Recovery Charge collections in the General Subaccount is insufficient to make, on a timely basis, all scheduled payments of principal of and interest on the Storm Recovery Bonds and to make payment on all of the other components of the On-going Financing Costs payable by the SPE, the relevant Excess Funds Subaccount and the relevant Capital Subaccount will be drawn down, in that order, to make such payments. Any deficiency in a Capital Subaccount due to such withdrawals must be replenished on a periodic basis through the true-up process.

In addition to the foregoing, there may be such additional accounts and subaccounts as are necessary to segregate amounts received from various sources, or to be used for specified purposes. Upon the maturity of the Storm Recovery Bonds and upon the discharge of all obligations with respect to such bonds, amounts remaining in each Collection Account will be released to the appropriate SPE and will be available for distribution by the SPE to DEP. As noted in this Financing Order, equivalent amounts, less the amount of any Capital Subaccount, will be booked to a regulatory liability and credited back to customers in the Company's next rate case following the maturity of the Storm Recovery Bonds.

Based upon the foregoing, the Commission finds that utilization of a Collection Account, including a General Subaccount, a Capital Subaccount and an Excess Funds Subaccount, as proposed by DEP is reasonable and should help achieve the Statutory Cost Objectives. Moreover, it is necessary to grant DEP the flexibility and authority to include other subaccounts in the Collection Account where required to obtain AAA ratings on the

series of Storm Recovery Bonds, which will in turn lower Storm Recovery Charges for customers.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NOS. 19 & 20

DEP as Initial Servicers of the Storm Recovery Bonds

DEP proposes to execute a Servicing Agreement with the SPE, the final version of which shall be filed with this Commission concurrent with its filing with the SEC.

Under the Servicing Agreement, the servicer shall be required, among other things, to impose, bill, charge, collect and receive the Storm Recovery Charges for the benefit of its SPE, to make the true-up adjustments of Storm Recovery Charges required or allowed by this Financing Order, and to account for and remit the Storm Recovery Charges to or for the account of its SPE in accordance with the remittance procedures contained in the Servicing Agreement without any charge, deduction, or surcharge of any kind, other than the servicing fee specified in the Servicing Agreement. The appropriate servicing fee shall be as set forth in this Financing Order.

To preserve the integrity of the bankruptcy-remote structure of the SPE and ensure the high credit quality of the Storm Recovery Bonds, the servicer must be adequately compensated for the services it provides, including the calculation, billing, and collection of Storm Recovery Charges, remittance of those charges to the indenture trustee, and the preparation, filing, and processing of the TUAL. DEP's proposed form of Servicing Agreement provides for an on-going servicing fee for the initial servicer in the amount of 0.05 percent of the initial principal amount of the Storm Recovery Bonds plus out-of-pocket expenses. DEP has submitted testimony on the costs anticipated to be incurred by

it in connection with the servicing functions under the Servicing Agreement, and we find such costs to be reasonable and appropriate.

DEP's proposed form of Servicing Agreement provides for an annual fee for on-going services of 0.05 percent of the initial principal amount of the Storm Recovery Bonds so long as DEP acts as servicer plus out-of-pocket expenses. In addition to the annual on-going servicing fee, DEP proposes to recover as an Up-front Financing Cost, approximately \$9.0 million, to recover set-up costs of the servicer, including information technology programming costs to adapt DEP's existing systems to bill, charge, collect, receive and process Storm Recovery Charges, and to set up necessary servicing functions. The evidence shows that these amounts represent a prudently incurred cost to DEP, and we find that those costs are reasonable.

However, the servicing fees collected by DEP, or any affiliate acting as the servicer under the Servicing Agreement, will be reflected in DEP's ongoing cost of service such that any amounts in excess of DEP's incremental costs of servicing the Storm Recovery Bonds shall be returned to DEP's retail customers in the Company's next rate case. The expenses incurred by DEP or such affiliate to perform obligations under the Servicing Agreement not otherwise recovered through the Storm Recovery Charges will likewise be included in DEP's cost of service.

DEP has proposed that it will not be permitted voluntarily to resign from its duties as a servicer if the resignation will harm the credit rating on Storm Recovery Bonds issued by its SPE. Even if DEP's resignation as servicer would not harm the credit rating on the Storm Recovery Bonds issued by the SPE, we find and direct that DEP shall not be permitted to voluntarily resign from its duties as servicer without consent of the

Commission. If DEP defaults on its duties as servicer or is required for any reason to discontinue those functions, then DEP proposes that a successor servicer acceptable to the indenture trustee be named to replace DEP as servicer so long as such replacement would not cause any of the then current credit ratings of the Storm Recovery Bonds to be suspended, withdrawn or downgraded. We find that any successor servicer to DEP also should be acceptable to the Commission.

DEP has proposed that, and we find and direct that, the servicing fee payable to a substitute servicer should not exceed 0.60 percent per annum on the initial principal balance of the Storm Recovery Bonds issued by the SPE, unless a higher fee is approved by the Commission.

DEP shall indemnify its retail customers to the extent retail customers incur losses associated with higher servicing fees payable to a substitute servicer as a result of DEP's negligence, recklessness or willful misconduct in acting as a servicer. This indemnification provision shall be reflected in the Transaction Documents for these Storm Recovery Bonds.

We find and direct that the SPE and the indenture trustee shall not be permitted to waive any material obligations of DEP as transferor or as servicer of Storm Recovery Property without express written consent of this Commission.

Furthermore, it is contemplated that DEP shall act as the servicer for the Storm Recovery Bonds until the Storm Recovery Bonds are fully amortized. If the State of North Carolina or this Commission decides to allow billing, collection, and remittance of the Storm Recovery Charges by a third party supplier within the DEP service territory, such authorization must be consistent with the rating agencies' requirements, as outlined in the testimony of witness Atkins necessary for the Storm Recovery Bonds to maintain the

targeted AAA or equivalent rating. The Commission finds and concludes that it is reasonable for DEP to act as initial servicer under the proposed financing transaction and that such will reduce risk associated with the proposed securitization therefore resulting in lower Storm Recovery Charges and greater benefits to ratepayers. Accordingly, this Financing Order grants DEP authority and flexibility to act as initial servicer pursuant to the Servicing Agreement under the proposed financing structure.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NOS. 21 & 22

DEP Administrator of the SPE

Under the above-described Administration Agreement, DEP will perform the administrative duties necessary to maintain the SPE. The appropriate administration fee shall be as set forth in this Financing Order.

DEP's proposed form of Administration Agreement provides for a \$50,000 annual fee plus out-of-pocket expenses paid to an administrator for performing the services required by the Administration Agreement. Witness Heath discusses the costs anticipated to be incurred by it in connection with the Administration Agreement in his testimony. We find that DEP has demonstrated that this annual fee is necessary to cover any costs to be incurred by DEP in performing services as administrator.

The Commission finds and concludes that it is reasonable for DEP to act as an administrator of the SPE under the proposed financing transaction. Accordingly, this Financing Order grants DEP authority and flexibility to act as administrator pursuant to the Administration Agreement under the proposed financing structure.

The administration fees collected by DEP or any affiliate acting as the administrator under the Administration Agreement will be included in DEP's cost of service such that

any amounts in excess of DEP's incremental costs of administering the SPE shall be returned to DEP's retail customers. The expenses incurred by DEP or such affiliate to perform obligations under the Administration Agreement not otherwise recovered through the Storm Recovery Charges will likewise be included in DEP's cost of service.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NOS. 23 & 24

On-going Financing Costs

Heath Exhibit 1, attached to the testimony of witness Heath, provides an estimate of the On-going Financing Costs associated with the Storm Recovery Bonds, which DEP proposes to recover through the Storm Recovery Charge. DEP's On-going Financing Costs include, without limitation, rating agency surveillance fees, servicing fees, administration fees, legal and auditing fees, regulatory assessment fees, trustee fees, independent manager(s) fees and the return on invested capital.

Certain of these On-going Financing Costs, such as the administration fees and the amount of the servicing fees for DEP (as the initial servicer) are determinable, either by reference to an established dollar amount or a percentage as discussed above, on or before the issuance of the Storm Recovery Bonds. Other On-going Financing Costs will vary over the term of the Storm Recovery Bonds.

Having reviewed DEP's proposal, the Commission determines that the proposed On-going Financing Costs identified in DEP's Joint Petition and Attachment 4 of the form of IAL qualify as "financing costs" pursuant to N.C. Gen. Stat. § 62-172(a)(4) and are therefore eligible for recovery through a storm recovery charge. Additionally, consistent with the Commission's conclusions for Finding of Fact Nos. 20 and 22, the Commission reiterates that it is appropriate for DEP to credit back to customers all periodic servicing

and administration fees in excess of DEP's or an affiliate of DEP's incremental cost of performing the servicer or administrator function in the next rate case when costs and revenues associated with the servicing and administration fees will be included in DEP's cost of service.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 25

Storm Recovery Bonds to Be Treated as "Debt" for Federal Income Tax Purposes

In light of the IRS safe harbor rules, we find that DEP shall be responsible to structure the Storm Recovery Bond transactions in a way that clearly meets all requirements for the IRS' safe harbor treatment, including that, for federal income tax purposes, the Storm Recovery Bonds shall be treated as debt of DEP.

STORM RECOVERY CHARGES

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NOS. 26—29

Imposition and Computation of Storm Recovery Charges

DEP seeks authorization to collect from its customers, in the manner provided in this Financing Order and/or the Tariffs approved hereby, Storm Recovery Charges in an amount sufficient to provide for the timely payment of principal of and interest on the Storm Recovery Bonds and all other On-going Financing Costs as described in the Evidence and Conclusions for Finding of Fact Nos. 23 & 24.

To repay the Storm Recovery Bonds and On-going Financing Costs, DEP is hereby authorized to implement Storm Recovery Charges to be collected on a per-kWh basis from all applicable customer rate classes until the Storm Recovery Bonds and associated Financing Costs are paid in full. The Storm Recovery Charges are nonbypassable, and must be paid by all existing or future retail customers receiving transmission or distribution services from DEP or its successors or assignees under Commission-approved rate

schedules or under special contracts, even if the retail customer elects to purchase electricity from an alternative electricity supplier following a fundamental change in regulation of public utilities in this state. *See* N.C. Gen. Stat. § 62-172(a)(13) and (b)(3)b.4. In the event there is a fundamental change in the regulation of public utilities, the Storm Recovery Charges shall be collected in a manner that will not adversely affect the rating on the Storm Recovery Bonds.

In summary, the Securitization Statute provides for the recovery of storm recovery costs through storm recovery bonds. Accordingly, to compute the Storm Recovery Charges, DEP first applied the allocation factors to the total first year revenue requirements as presented in witness Abernathy DEP Exhibit 3 in order to allocate the revenue requirements to each customer rate class. These revenue requirements were grossed-up to reflect uncollectible account write-offs and the regulatory fees to arrive at the storm recovery revenue requirements by rate class. Next, the rate was calculated by dividing total revenue requirements for each customer rate class by the effective kWh sales forecast for each customer rate class.

DEP applied the allocation factors to the customer rate classes in the manner in which these costs or their equivalent costs were allocated in the cost-of-service study proposed by DEP in Docket No. E-2, Sub 1219, as required by the Securitization Statute. DEP used the allocation factors as well as the sales forecast (based on the 2021 retail sales forecast filed in the Company's most recent Integrated Resource Plan) to calculate the proposed initial Storm-Recovery Charge per kWh by customer rate class. The resulting Storm Recovery Charges were then set forth in proposed Tariffs, as shown in witness Jonathan Byrd's Exhibit 2, needed to implement the Storm Recovery Charge.

A formula-based mechanism as described in N.C. Gen. Stat. § 62-172(b)(3)b.6., the True-Up Mechanism, to calculate, and adjust from time to time, the Storm Recovery Charges for each customer rate class was submitted by DEP. DEP submitted with the Joint Petition the supporting testimony of witness Angers, which provided the True-Up Mechanism to determine the Periodic Payment Requirement (defined further below) to be recovered from the Storm Recovery Charge. This True-Up Mechanism is attached as Appendix B.

DEP also submitted with its Joint Petition the supporting testimony of witness Byrd with respect to allocation of these periodic costs and the computation of the Storm Recovery Charges for each customer rate class for DEP. As discussed in the testimony of witness Abernathy and shown in Abernathy DEP Exhibits 1-4, DEP computed the estimated Storm Recovery Charges, as described in N.C. Gen. Stat. § 62-172(a)(13).

We hereby find that the cost allocation formula described in DEP's testimony and embedded in the True-Up Mechanism is consistent with N.C. Gen. Stat. § 62-172(b)(3)b.6. and is reasonable.

In the event DEP chooses to issue Storm Recovery Bonds to a trust or another SPE, as described in Finding of Fact No. 14, the obligations of customers of DEP to pay relevant storm recovery bonds shall not be joint and several with customers of the other utility meaning that each storm recovery charge shall only be adjusted pursuant to the True-up Mechanism to ensure the collection of amounts sufficient to pay principal of, interest on and other on-going financing costs related to the relevant storm recovery bonds.

In N.C. Gen. Stat. § 62-172(k), the State pledges to and agrees with the bondholders, the owners of Storm Recovery Property, and other financing parties that the

State and its agencies, including this Commission will not: (1) alter the provisions of the Securitization Statute, which authorize this Commission to create an irrevocable contract right or chose in action by the issuance of this Financing Order irrevocable binding, or nonbypassable charges, to create Storm Recovery Property, and make the Storm Recovery Charges imposed by this Financing Order; (2) take or permit any action that impairs or would impair the value of Storm Recovery Property or revises the Storm Recovery Costs for which recovery is authorized; (3) in any way impair the rights and remedies of the bondholders, assignees, and other financing parties; or (4) except for changes made pursuant to the True-Up Mechanism, reduce, alter, or impair Storm Recovery Charges that are to be imposed, billed, charged, collected, and remitted for the benefit of the bondholders, any assignee, 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. This Commission finds that this State Pledge will constitute a contract with the bondholders, the owners of Storm Recovery Property, the SRB Issuer, holders of SRB Securities and other financing parties.

This Commission anticipates stress case analyses, as described in witness Atkins' testimony, will show that the broad-based nature of the True-Up Mechanism under N.C. Gen. Stat. § 62-172(b)(3)b.6., and the State Pledge under N.C. Gen. Stat. § 62-172(k), will serve to minimize credit risk associated with the Storm Recovery Bonds (i.e., that sufficient funds will be available and paid to discharge the principal and interest when due).

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NOS. 30 & 31

Treatment of Storm Recovery Charge in Tariff and on Retail Customer Bills

DEP submitted a proposed Tariff included as Byrd DEP Exhibit 2 attached to witness Byrd's testimony to impose the Storm Recovery Charge. Pursuant to N.C. Gen. Stat. § 62-172(d)(1), the tariffs must "explicitly reflect that a portion of the charges on such bill represents storm recovery charges approved in a financing order issued to the public utility and, if the storm recovery property has been transferred to an assignee, must include a statement to the effect that the assignee is the owner of the rights to storm recovery charges and that the public utility or other entity, if applicable, is acting as a collection agent or servicer for the assignee." In addition, the "tariff applicable to customers must indicate the storm recovery charge and the ownership of the charge." N.C. Gen. Stat. § 62-172(d)(1).

The Commission finds that DEP's proposed Tariff included as Byrd DEP Exhibit 2 and attached to witness Byrd's testimony include the required language necessary to effectuate N.C. Gen. Stat. § 62-172(d) and is hereby approved.

In addition, and in accordance with N.C. Gen. Stat. § 62-172(d)(2), the Commission determines that DEP's applicable Storm Recovery Charge must be recognized as a separate line item on retail customer bills entitled Storm Securitization Charge and include both the rate and the amount of the charge. Moreover, all electric bills issued by DEP must state that, as approved in a financing order, all rights to the Storm Recovery Charge are owned by the SPE and that DEP is acting as collection agent or servicer for its SPE.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 32

True-Up of Storm Recovery Charges

Pursuant to N.C. Gen. Stat. § 62-172(b)(3)b.6., the servicer of the Storm Recovery Property will file for standard true-up adjustments to the Storm Recovery Charges at least semi-annually to ensure Storm Recovery Charge collections are sufficient to provide for the timely payment of the principal of and interest on the Storm Recovery Bonds and of all of the On-going Financing Costs payable by the SPE in respect of Storm Recovery Bonds as approved under this Financing Order. This required periodic payment of all such amounts will also include deficiencies on past due amounts for any reason for a series of Storm Recovery Bonds.

Pursuant to N.C. Gen. Stat. § 62-172(b)(3)b.6., this Financing Order must include a formula-based true-up mechanism for making expeditious periodic adjustments in the Storm Recovery Charges that retail customers are required to pay pursuant to this Financing Order and for making any adjustments that are necessary to correct for any overcollection or undercollection of the charges or to otherwise ensure the timely payment of the Periodic Payment Requirement (as defined below).

Consistent with Section N.C. Gen. Stat. § 62-172(b)(3)d., DEP proposed to file with the Commission at least semi-annually (and at least quarterly beginning 12 months prior to the last scheduled payment date for the latest maturing tranche of a series of Storm Recovery Bonds) a letter applying the formula-based True-Up Mechanism and, based on estimates of consumption for each rate class and other mathematical factors, requesting administrative approval to make the necessary adjustments.

In addition to the semi-annual true-up adjustments, DEP proposed that the servicer of the Storm Recovery Property also be authorized to make optional interim true-up adjustments at any time and for any reason in order to ensure the recovery of revenues sufficient to provide for the timely payment of Periodic Payment Requirement.

The Commission accepts the Company's true-up proposals as reasonable, and finds that DEP shall adhere to the following requirements:

After issuance of Storm Recovery Bonds on behalf of DEP, the servicer will submit at least semi-annually (and at least quarterly beginning 12 months prior to the last scheduled final payment date of the last maturing tranche of a series of Storm Recovery Bonds) a letter in this docket for Commission review, as described in N.C. Gen. Stat. § 62-172(b)(3)d., and in the form attached hereto as Appendix B.

The TUAL will apply the formula-based True-Up Mechanism described herein and in Appendix B to this Financing Order for making expeditious periodic adjustments in the relevant Storm Recovery Charge to correct for any over-collection or under-collection of the charges or to otherwise ensure the timely payment of the Periodic Payment Requirement for each series of Storm Recovery Bonds.

The "Periodic Payment Requirement" will be composed of the following components for each collection period: (i) the payments of the principal of and interest on the Storm Recovery Bonds issued by the SPE, in accordance with the expected amortization schedule, including deficiencies on past-due principal and interest for any reason, (ii) On-going Financing Costs payable during the collection period and the costs of funding and/or replenishing the Capital Subaccount and any other credit enhancements

established in connection with the Storm Recovery Bonds and other related fees and expenses.

The first Periodic Payment Requirement established through the IAL procedures may be calculated based upon a set of collection periods greater or less than twelve collection periods. Notwithstanding the foregoing, in the event that any Storm Recovery Bonds are outstanding following the last scheduled payment date for the tranche of the latest maturing series of Storm Recovery Bonds, the Periodic Payment Requirement will be calculated so that collections are sufficient to make all payments on those Storm Recovery Bonds, and in respect of Financing Costs, no later than the immediately following payment date.

Along with each TUAL, the servicer shall provide workpapers showing all inputs and calculations, including its calculation of the Storm Recovery Charge and by customer rate class. Pursuant to N.C. Gen. Stat. § 62-172(b)(3)d., the Commission, upon the filing of a TUAL made pursuant to this Financing Order, shall render an administrative approval of the request or inform the servicer of any mathematical or clerical errors in its calculation as expeditiously as possible, but no later than 30 days following the servicer's true-up filing. Notification and correction of any mathematical or clerical errors shall be made so that the true-up is implemented within 30 days of the servicer's true-up filing. If no action is taken within 30 days of the filing of the TUAL, the true-up calculation shall be deemed approved. Upon approval or the passage of 30 days without notification of a mathematical or clerical error, no further action of this Commission will be required prior to implementation of the true-up.

To ensure adequate Storm Recovery Charge collections and to avoid large over-collections and under-collections over time, we direct that the servicer shall reconcile Storm Recovery Charges using DEP's most recent forecast of electricity deliveries (i.e., forecasted billing units and Commission-approved customer class allocations) used for all corporate purposes and DEP's estimates of related expenses. Each periodic true-up adjustment should ensure that Storm Recovery Charge collections are sufficient to meet the Periodic Payment Requirement. The calculation of the Storm Recovery Charges will also reflect both a projection of uncollectible Storm Recovery Charges and a projection of payment lags between the billing and collection of Storm Recovery Charges based upon DEP's most recent experience regarding collection of Storm Recovery Charges.

This Commission hereby approves the True-Up Mechanism and determines that each TUAL shall be based upon the cumulative differences, regardless of the reason, between the Periodic Payment Requirement (including scheduled principal and interest payments on the Storm Recovery Bonds) and the amount of Storm Recovery Charge collections and estimated Storm Recovery Charge collections to the indenture trustee.

ISSUANCE ADVICE LETTER

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 33

DEP shall file a combined IAL/TUAL in final form with the Commission within one business day after actual pricing. As shown in the form of IAL/TUAL, the combined IAL/TUAL shall include the following information: the actual structure of the Storm Recovery Bond issuance; the scheduled final payment dates and legal maturities of the Storm Recovery Bonds shall be under the direct control of DEP and its counsel at the Company's sole discretion; over-collateralization levels (if any); any other credit

enhancements; revised estimates of the Up-front Financing Costs proposed to be financed and estimates of debt service and other On-going Financing Costs for the first collection period and other information specific to the Storm Recovery Bonds from proceeds of the Storm Recovery Bonds. Finally, the combined IAL/TUAL shall include certifications from DEP, if required, that the structuring and pricing of the Storm Recovery Bonds achieved the Statutory Cost Objectives.

The actual details of the transaction, including certifications from DEP, included with the IAL/TUAL shall be provided no later than the first business day after pricing (unless the Commission, acting through its representatives agree to a longer time). Unless the Commission issues an order stopping the Storm Recovery Bond issuance before noon on the third business day after pricing because the Commission determines that the IAL/TUAL and all required certifications have not been delivered or the transaction does not comply with the Standards of this Financing Order, the transaction proceeds without any further action of this Commission. The Commission shall only issue an order to stop the transaction if the Commission determines that (a) the transaction does not comply with the Standards of this Financing Order, or (b) DEP has not delivered the required certification in a form acceptable to the Commission. However, this Commission retains discretion either to allow the transaction to be completed or to issue an order to stop the transaction if DEP fails to deliver the required certification or is unable or unwilling to deliver the required certification in a form acceptable to this Commission. The Commission will not issue an order to stop the transaction for any other reason, including, but not limited to, a change in market conditions after the moment of pricing.

Prior to the filing of the IAL/TUAL and through the period ending with the issuance of the Storm Recovery Bonds, DEP will, to the extent requested by this Commission, provide this Commission or a designated Commissioner or member of Commission Staff (the “Designated Member”) with timely information so that the Commission acting for itself or through its Designated Member can participate fully and in advance regarding all material aspects relating to the structuring and pricing of, and Financing Costs relating to the Storm Recovery Bonds.

DEP will retain sole discretion regarding whether or when to assign, sell or otherwise transfer any rights concerning Storm Recovery Property arising under this Financing Order, or to cause the issuance of any Storm Recovery Bonds authorized in this Financing Order; *provided*, that any issuance must satisfy the Statutory Costs Objectives. Subject to the IAL procedures described above, the SPE will issue the Storm Recovery Bonds on or after the fifth business day after pricing of the Storm Recovery Bonds.

In the event either (i) DEP determines that the issuance of the Storm Recovery Bonds would not achieve the Statutory Cost Objectives or (ii) the Commission will not permit issuance of the Storm Recovery Bonds by issuing an order to stop the transaction in accordance with the IAL procedures, then DEP shall not be precluded from seeking to recover Financing Costs incurred and Carrying Costs accrued post issuance of the DEP Rate Order.

MITIGATION OF RATE IMPACTS

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 34

N.C. Gen. Stat. § 62-172(b)(1)g., requires a public utility petitioning the Commission for a financing order to provide “a comparison between the net present value

of the costs to customers that are estimated to result from the issuance of storm recovery bonds and the costs that would result from the application of the traditional method of financing and recovering storm recovery costs from customers.” In addition, N.C. Gen. Stat. § 62-172(b)1.g. requires a public utility petitioning the Commission for a financing order to demonstrate that “the comparison should demonstrate that the issuance of storm recovery bonds and the imposition of storm recovery charges are expected to provide quantifiable benefits to customers.”

In the DEP Settlement, DEP and the Public Staff agreed that to demonstrate quantifiable benefits to customers in accordance with N.C. Gen. Stat. § 62-172(b)(1)g., that DEP must show that the net present value of the costs to customers using securitization is less than the net present value of the costs that would result under traditional storm cost recovery. For purposes of settlement, DEP and the Public Staff also agreed on the assumptions to be used in evaluating whether securitization of the Storm Recovery Costs provides quantifiable customer benefits when compared to traditional storm cost recovery. Specifically, the DEP Settlement requires that when conducting this comparison, DEP will make the following assumptions in determining what the “new rates” under the traditional method of recovery would have been absent the issuance of the Storm Recovery Bonds:

- 1) for traditional storm cost recovery, 12 months of amortization for each Storm was expensed prior to the new rates associated with traditional storm cost recovery going into effect;
- 2) 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) for traditional storm cost recovery, no carrying charges were accrued on the deferred balance during the 12-month period following the dates of the Storms;
- 4) for traditional storm cost recovery, the amortization period for the Storms is a minimum of 15 years; and
- 5) for an issuance of storm recovery bonds, the imposition of the storm recovery charges begins nine months after the new rates associated with traditional storm cost recovery would go into effect.

DEP provided the cost comparison required by N.C. Gen. Stat. § 62-172(b)(1)g. in witness Abernathy's DEP Exhibit 5. Abernathy DEP Exhibit 5 calculates both the total estimated net present value of costs to customers under the Storm Recovery Charges as well as the total cumulative costs to customers under the traditional cost recovery method. In addition, witness Abernathy included the aforementioned DEP Settlement assumptions in Abernathy DEP Exhibits 5-7, and explained in her testimony that the Company utilized the assumptions and adhered to the DEP Settlement in calculating its costs for the comparison. Therefore, as an initial matter, the Commission concludes that DEP has provided the necessary comparison required by N.C. Gen. Stat. § 62-172(b)(1)g. and properly adhered to the DEP Settlement.

As shown in Abernathy DEP Exhibit 5, using the traditional method of cost recovery, the net present value of total retail costs to customers is approximately \$599.3 million. Using the storm securitization method of cost recovery and recovering Storm Recovery Costs through the Storm Recovery Charge, the net present value of total retail costs to customers is approximately \$400.3 million. This results in approximately \$199.0

million, or approximately 33.2 percent, in quantifiable benefits to customers. The calculation of these costs are detailed in Abernathy DEP Exhibits 5, 6 and 7.

Thus, we find that the issuance of the Storm Recovery Bonds and the imposition of the Storm Recovery Charges authorized by this Financing Order have a significant likelihood of providing quantifiable benefits to customers as compared to the costs that would have been incurred absent the issuance of Storm Recovery Bonds.

FLEXIBILITY

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 35

In this Financing Order, we approve the financing of DEP's Storm Recovery Costs and Up-front Financing Costs through Storm Recovery Bonds with terms to be established by DEP, at the time of pricing, subject to compliance with the IAL procedures outlined in this Financing Order. As discussed above, in the Evidence and Conclusions for Finding of Fact No. 34, DEP provided testimony establishing that the proposed issuance of Storm Recovery Bonds by DEP and the imposition and collection of the Storm Recovery Charge from DEP's retail customers are expected to provided quantifiable benefits to such customers as compared to the costs that would have been incurred absent the issuance of Storm Recovery Bonds.

N.C. Gen. Stat. § 62-172(b)(3)b.8. requires this Commission to specify the degree of flexibility to be afforded to DEP in establishing the terms and conditions of the Storm Recovery Bonds, including, but not limited to, repayment schedules, expected interest rates, and other financing costs consistent with N.C. Gen. Stat. § 62-172(b)(3)b.1.-7.

DEP proposed that its SPE issue Storm Recovery Bonds with a scheduled final payment date of no more than 15 years from the date of the issuance of the Storm Recovery

Bonds and that the legal maturity date may be longer in accordance with rating agency requirements. Pursuant to witness Atkins' testimony, this difference provides additional credit protection, allowing shortfalls in principal payments to be recovered over an additional time period and therefore helping in achieving the targeted AAA or equivalent ratings. The Commission finds that the recovery period proposed by DEP to recover the Storm Recovery Charges is appropriate.

We find that Storm Recovery Bonds should be issued in one or more series, each series of Storm Recovery Bonds should be issued in one or more tranches, and the Storm Recovery Bonds should be structured by DEP to achieve the Statutory Cost Objectives. Further, the Storm Recovery Bonds shall be structured such that the expected payment of the principal of and interest on the Storm Recovery Bonds is expected to be substantially level on an annual basis over those expected terms.

Subject to the IAL procedures, DEP shall be afforded flexibility in determining the final terms of the Storm Recovery Bonds, including payment and maturity dates, interest rates (or the method of determining interest rates), the terms of any interest rate swap agreement, interest rate lock or similar agreement, the creation and funding of any supplemental capital, reserve or other subaccount, and the issuance of Storm Recovery Bonds through either one SPE or multiple SPEs, except as otherwise provided in this Financing Order.

As noted above, certain costs, such as debt service on the Storm Recovery Bonds, as well as the on-going fees of the trustee, rating agency surveillance fees, regulatory assessment fees and the On-going Financing Costs of any other credit enhancement or interest rate swaps, will not be known until after the pricing of a series of Storm Recovery

Bonds. This Financing Order provides flexibility to recover such costs through the Storm Recovery Charge and the true-up of such charge. At the same time, we have established the IAL procedures of this Financing Order which are intended to ensure that the structuring and pricing of Storm Recovery Bonds achieves the Statutory Cost Objectives.

The Commission finds that a bond structure, providing for substantially leveled annual revenue requirements over the expected life of the Storm Recovery Bonds, is in the general public interest and should be used. This structure offers the benefit of not relying upon public utility customer growth and will allow the resulting overall weighted average Storm Recovery Charges to remain level or decline over time, if billing determinants remain level or grow.

CONCLUSION

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 36

Based on the statutory criteria and procedures, the record in this proceeding, and other provisions of this Financing Order, the statutory requirements for issuance of a financing order have been met, specifically that the issuance of the Storm Recovery Bonds and the imposition and collecting of Storm Recovery Charges authorized by this Financing Order are expected to provide quantifiable benefits to customers of DEP as compared to the costs that would have been incurred absent the issuance of Storm Recovery Bonds and that the structuring and pricing of the Storm Recovery Bonds issued on behalf of DEP are reasonably expected to result in the lowest Storm Recovery Charges payable by the customers of DEP consistent with market conditions at the time such Storm Recovery Bonds are priced and the terms set forth in this Financing Order.

IT IS, THEREFORE, SO ORDERED, as follows:

Approvals

1. **Approval of Application.** DEP's Joint Petition for the issuance of a financing order pursuant to the Securitization Statute is approved, as provided in this Financing Order.

2. **Authority to Securitize.** DEP's Joint Petition for Financing Orders authorizing the issuances by DEP and DEC of storm recovery bonds in one or more series is granted, subject to the terms set forth in the body of this Financing Order and the related financing order for DEP. DEP is hereby authorized to issue Storm Recovery Bonds secured by the pledge of Storm Recovery Property, in one or more series in an aggregate principal amount not to exceed the Securitizable Balance (as of the date the first series of Storm Recovery Bonds are issued). The proceeds are to be used to finance the equivalent of (i) recovery of Storm Recovery Costs, which includes Carrying Costs necessary to account for the number of days, as applicable, either greater than or less than assumed in the carrying costs calculation, calculated at the Company's approved weighted average cost of capital plus (ii) recovery of the Up-front Financing Costs incurred in connection with issuance of the Storm Recovery Bonds. Carrying Costs and Up-front Financing Costs are subject to update, adjustment and approval pursuant to the terms of this Financing Order and the IAL procedures as provided by this Financing Order.

3. **Approval of Regulatory Asset.** DEC's request to establish a regulatory asset to defer any prudently incurred excess amounts of Up-front Financing Costs is approved.

4. **Recovery of Storm Recovery Charges.** DEP shall impose on, and shall collect, as initial servicer, from all existing and future customers receiving transmission or

distribution service, or both, from DEP, even if such customer elects to purchase electricity from an alternative supplier, as provided in this Financing Order, Storm Recovery Charges in an amount sufficient to provide for the timely recovery of its Periodic Payment Requirement detailed in this Financing Order (including, without limitation, payment of principal and interest on the Storm Recovery Bonds).

5. **Approval of Tariffs.** The form of the Tariff schedule as shown in Byrd DEP Exhibit 2 is approved.

6. **True-Up Mechanism.** The True-Up Mechanism identified in Appendix B to this Financing Order is approved and shall be applied at least semi-annually (and at least quarterly beginning 12 months prior to the last scheduled final payment date of the last maturing tranche of a series of Storm Recovery Bonds).

7. **Form Agreements.** The Commission finds good cause to authorize DEP to provide service to the SPE under the Servicing Agreement and for the Servicing Agreement to become effective following the effectiveness of the IAL. The Commission finds good cause to authorize DEP to administer the SPE under the Administration Agreement and for the Administration Agreement to become effective following the effectiveness of the IAL. The Commission finds good cause to authorize DEP to enter into a Purchase and Sale Agreement with the SPE to become effective following the effectiveness of the IAL.

8. **State Pledge.** The SPE issuing Storm Recovery Bonds is authorized, pursuant to N.C. Gen. Stat. § 62-172(k)(2) and this Financing Order, to include the State of North Carolina pledge, which includes a pledge by this Commission, with respect to Storm Recovery Property and Storm Recovery Bonds and related documentation as provided for in N.C. Gen. Stat. § 62-172(k)(1). The Commission finds that this State

Pledge will constitute a contract with the bondholders, the owners of Storm Recovery Property, the SRB Issuer, holders of SRB Securities and other financing parties. The Commission further acknowledges that the SRB Issuer and any holder of SRB Securities would be considered financing parties for purposes of N.C. Gen. Stat. § 62-172(k).

9. **Structure.** The proposed transaction structure for the Storm Recovery Bonds, as set forth in the body of this Financing Order is approved.

10. **Mitigation of Rate Impacts.** DEP's comparison between the net present value of the costs to customers that are estimated to result from Storm Recovery Bonds and the costs that would result from the application of the traditional method of financing and recovering Storm Recovery Costs from customers satisfies the terms of the DEP Settlement.

Reports and Accounting

11. **Issuance Advice Letter.** DEP shall file a combined IAL/TUAL in final form with the Commission within one business day after actual pricing, substantially in the form of Appendix C to this Financing Order describing the final structure and terms of the Storm Recovery Bond issuance, including an updated accounting of the Up-front Financing Costs and the final Carrying Costs. Finally, the combined IAL/TUAL shall include certifications from DEP if required, that the structuring, pricing and Financing Costs of the Storm Recovery Bonds achieved the Statutory Cost Objectives. Unless the Commission issues an order stopping the Storm Recovery Bond issuance before noon on the third business day after pricing because the Commission determines that the IAL/TUAL and all required certifications have not been delivered or the transaction does not comply with the Standards of this Financing Order, the transaction proceeds without any further action of

this Commission. The Commission shall only issue an order to stop the transaction if the Commission determines that (a) the transaction does not comply with the Standards of this Financing Order, or (b) DEP has not delivered the required certification in a form acceptable to the Commission.

Prior to the filing of the IAL/TUAL and through the period ending with the issuance of the Storm Recovery Bonds, DEP will, to extent requested by this Commission, provide this Commission or its Designated Member with timely information so that the Commission acting for itself or through its Designated Member can participate fully and in advance regarding all material aspects relating to the structuring and pricing of, and Financing Costs relating to the Storm Recovery Bonds.

12. **True-Up Adjustment Letter.** DEP or its assignee(s) are authorized to recover the Periodic Payment Requirement and shall file with the Commission at least semi-annually (and at least quarterly beginning 12 months prior to the last scheduled payment date of the latest maturing tranche of Storm Recovery Bonds) a TUAL as described in this Financing Order and shall be based upon the cumulative differences, regardless of the reason, between the Periodic Payment Requirement and the actual amount of Storm Recovery Charge remittances to the indenture trustee for the series of Storm Recovery Bonds. Upon the filing of a TUAL made pursuant to this Financing Order, the Commission shall either administratively approve the requested true-up calculation in writing or inform the servicer of any mathematical or clerical errors in its calculation as expeditiously as possible but no later than 30 days following the servicer's true-up filing. Notification and correction of any mathematical or clerical errors shall be made so that the true-up is implemented within 30 days of the servicer's filing of a TUAL and no potential

modification to correct an error in a TUAL shall delay its effective date and any correction or modification which could not be made prior to the effective date shall be made in the next TUAL. Upon administrative approval or the passage of 30 days without notification of a mathematical or clerical error, no further action of this Commission will be required prior to implementation of the true-up.

13. **Changes to Storm Recovery Charges.** Upon any change to customer rates and charges stemming from the True-Up Mechanism, DEP shall file appropriately-revised tariff sheets with this Commission, provided, however, that approval of the Storm Recovery Charges shall not be delayed or otherwise adversely impacted by the Commission's decision with respect to the tariff.

14. **Special Purpose Trust.** In the alternative to directly issuing and marketing the Storm Recovery Bonds to unaffiliated investors through either a registered public offering or unregistered exempt offering, the Storm Recovery Bonds may be sold to a single special purpose trust established by Duke Energy Corporation, parent of DEP as described in the Discussion and Conclusions.

15. **Imposition and Collection, Nonbypassability.** DEP is authorized to impose, bill, charge, collect, receive, and adjust from time to time pursuant to the True-Up Mechanism (as described in this Order) a Storm Recovery Charge, to be collected on a per kWh basis from each of its existing and future retail customers until the related Storm Recovery Bonds are paid in full and all related Financing Costs and other costs of the bonds have been recovered in full. Such Storm Recovery Charges shall be nonbypassable charges that are separate and apart from DEP's base rates and shall be paid by all DEP jurisdictional existing and future customers receiving transmission or distribution service, or both, from

DEP or its successors or assignees under Commission-approved **rate** schedules as provided in this Financing Order. Such Storm Recovery Charges shall be in amounts sufficient to ensure the timely recovery of DEP's Storm Recovery Costs and Financing Costs (Up-front and On-going) detailed in this Financing Order and the IAL (including payment of principal of and interest on the Storm Recovery Bonds).

16. **Allocation.** The Storm Recovery Charges shall be allocated to the customer rate classes in accordance with the description included in witness Abernathy's testimony, in the manner in which these costs or its equivalent were allocated in the cost-of-service study filed by the Company and approved on ___ in the DEP Rate Order, until altered by a subsequent rate case order.

17. **Collection Period.** This Financing Order and the Storm Recovery Charges authorized hereby shall remain in effect until the Storm Recovery Bonds and all Financing Costs (including tax liabilities) related thereto have been paid or recovered in full. This Financing Order shall remain in effect and unabated notwithstanding the reorganization, bankruptcy, or other insolvency proceedings of DEP or its successors or assignees.

18. Following repayment of Storm Recovery Bonds and the relevant Financing Costs authorized in this Financing Order and release of the funds by the indenture trustee, each SPE shall distribute the final balance of its Collection Account to DEP and DEP shall credit other electric rates and charges by a like amount, less the amount of the relevant Capital Subaccount and any unpaid return on invested capital due to DEP as set forth in the body of this Financing Order.

19. **Ownership Notification and Separate Line Item Charge.** The electric bills of DEP must explicitly reflect that a portion of the charges on such bill represents

Storm Recovery Charges approved in this Financing Order and must include a statement to the effect that the SPE is the owner of the rights to Storm Recovery Charges and that DEP is acting as servicer for the SPE. The tariff applicable to customers must indicate the Storm Recovery Charge and the ownership of that charge. DEP shall identify amounts owed with respect to its Storm Recovery Property as a separate line item on individual electric bills.

Storm Recovery Property

20. **Outside Costs.** Costs associated with the Commission or Public Staff's outside consultant and outside counsel, to the extent such costs are eligible for compensation and approved for payment under the terms of such party's contractual arrangements with the Commission or Public Staff, as such arrangements may be modified by any amendment entered into at the Commission or Public Staff's sole discretion, will qualify as Up-front Financing Costs and be paid from proceeds of Storm Recovery Bonds.

21. **Creation of Storm Recovery Property.** The creation of the DEP's Storm Recovery Property as described in this Financing Order is approved and, upon transfer of the Storm Recovery Property to the SPE, shall be created, and shall consist of: (1) all rights and interests of DEP or its successors or assignees under this Financing Order, including the right to impose, bill, charge, collect, and receive Storm Recovery Charges authorized in this Financing Order and to obtain periodic adjustments to such charges as provided in this Financing Order, and (2) all revenues, collections, claims, rights to payments, payments, money, or proceeds arising from the rights and interests specified in this Financing Order, regardless of whether such revenues, collections, claims, rights to payment, payments, money, or proceeds are imposed, billed, charged, received, collected,

or maintained together with or commingled with other revenues, collections, rights to payment, payments, money, or proceeds. The creation of Storm Recovery Property is conditioned upon, and shall be simultaneous with, the sale or other transfer of the Storm Recovery Property to the SPE, the issuance of the Storm Recovery Bonds and the pledge of the Storm Recovery Property to secure a series of Storm Recovery Bonds.

22. **Irrevocability.** Upon the earlier of either (i) the transfer of the Storm Recovery Property or (ii) issuance of the Storm Recovery Bonds, this Financing Order is irrevocable and, except for changes made pursuant to the formula-based mechanism authorized in this Financing Order, the Commission may not amend, modify, or terminate this Financing Order by any subsequent action or reduce, impair, postpone, terminate, or otherwise adjust the Storm Recovery Charges approved in this Financing Order.

Structure of Securitization

23. **SPE.** DEP is authorized to form one or more SPEs to be structured as discussed in this Financing Order. DEP is authorized to execute one or more LLC Agreements, consistent with the form included as Heath Exhibit 2e to witness Heath's testimony and the terms and conditions of this Financing Order. The SPE shall be funded with an amount of capital that is sufficient for the SPE to carry out its intended functions as contemplated in the Joint Petition and this Financing Order. The Commission approves an initial capital contribution of 0.5 percent of the initial aggregate principal amount of a series of Storm Recovery Bonds. The capital contributions by DEP to the SPE shall be funded by DEP and not from the proceeds of the sale of Storm Recovery Bonds. DEP will be permitted to earn a rate of return on its invested capital in its SPE equal to the rate of

interest payable on the longest maturing tranche of Storm Recovery Bonds and this return on invested capital should be a component of the Periodic Payment Requirement.

24. **Servicing and Administration Fees.** The servicing and administration fees collected by DEP or any affiliate of DEP, acting as either the servicer or the administrator under the Servicing Agreement or Administration Agreement, respectively, will be included in DEP's cost of service such that DEP will credit back all periodic servicing fees in excess of DEP's or an affiliate of DEP's incremental costs of performing servicing as administration functions. The expenses incurred by DEP, or such affiliate to perform obligations under the Servicing Agreement or Administration Agreement not otherwise recovered through the Storm Recovery Charges will likewise be included in DEP's cost of service.

25. **DEP as Servicer.** DEP shall act as initial servicer under the proposed financing transaction, and is granted flexibility to act as initial servicer pursuant to the Servicing Agreement discussed in this Financing Order.

26. **Third Party Supplier.** If the State of North Carolina or this Commission decides to allow billing, collection and remittance of the Storm Recovery Charges by a third party supplier within the DEP service territory, such authorization will be consistent with the rating agencies' requirements necessary for the Storm Recovery Bonds and SRB Securities to receive and maintain the targeted triple-A rating as described in Findings of Fact No. 17.

27. **Issuance.** In accordance with the terms of this Financing Order and subject to the criteria and procedures described herein, the SPE is authorized to issue Storm Recovery Bonds in an aggregate principal amount not to exceed the Securitizable Balance

(as of the date the Storm Recovery Bonds are issued) and may pledge to an indenture trustee, as collateral for payment of the Storm Recovery Bonds, the Storm Recovery Property, including the SPE's right to receive the related Storm Recovery Charges as and when collected, the SPE's rights under the Servicing Agreement and other collateral described in the Indenture. As provided in N.C. Gen. Stat. § 62-172(c)(2), DEP retains sole discretion regarding whether to assign, sell, or otherwise transfer Storm Recovery Property or to cause the Storm Recovery Bonds to be issued, including the right to defer or postpone such assignment, sale, transfer or issuance and this Commission will not refuse to allow DEP to recover Storm Recovery Costs in an otherwise permissible fashion.

28. **IRS Safe Harbor Provisions.** DEP shall be responsible to structure the Storm Recovery Bond transactions in a way that complies with the "safe harbor" provisions of IRS Revenue Procedure 2005-62.

ISSUED BY ORDER OF THE COMMISSION.

This the ____ day of _____, 2021.

NORTH CAROLINA UTILITIES COMMISSION

APPENDIX A

**SUMMARY OF CALCULATION OF DEP'S
SECURITIZABLE BALANCE**

Estimated Storm Recovery Costs (incremental O&M costs and capital investments)	\$ 625,193,000
Estimated Carrying Costs through bond issuance date ¹	\$ 113,815,000
Estimated Up-front Financing Costs ²	\$ 8,992,000
	<hr/>
Estimated Principal Amount of Storm Recovery Bonds	\$ 748,000,000

¹ Assuming the Storm Recovery Bonds are issued on approximately June 1, 2021.

² Final Up-front Financing Costs to be included in the Issuance Advice Letter.

APPENDIX B

[Form of Standard True-Up Adjustment Letter]



[, 20]

VIA ELECTRONIC FILING

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

**Re: Duke Energy Progress, LLC's True-Up Adjustment Letter
Docket No. E-2, Sub 1262**

Dear Clerk Campbell:

Pursuant to the North Carolina Utilities Commission's ("Commission") [, 20] Order in Docket No. E-2, Sub 1262 (the "DEP Financing Order"), Duke Energy Progress, LLC ("DEP") as Servicer of the [] ("Storm Recovery Bonds") has filed a request for an adjustment to the storm recovery bond charges ("Storm Recovery Charges"). This adjustment is intended to satisfy the requirements of N.C. Gen. Stat. § 62-172(b)(3)d., and the Financing Order by ensuring that the Storm Recovery Charges will recover amounts sufficient to timely provide for payments of debt service and other required amounts in connection with the Storm Recovery Bonds.

Per the Financing Order, "After issuance of Storm Recovery Bonds on behalf of DEP, the servicer will submit at least semi-annually (and at least quarterly beginning 12 months prior to the last scheduled final payment date of the last maturing tranche of... Storm Recovery Bonds) a letter in this docket for Commission review, as described in N.C. Gen. Stat. § 62-172(b)(3)d., and in the form attached hereto...and as an exhibit to the Servicing Agreement" ("True-up Adjustment Letter" or, "TUAL"). The Storm Recovery Bonds were issued on [, 20]. DEP filed its first True-Up Adjustment Letter on [, 20].

Ordering Paragraph 11 of the Financing Order describes how such True-Up Adjustment Letters are to be handled.

Upon the filing of a TUAL made pursuant to this Financing Order, Commission Staff shall either administratively approve the requested true-up calculation in writing or inform the servicer of any mathematical or clerical errors in its

APPENDIX B

calculation as expeditiously as possible but no later than 30 days following the servicer's true-up filing. Notification and correction of any mathematical or clerical errors shall be made so that the true-up is implemented within 30 days of the servicer's filing of a TUAL and no potential modification to correct an error in a TUAL shall delay its effective date and any correction or modification which could not be made prior to the effective date shall be made in the next TUAL. Upon administrative approval or the passage of 30 days without notification of a mathematical or clerical error, no further action of this Commission will be required prior to implementation of the true-up.

Attached is the [TBD] Revised Sheet No. [] reflecting the change in the Storm Recovery Charge.

Per DEP's request in its True-Up Adjustment Letter and in accordance with the Financing Order, the proposed adjustments to the Storm Recovery Charges will be effective on [, 20].

Respectfully submitted,

Duke Energy Progress, LLC

Attachments

APPENDIX B

DUKE ENERGY PROGRESS, LLC
Storm Recovery Charge True-Up Mechanism Form For the
Period , 20 through 20,

	Description	Calculation of the True-up (1)	Projected Revenue Requirement to be Billed and Collected (2)	Revenue Requirement for Projected Two Remittance Periods (1)+(2)=(3)
1	Storm Recovery Bond Repayment Charge (remitted to SPE)			
2	True-up for the Prior Remittance Period Beginning and Ending:			
3	Prior Remittance Period Revenue Requirements			
4	Prior Remittance Period Actual Cash Receipt Transfers Interest income:			
5	Cash Receipts Transferred to the SPE			
6	Interest income on Subaccounts at the SPE			
7	Total Current Period Actual Daily Cash Receipts Transfers and Interest Income (Line 5 + 6)			
8	(Over)/Under Collections of Prior Remittance Period Requirements (Line 3+7)			
9	Cash in Excess Funds Subaccount			
10	Cumulative (Over)/Under Collections through Prior Remittance Period (Line 9+10)	\$		\$
11	Current Remittance Period Beginning and Ending			
12	Principal			
13	Interest			
14	Servicing Costs			
15	Other On-Going Costs			
16	Total Current Remittance Period Revenue Requirement (Line	\$		

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	2+3+4+5)					
17	Current Remittance Period Cash Receipt Transfers and Interest Income:					
18	Cash Receipts Transferred to SPE	(A)		(B)		
19	Interest Income on Subaccounts at SPE	(A)		(B)		
20	Total Current Remittance Period Cash Receipt Transfers and Interest Income (Line 18+19)		\$		\$	
21	Estimated Current Remittance Period (Over)/Under Collection (Line 19+24)		\$		\$	\$
22	Projected Remittance Period Beginning _____ and Ending _____					
23	Principal					
24	Interest					
25	Servicing Costs					
26	Other On-Going Financing Costs					
27	Projected Two Remittance Periods Revenue Requirement (Line 23+24+25+26)				\$	\$
28	Total Revenue Requirements to be Billed During Projected Two Remittance Periods (Line 10+21+27)					\$
29	Forecasted KWh Sales for the Projected Two Remittance Periods (adjusted for uncollectibles)					
30	Average Retail Storm Recovery Charge per kWh (Line 28/29)					(C)
31	Notes:					
32	(A) Amounts are based on a billed and collected basis.					
33	(B) Includes estimated amounts for through .					
34	(C) Allocation of this amount to each rate class is addressed by witness Jonathan Byrd in his testimony.					

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[Form of Issuance Advice Letter]



[, 20]

VIA ELECTRONIC FILING

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

**Re: Duke Energy Progress's Issuance Advice Letter
Docket No. E-2, Sub 1262**

Dear Clerk Campbell:

Pursuant to the financing order in the above-captioned docket ("Financing Order"), Duke Energy Progress, LLC (the "Company") hereby transmits for filing this combined Issuance Advice Letter and Form of True-Up Adjustment Letter. Any terms not defined herein shall have the meanings ascribed thereto in the Financing Order or N.C. Gen. Stat. § 62-172.

In the Financing Order, the Commission requires the Company to file an Issuance Advice Letter following pricing of a series of Storm Recovery Bonds.

The terms of pricing and issuance of the first series of Storm Recovery Bonds are as follows:

Name of Storm Recovery Bonds: []
Name of SPE: []
Name of Storm Recovery Bond Trustee:
Name of SRB Securities: [SRB Notes]
Name of SRB Issuer: []
Name of SRB Trustee: []
Expected Closing Date: []
Preliminary Bond Ratings¹: Moody's, [Aaa(sf)]; Standard & Poor's, [AAA(sf)]; Fitch, [AAAsf] (final ratings to be received prior to closing)
Total Principal Amount of Storm Recovery Bonds to be Issued (i.e., Amount of Storm Recovery Costs and Up-Front Financing Costs to be Financed): \$[] (See Attachment 1)
Estimated Up-Front Financing Costs: \$[] (See Attachment 2)
Interest Rates and Expected Amortization Schedules of the Storm Recovery Bonds and SRB Notes (See Attachment 3):
Distributions to Investors: Semi-annually

¹ The Company anticipates receiving bond ratings from at least two of the three major rating agencies.

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Weighted Average Coupon Rate²: []%
Annualized Weighted Average Yield³: []%
Initial Balance of Capital Subaccount: \$[]
Estimated/Actual On-going Financing Costs for first year of Storm Recovery Bonds: \$[] (See Attachment 4)

The Financing Order requires the Company to confirm, using the methodology approved therein, that the actual terms of the SRB Notes and Storm Recovery Bonds result in compliance with the standards set forth in the Financing Order. These standards are:

1. the issuance of Storm Recovery Bonds and imposition and collection of Storm Recovery Charges as authorized in this Financing Order provide quantifiable benefits to customers as compared to the costs that would have been incurred absent the issuance of Storm Recovery Bonds;
2. the aggregate principal amount of Storm Recovery Bonds issued does not exceed the Securitized Balance;
3. the SRB Notes and Storm Recovery Bonds will be issued in one or more series comprised of one or more tranches having target final payment of 15 years;
4. the SRB Notes have received a rating of Aaa(sf) / AAA(sf) from at least two of the three major rating agencies;
5. the SRB Notes and Storm Recovery Bonds are structured to achieve substantially level debt service payments on an annual basis;
6. the issuance of the SRB Notes and Storm Recovery Bonds has been structured in accordance with IRS Rev. Proc. 2005-62; and
7. the structuring and pricing of the Storm Recovery Bonds, including the issuance of SRB Notes, resulted in the lowest Storm Recovery Charges consistent with market conditions at the time the Storm Recovery Bonds are priced and the terms set forth in this Financing Order.

The initial storm recovery charge (the “Initial Charge”) has been calculated in accordance with the methodology described in the Financing Order and based upon the structuring and pricing terms of the Storm Recovery Bonds set forth in this combined Issuance Advice Letter and Form of True-Up Adjustment Letter.

Attachment 5 provides the Revenue Requirements for calculating the Initial Charge. Attachment 6 calculates the Initial Charge based upon the cost allocation formula approved in the Financing Order. Attachment 7 is a comparison between the net present value of costs to customers that are estimated to result from the issuance of Storm Recovery Bonds and the costs that would result

² Weighted by modified duration and principal amount of each tranche.

³ Weighted by modified duration and principal amount, calculated including selling commissions.

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from the application of the traditional method of recovering Storm Recovery Costs from customers. Also attached are the calculations and supporting data for such tables. The Company's certification is Attachment 8.

Pursuant to the Financing Order, the transaction may proceed and the Initial Charge will take effect unless **a stop order is issued by the Commission prior to noon on [,20](3 business days after pricing)**; and the Company, as servicer, or any successor servicer and on behalf of the trustee as assignee of the SPE, is required to apply at least semi-annually for mandatory periodic adjustment to the Storm Recovery Charges. The Initial Charge shall remain in effect until changed in accordance with the provisions of Ordering Paragraph [12] of the Financing Order.

The Company's certification required by the Financing Order is set forth in Attachment 8, which also includes the statement of the actions taken by the Company to achieve the Statutory Cost Objectives as required by the Financing Order.

Respectfully submitted,

Duke Energy Progress, LLC

Attachments

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Attachment 1

**TOTAL PRINCIPAL AMOUNT OF STORM RECOVERY BONDS TO BE ISSUED
(TOTAL AMOUNT OF STORM RECOVERY COSTS AND UP- FRONT FINANCING
COSTS TO BE FINANCED)**

Storm Recovery Costs, including carrying costs through [date of the Rate Order]	\$
Carrying costs subsequent to [the date of the Rate Order] to bond issuance date	
Estimated Up-front Financing Costs included in Proposed Structure (refer to attachment 2)	\$
Total Storm Recovery Bond Issuance (rounded up)	\$

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Attachment 2

ESTIMATED UP-FRONT FINANCING COSTS

Underwriters' Fees and Expenses	\$
Servicer Set-up Fee (including IT Programming Costs)	\$
Legal Fees	\$
Rating Agency Fees	\$
Public Staff Financial Advisor Fees	\$
Public Staff Legal Fees	\$
DEP Structuring Advisor Fee	\$
Accounting Fees	\$
SEC Fees	\$
SPE Set-up Fee	\$
SRB Trust Set-up Fee allocable to DEP	\$
Marketing and Miscellaneous Fees and Expenses	\$
Printing / Edgarizing Expenses	\$
Trustees/Trustees Counsels Fee and Expenses	\$
Original Issue Discount	\$
Other Ancillary Agreements	\$
TOTAL ESTIMATED UP-FRONT FINANCING COSTS	\$

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Series [], Tranche [A-3]					
Payment Date	Beginning Principal Balance	Interest	Principal	Total Payment	Ending Principal Balance

Series [], Tranche [A-4]					
Payment Date	Beginning Principal Balance	Interest	Principal	Total Payment	Ending Principal Balance

Series [], Tranche [A-5]					
Payment Date	Beginning Principal Balance	Interest	Principal	Total Payment	Ending Principal Balance

C. Scheduled Amortization Requirement of Storm Recovery Bonds

Series [], Tranche [A-1]					
Payment Date	Beginning Principal Balance	Interest	Principal	Total Payment	Ending Principal Balance

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Series [], Tranche [A-2]					
Payment Date	Beginning Principal Balance	Interest	Principal	Total Payment	Ending Principal Balance

Series [], Tranche [A-3]					
Payment Date	Beginning Principal Balance	Interest	Principal	Total Payment	Ending Principal Balance

Series [], Tranche [A-4]					
Payment Date	Beginning Principal Balance	Interest	Principal	Total Payment	Ending Principal Balance

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Attachment 4

ESTIMATED ANNUAL ON-GOING FINANCING COSTS

	Annual Amount
Servicing Fee ¹	\$
Return on Invested Capital	\$
Administration Fee	\$
Accounting Fees	\$
Regulatory Assessment Fees	\$
Legal Fees	\$
Rating Agency Surveillance Fees	\$
Trustee Fees	\$
SRB Trustee Fees Allocable to DEP	\$
Independent Manager Fees	\$
Miscellaneous Fees and Expenses	\$
TOTAL ESTIMATED ANNUAL ON-GOING FINANCING COSTS	\$

¹ Low end of the range assumes the Company is the servicer (0.05%). Upper end of the range reflects an alternative servicer (0.60%).

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Attachment 5

REVENUE REQUIREMENT AND INPUT VALUES

Initial Payment Period from [, 20] to [, 20]	Bond Repayment	Total
Forecasted retail kWh sales		
Percent of billed amounts expected to be charged-off		%
Forecasted % of billings paid in the applicable period		%
Forecasted retail kWh sales billed and collected		
Storm Recovery Bond principal payment	\$	\$
Storm Recovery Bond interest payment	\$	\$
Forecasted On-going Financing Costs (excluding principal and interest)	\$	\$
Total collection requirement for applicable period	\$	\$

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Attachment 6

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 (c/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.*

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Attachment 7

Quantifiable Benefits to Customers

[To be updated]

[Workpapers to be attached]

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Attachment 8

Form of Company Certification



[, 20]

Ms. Kimberly A. Campbell
Chief Clerk
North Carolina Utilities Commission
4325 Mail Service Center
Raleigh, North Carolina 27603-5918

**Re: Duke Energy Carolinas, LLC’s Company Certification
 Docket No. E-2, Sub 1262**

Dear Clerk Campbell,

Duke Energy Progress, LLC (the “Company”) submits this Certification pursuant to Ordering Paragraphs [10 and 11] of the Financing Order in Docket No. E-2, Sub 1262 (the “Financing Order”). All capitalized terms not defined in this letter shall have the meanings ascribed to them in the Financing Order.

In its issuance advice letter dated [, 20], the Company has set forth the following particulars of the Storm Recovery Bonds:

Name of Storm Recovery Bonds:

Name of SPE: []

Name of Storm Recovery Bond Trustee:

Name of SRB Issuer: []

Name of SRB Securities: [SRB Notes]

Name of SRB Trustee: []

Closing Date: [, 20]

Preliminary Bond Ratings⁴: Moody’s [Aaa(sf)]; Standard & Poor’s [AAA(sf)]; Fitch [AAAsf] (final ratings to be received prior to closing)

Total Principal Amount of Storm Recovery Bonds to be Issued: \$ (See Attachment 1)

Estimated Up-front Financing Costs: \$ (See Attachment 2)

Interest Rates and Expected Amortization Schedule: (See Attachment 3)

Distributions to Investors: Semi-annually

⁴ The Company anticipates receiving bond ratings from at least two of the three major rating agencies.

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Weighted Average Coupon Rate⁵: %
Annualized Weighted Average Yield⁶: %
Initial Balance of Capital Subaccount: \$
Estimated/Actual On-going Financing Costs for first year of Storm Recovery Bonds:
\$[]

As required by the Financing Order, the Company prepared a comparison between the net present value of costs to customers that are estimated to result from the issuance of Storm Recovery Bonds and the costs that would result from the application of the traditional method of recovering storm recovery costs from customers.

In accordance with the procedures set forth in the Financing Order, the following actions were taken in connection with the structuring and pricing and financing costs of the Storm Recovery Bonds in order to satisfy the statutory cost objectives:

- [Included credit enhancements in the form of the true-up mechanism and an equity contribution to [] of 0.50% of the original principal amount of the bonds;
- Structured the financing so that the SRB Notes would not be asset backed securities within the meaning of Item 1101(c) of Regulation AB;
- Sold the Storm Recovery Bonds to [], a Delaware grantor trust, which offered SRB Notes secured by the Storm Recovery Bonds and storm recovery bonds issued by DEP;
- Ensured the Registration Statement contained proper disclosures to communicate the superior credit features of the SRB Notes, which are secured by the Storm Recovery Bonds;
- Developed rating agency presentations and worked actively with the rating agencies during the rating agency process to achieve Aaa(sf) / AAAsf from at least two of the three major rating agencies;
- Worked to select key transaction participants, including lead underwriters and co-managers through an RFI process to determine that they have relevant experience and execution capabilities, and who were aligned with DEP's objectives, namely broad distribution to investors and willingness to market the bonds in a manner consistent with the superior credit quality and uniqueness of the bonds;
- Hired a diverse group of underwriters, including underwriters with international and mid-tier expertise in order to attract a wide variety of potential investors;
- Reviewed detailed marketing plans submitted by each lead underwriter;
- Developed all bond transaction documents, marketing materials and legal opinions in a plain English manner while balancing SEC disclosure requirements, in an effort to

⁵ Weighted by modified duration and principal amount of each tranche.

⁶ Weighted by modified duration and principal amount, calculated including selling commissions.

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ensure investors could more easily understand the high-quality nature of the bond offering;

- Allowed sufficient time for investors to review [relevant marketing materials] and preliminary prospectus and to ask questions regarding the transaction;
- Attended telephonic pre-marketing investor meetings throughout 2021;
- Arranged issuance of rating agency pre-sale reports during the marketing period;
- During the period that the bonds were marketed, held numerous market update discussions with the underwriting team, [and the Commission or its Designated Member] to develop recommendation for pricing;
- Had multiple conversations with all of the members of the underwriting team during the marketing phase in which we stressed the requirements of the Financing Order;
- Developed and implemented a marketing plan designed to encourage each of the underwriters to aggressively market the bonds to a broad base of prospective corporate and asset backed securities investors, including investors who have not previously purchased this type of security;
- Conducted in person and telephonic roadshows with over [] investors in [] cities;
- Provided other potential investors with access to an internet roadshow for viewing at investors' convenience;
- Adapted the bond offering to market conditions and investor demand at the time of pricing consistent with the guidelines outlined within the Financing Order. Variables impacting the final structure of the transaction were evaluated including the length of the average lives and maturity of the bonds and the interest rate requirements at the time of pricing so that the structure of the transaction would correspond to investor preferences and rating agency requirements for the highest rating possible; and
- Developed bond allocations, underwriter compensation and preliminary price guidance designed to achieve customer savings.]

Based on the statutory criteria and procedures, the record in this proceeding, and other provisions of this Financing Order, DEP certifies the statutory requirements for issuance of a financing order and Storm Recovery Bonds have been met, specifically that the issuance of the SRB Notes and underlying Storm Recovery Bonds on behalf of DEP and the imposition and collecting of storm recovery charges authorized by this Financing Order provide quantifiable benefits to customers of DEP as compared to the costs that would have been incurred absent the issuance of Storm Recovery Bonds and that the structuring and pricing of the SRB Notes and underlying Storm Recovery Bonds issued on behalf of DEP result in the lowest storm recovery charges payable by the customers of DEP consistent with market conditions at the time such SRB Notes and underlying Storm Recovery Bonds are priced and the terms set forth in the Financing Order.

This certification is being provided to the Commission by the Company in accordance with the terms of the Financing Order, and no one other than the

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Commission shall be entitled to rely on the certification provided herein for any purpose.

Respectfully Submitted,

Duke Energy Progress, LLC

**Joint Petition Exhibit D:
Proposed Registration, Rating Agency, and Bond Issuance Timeline**

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

Duke Energy Carolinas, LLC and Duke Energy Progress, LLC

Securities and Exchange Commission (“SEC”) Registration and Bond Issuance Process to a June 1, 2021 Financing¹

Date	Event	Time Period	Notes
March 8, 2021	File Registration Statement		
March 8, 2021 – April 8, 2021	SEC Review and Comments	~30 days	
April 8, 2021 – April 18, 2021	Respond to Initial SEC Comments	~10 days	Responses delivered by filing an Amendment to the Registration Statement
April 18, 2021 – May 3, 2021	SEC Review of Company Response	~15 days	Assuming the SEC takes full period to review the Amendment
May 3, 2021 – May 13, 2021	Respond to Additional SEC Comments, if Necessary	~10 days	Additional responses will be filed by additional Amendments
May 18, 2021 – May 20, 2021	Request Acceleration	~2 days	
May 20, 2021	Registration Statement Declared Effective		Registration Statement will become effective 48 hours after filing the acceleration request. The final prospectus for the offering must be filed 15 business days after the date the registration statement is declared effective.
May 24, 2021	Transaction Priced		
May 25, 2021	Issuance Advice Letter Filed	Day after pricing	DEC and DEP to file Issuance Advice Letter (“IAL”) with the NCUC within one day of pricing.

¹ This is an indicative timeline that addresses the steps necessary to complete the SEC registration statement process. With regards to SEC review periods, we have assumed two rounds of SEC comments and that the SEC will take the full amount of time allotted for its review of the initial registration statement and subsequent amendments.

May 27, 2021	Issuance Advice Letter becomes Effective	3 days after pricing	IAL becomes effective at noon on the third business day after pricing unless the NCUC issues a stop order.
June 1, 2021	Close Transactions	5 days after pricing	These transactions typically settle T+5. ²

Rating Agency Process³

Date	Event	Time Period	Notes
March 29, 2021 – April 23, 2021	Prepare Rating Agency Presentation and Initial Rating Agency Review	4 weeks	The Companies and Underwriters prepare presentation materials, 17g-5 website and coordinate responses to rating agency questions.
Week of April 26	Meet with Rating Agencies	2-3 days	
April 28, 2021 – May 24, 2021	Rating Agency Follow-up	4 weeks	Responses to rating agencies' questions will be prepared by the Companies and Underwriters

² Adjusted due to Memorial Day which is May 31.

³ The rating agency process is typically completed concurrently with the SEC Process.