BEFORE
THE NORTH CAROLINA UTILITIES COMMISSION

DOCKET NO. E-2, SUB 1300

In the Matter of:	)	
	)	**DIRECT TESTIMONY OF**
Application of Duke Energy Progress, LLC	)	**STEPHEN G. DE MAY**
for Adjustment of Rates and Charges	)	**FOR DUKE ENERGY**
Applicable to Electric Service in North	)	**PROGRESS, LLC**
Carolina and Performance-Based Regulation	)	

I. INTRODUCTION

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Stephen G. De May, and my business address is 410 South Wilmington Street, Raleigh, North Carolina, 27601.

Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?

A. I am the North Carolina President for Duke Energy Progress ("DEP" or the "Company"), which is a wholly owned subsidiary of Duke Energy Corporation ("Duke Energy"), as well as Duke Energy Carolinas, LLC ("DEC") and Progress Energy, Inc., also wholly owned subsidiaries of Duke Energy.

Q. PLEASE BRIEFLY SUMMARIZE YOUR EDUCATIONAL BACKGROUND AND PROFESSIONAL QUALIFICATIONS.

A. I have a Bachelor of Arts degree in Political Science from the University of North Carolina at Chapel Hill and a Master of Business Administration degree from the McColl School of Business at Queens University in Charlotte, North Carolina. In 2010, I completed the Advanced Management Program at the Wharton School of the University of Pennsylvania. I am a Certified Public Accountant in the state of North Carolina and I am a member of the American Institute of Certified Public Accountants and the North Carolina Association of Certified Public Accountants.

Q. PLEASE DESCRIBE YOUR BUSINESS BACKGROUND AND EXPERIENCE.

A. My professional work experience began in 1986 in public accounting with the firms Price Waterhouse and Deloitte, Haskins and Sells, where my work focused on tax accounting and consulting for a variety of clients, including Duke Power Company ("Duke Power"). In 1990, I joined Crescent Resources, Inc., a then wholly-owned real estate development subsidiary of Duke Power where I was responsible for real estate accounting and finance. In 1994, I moved to the Treasury and Corporate Finance Department of Duke Power where I held, except for a two-year period, various finance-related positions of increasing responsibility until 2007. The two-year exception was 2004 and 2005, during which time I had the lead responsibility for developing and managing Duke Energy's energy and regulatory policies. I was then named Treasurer in 2007, a position I held until my current role. While Treasurer, I also served, at separate times, as Chief Risk Officer, head of Investor Relations and head of Tax. I assumed my current position as North Carolina President in November 2018.

Q. WHAT ARE YOUR RESPONSIBILITIES IN YOUR CURRENT POSITION?

A. I lead Duke Energy's regulated electric utility businesses in North Carolina, which serve approximately 1.5 million DEP electric customers. I am responsible for the financial performance of the Company's electric utilities in North Carolina and managing regulatory affairs, rates and regulatory filings, state and local government affairs, and community relations.

Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE COMMISSION?

A. Yes. I testified before this Commission in the Company's 2013, 2017 and 2019 rate cases (Docket Nos. E-2, Sub 1023, E-2, Sub 1142, and E-2, Sub 1219 respectively). I also testified before this Commission in DEC's 2009, 2011, 2017 and 2019 rate cases (Docket Nos. E-7, Sub 909; E-7, Sub 989, E-7, Sub 1146, and E-7, Sub 1214 respectively). I have also filed testimony for Duke Energy in various proceedings before the South Carolina, Ohio, Indiana, and Kentucky commissions.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. The purpose of my testimony is to provide a brief overview of the Company's general rate case and first-ever Performance-Based Regulation ("PBR") Application under the new alternative regulatory framework established by House Bill 951 (S.L. 2021-165) ("HB 951"), which was signed into law in October 2021. In my testimony, I discuss the following core components of the Company's filing: (1) a continued balanced transition away from coal to achieve a cleaner energy future; (2) operational excellence, (3) enhancing the customer experience; and (4) affordability and proposals to assist our customers most in need. I also explain how the requested rate increase will allow the Company to remain a financially strong utility that is well positioned in financial markets to the benefit of our customers.

Q. WHO ARE THE OTHER WITNESSES PRESENTING TESTIMONY IN SUPPORT OF THE COMPANY'S APPLICATION IN THIS PROCEEDING?

A. The Company's other witnesses filing direct testimony in support of this case are:

1. **Laura A. Bateman**, Vice President of Carolinas Rates and Regulatory Strategy, who appears on a panel with **Phillip O. Stillman**, Managing

Director of Load Forecasting and Corporate Strategic Regulatory Initiatives. Ms. Bateman provides an overview of the Company's proposed PBR Application, including the policy and public interest reasons supporting approval of the Application. Mr. Stillman describes DEP's proposed Performance Incentive Mechanisms ("PIMs") and tracking metrics.

2. **Jonathan L. Byrd,** Managing Director of Rate Design and Regulatory Solutions, who proposes several new customer-centric and innovative rate designs and pricing changes to address emerging trends impacting North Carolina today. He also proposes to simplify and modernize these designs to assist in the harmonization between the Company and DEC.
3. **Brent C. Guyton**, Director of Asset Management in Customer Delivery, who testifies as to the extent and performance of DEP's distribution system, including additions to that system since DEP's last rate case through normal system growth and through the operation of DEP's Grid Improvement Plan program. Mr. Guyton also testifies to the factors influencing DEP's distribution system growth and investment and he provides detailed testimony regarding the scope, nature, description, justification for, and timing of the proposed distribution system projects included in DEP's multiyear rate plan ("MYRP") proposals.
4. **Janice Hager,** President of Hager Consulting, who supports the allocation of Company electric operating revenues and expenses, and

original cost rate base assigned to the North Carolina retail jurisdiction and to each customer class according to the cost of service studies performed by the Company.

5. **Bradley G. Harris**, Rates and Regulatory Strategy Director, who describes two customer program offerings that DEP proposes in this case: the Customer Assistance Program ("CAP") and the Tariffed On-Bill Program. The CAP proposal would provide eligible customers with a flat monthly bill credit.
6. **Tim S. Hill**, Vice President, Coal Combustion Products Operations, Maintenance, and Governance, who describes DEP's ash basin closure and compliance costs and plans, and the activities underlying the costs sought for recovery in this case.
7. **Retha Hunsicker,** Vice President, Customer Experience Design and Solutions for Duke Energy Business Services, LLC. Witness Hunsicker discusses the Company's Customer Information Systems implementation and supports the reasonableness of the costs and prudence of the Company's actions related to this capital investment for inclusion in rate base.
8. **LaWanda M. Jiggetts**, Rates & Regulatory Strategy Manager, who describes the results of DEP's operations under present rates on the basis of an adjusted historical Test Period (twelve months ending December 31, 2021). Witness Jiggetts details the calculation of the additional revenue required as a result of the investments and general

cost increases since the last DEP Rate Case and discusses several pro forma adjustments to the test year operating expenses and to the end of year actual rate base. As such, her testimony supports the proposed "traditional" base rate revenue requirement established in the manner prescribed under N.C. Gen. Stat. § 62-133. Witness Jiggetts also explains the various accounting requests the Company makes.

9. **Justin C. LaRoche**, Director of Renewable Development, who addresses (i) two solar development projects – the 2026 Solar Investment Project and the Asheville Solar Project – that DEP has identified and included in the proposed MYRP; and (ii) DEP's request for a 35-year depreciable life for the solar projects included in the proposed MYRP and for future DEP solar facilities.

10. **Daniel J. Maley**, Director, Transmission Compliance Coordination, who testifies as to the extent and performance of DEP's transmission system, including additions to the transmission system since DEP's last rate case through normal system growth and through the operation of DEP's Grid Improvement Plan program. Mr. Maley also testifies as to the factors driving investment in DEP's transmission system and he provides comprehensive testimony regarding the scope, nature, description, justification for, and timing of the proposed transmission system projects included in DEP's MYRP proposal.

11. **Laurel M. Meeks**, Director of Renewable Business Development and **Evan W. Shearer**, Principal Integrated Planning Coordinator, who

support the battery energy storage portfolio of discrete and identifiable investments included in the proposed MYRP. Their testimony highlights the critical importance of battery energy storage as DEP, and the entire industry, transition to a cleaner energy future.

12. **Roger A. Morin**, Principal of Utility Research International, who presents his independent analysis of the Company's cost of equity. Witness Morin discusses the Company's requested capital structure and makes a recommendation for an allowed return on equity ("ROE") that is fair and that allows the Company to both attract capital on reasonable terms and maintain financial strength.

13. **Karl W. Newlin**, Senior Vice President, Corporate Development and Treasurer, who addresses the Company's financial objectives, capital structure, and cost of capital. Witness Newlin also discusses the current credit ratings and forecasted capital needs of the Company and the importance of DEP's continued ability to meet its financial objectives.

14. **Lesley G. Quick**, Vice President of Customer Technology, Advocacy, Regulatory and Business Support within Customer Services for Duke Energy, who testifies to DEP's excellent service and how that translates to customer satisfaction. Witness Quick's testimony also highlights the Company's "Affordability Ecosytem," our multi-pronged approach to addressing the affordability challenges faced by our low-income customers.

15. **Tom Ray,** Senior Vice President of Nuclear Operations for Duke Energy, who provides an update on capital additions made or planned to be made to the nuclear fleet since the 2019 Rate Case, as well as key drivers impacting nuclear O&M costs. Witness Ray also discusses the operational performance of DEP's nuclear generation fleet during the Test Period, and supports the nuclear capital investments included in the Company's MYRP.
16. **Teresa Reed,** Director of Rates and Regulatory Planning, who demonstrates that the rates DEP proposes reflect appropriate ratemaking principles, and that they result in an equitable basis for recovery of the Company's revenue requirement across and within its various rate schedules. Witness Reed also describes proposed changes to the Company's retail electric schedules and quantifies the effect of these changes to retail customers.
17. **John J. Spanos**, President, Gannett Fleming Valuation and Rate Consultants, LLC, who supports the 2021 Depreciation Study filed in this case.
18. **Nicholas G. Speros,** Director of Accounting, who describes the financial position of DEP at December 31, 2021, and the actual results of the Company's operations for the Test Period. He also addresses depreciation expense, nuclear decommissioning costs, and bad debt expense relating to the COVID-19 pandemic. In addition, he provides the certification that the Company's Application does not include costs

for lobbying, political or promotional advertising, political contributions, or charitable contributions, and supports certain accounting entries relating to the Company's decoupling mechanism.

19. **Jacob J. Stewart,** Director, Health and Wellness, who demonstrates in his testimony that Duke Energy's compensation (including incentive compensation) and benefit programs are necessary to attract, retain and engage the skilled and experienced workforce the Company needs to efficiently and effectively provide electric service to its customers.

20. **Kathryn S. Taylor**, Rates & Regulatory Strategy Manager, who supports the calculation of the proposed revenue requirement for each year of the Company's MYRP. She also describes the Company's methodology for calculating the decoupling mechanism and earnings sharing mechanism ("ESM"), as well as the riders associated with each mechanism. She also supports the proposed rider relating to the PIMs the Company is proposing in this case.

21. **Julie K. Turner**, Vice President of Carolinas Coal Generation, who provides an update on the Company's traditional (fossil), hydroelectric and solar (collectively, "Traditional/Hydro/Solar") facilities included for recovery in this case. Witness Turner describes capital additions made and planned to be made since the 2019 Rate Case, key drivers impacting O&M costs, and the operational performance of the Company's Fossil/Hydro/Solar fleet during the Test Period. Witness

Turner also supports the Traditional and Hydro capital investments included in the MYRP.

II. OVERVIEW AND CONTEXT OF THE COMPANY'S APPLICATION

Q. PLEASE PROVIDE AN OVERVIEW OF THE PBR FRAMEWORK ESTABLISHED BY HB 951.

A. On October 13, 2021, Governor Roy Cooper signed into law HB 951, which, enacted N.C. Gen. Stat. § 62-133.16, titled "Performance-based regulation authorized." PBR is defined by HB 951 as "an alternative ratemaking approach that includes decoupling, one or more performance incentive mechanisms, and a multiyear rate plan, including an ESM, or such other alternative regulatory mechanisms as may be proposed by an electric public utility."[1] HB 951 calls for a Carbon Plan to be developed that will target achievement of statewide carbon dioxide ("CO_2") emission reductions while ensuring least-cost planning, system reliability, and affordable rates for customers. More specifically, HB 951 directs the Commission to take all reasonable steps to reduce CO_2 emissions of electric generating facilities in the state by 70% along the specified timeline and attain carbon neutrality by 2050. HB 951 recognizes that achievement of the targeted CO_2 reductions requires the modernization of the ratemaking construct in North Carolina, consistent with modernized ratemaking practices around the country.

[1] N.C. Gen. Stat. § 62-133.16(a)(7).

HB 951 provides a framework for DEP to continue to transition away from coal and shift to cleaner energy resources that include renewable generation and battery storage, Energy Efficiency ("EE") and Demand Side Management ("DSM"), and may also include natural gas generation, and future technologies like hydrogen, small modular reactors, and pumped hydro storage. This transition is occurring across the electric utility industry and is also driving significant investment in the grid to improve reliability and resiliency and to support growth in distributed generation. In light of this transition, HB 951 introduces modern ratemaking practices that will better position the Company to meet the State's policy goals and customer expectations while keeping rates affordable.

Q. DESCRIBE THE CONDITIONS UNDER WHICH THE COMPANY FILES THIS GENERAL RATE CASE AND PBR APPLICATION.

A. The conditions (including customer expectations) under which we operate have continued to evolve since 2019, the year of DEP's last general rate case filing. Consistent with the goals of North Carolina and rapidly changing energy and climate priorities, the Company has made significant investments, and will continue to make significant investments, designed to keep pace with evolving customer needs and deliver increasingly clean energy. These investments are capital-intensive and many of them are not otherwise reflected in current rates. The traditional base rate case being proposed will adjust rates to reflect historic investments that are serving customers today, and the proposed MYRP will bring known and measurable future investments into rates as they are brought into service to reliably serve our customers. The proposed MYRP is substantially comprised of distribution and transmission projects aimed at modernizing the grid, but also includes a balanced portfolio of storage, solar, and other generation projects necessary to run the system reliably and continue to transition to a cleaner future.

The Company recognizes that the scale and complexity of a clean energy transition imposes special obligations on the Company to deliver the sought-after benefits to customers in a least-cost way, with flexibility to accommodate customer preferences and without adversely impacting the reliability they depend on. That is why we are proposing a set of PIMs designed to align utility incentives with customer needs and state energy policy objectives of decarbonization, reliability and affordability.

Q. PLEASE DESCRIBE THE MAJOR DRIVERS BEHIND THE COMPANY'S APPLICATION.

A. The following are the major drivers of the Company's requests in this case:

<u>A BALANCED TRANSITION TO CLEANER ENERGY</u>

The Company's continued transition away from coal-fired generation continues in earnest, and is made possible by a smart, balanced and cost-effective transition to low- and no-carbon resources. Overall, our Carolinas utilities have retired 35 coal units and lowered carbon emissions by over 46% since 2005. The voices of our customers and our investors have become increasingly clear on this topic—they expect us to invest in cleaner power and we are making decisions and building long-term plans based on those expectations. Through testimony in this case, we explain the investments we have made in generation resources that include solar, nuclear, and highly-efficient natural gas plants, and emerging technologies like energy storage and vehicle electrification.

OPERATIONAL EXCELLENCE AND RELIABILITY

Technology is transforming North Carolina, and changing the way customers use electricity and interact with their electric provider. Today, the need for consistent, reliable service is not just the expectation of industry and manufacturing, but extends into every home and business, especially given the pandemic-related shift to hybrid work arrangements and online/home schooling—even at a time when that reliability is challenged by the increasing frequency of severe weather events and the threat of physical and cyber-attack.

Over the past ten years, we are seeing trends affecting our grid that indicate more must be done to improve the energy infrastructure required to meet the needs of our customers. Our grid improvement investments are addressing these trends through Hardening and Resiliency, Targeted Undergrounding and Self-Optimizing Grid programs, among others. These programs seek to reduce customer outages and give the grid the ability to automatically reroute power around trouble areas, to quickly restore power, and rapidly dispatch crews. We are also investing in making our infrastructure stronger, smarter, cleaner, more efficient, and less reliant on any single fuel source, which leads to more reliable energy and a better experience for our customers.

North Carolina has a history of experiencing severe storms that often leave hundreds of thousands of people and businesses without power, and storm responsiveness is a core capability of the Company. Our response to severe storms involves the activation and deployment of storm response teams internal to the Company, utilization of thousands of outside contractors, and often the need to seek mutual aid from other electric utilities and allies in the industry. I am very proud of the Company's commitment to timely restoration efforts and a positive customer service experience.

ENHANCING THE CUSTOMER EXPERIENCE

Our customers desire an improved experience with more streamlined options and versatility, driven by information about how they consume energy and by tools that help them manage their consumption. Testimony in this case will describe the high-quality customer service we provide and our efforts to improve customers' experience when they interact with us. The foundation of our customer service is our workforce and the Company is continuously working to recruit, engage, and retain a talented and diverse workforce that serve our customers at a high level, even in the face of an uncertain and increasingly changing labor marketplace.

From a technology perspective, our deployment of smart meters will continue to work well with our investments to modernize our grid and offer customers options and tools to manage their energy usage and reduce their energy costs, and the deployment of the Company's customer information system—Customer Connect—has improved the way we interact and provide information to our customers. Additionally, the introduction of new rate designs and various proposed changes to the Company's service regulations will better reflect current cost studies and serve the expectations and needs of our customers.

CUSTOMER AFFORDABILITY

The Company remains committed to providing affordable electric service and finding ways to help our customers with their energy bills. Since DEP and DEC's last rate cases in 2019 and pursuant to the Commission's orders in those cases,[2] the Company engaged a diverse group of Commission-approved stakeholders to participate in a Low-Income Affordability Collaborative. Through this robust, collaborative process that began in July 2021, the Company, Public Staff and stakeholders examined a broad spectrum of regulatory programs and protections for low-income customers which culminated in DEP, DEC, and the Public Staff filing a joint report on August 12, 2022 outlining the feedback and recommendations received during the collaborative process.[3]

DEP is committed to helping customers who struggle to pay for basic needs with programs and options to assist them during times of financial hardship. The assistance programs that we offer such as the Helping Home Fund, the recently updated and renamed Share The Light fund, and our portfolio

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[2] *Order Accepting Stipulations, Granting Partial Rate Increase and Requiring Customer Notice* in Docket Nos. E-2 Subs 1219 and 1193 (April 16, 2021); *Order Accepting Stipulations, Granting Partial Rate Increase, and Requiring Customer Notice* in Docket Nos. E-7 Subs 1213, 1214, and 1187 (March 31, 2021).

[3] Final Report and Recommendations of The North Carolina Low-Income Affordability Collaborative filed August 12, 2022 in Docket Nos. E-7, Subs 1213, 1214 and 1187 and E-2, Subs 1219 and 1193.

of DSM and EE programs, including the Neighborhood Energy Saver Program, have helped many of our customers reduce energy costs, pay home energy bills, manage fluctuations in their monthly bill, and manage through the difficulty of paying their entire bill by the due date. Through these programs and the Company's rate mitigation efforts described below, the Company has identified ways to help its customers absorb this rate request.

The Company is not requesting an increase in the Basic Customer Charge for residential customers in this application, which is an intentional gesture to lighten the cost pressures our customers are facing. Likewise, we have made proactive decreases in our filing (such as reductions to executive compensation) to give customers the benefit of reductions that the Company has agreed to in previous rate cases. We are also proposing to expand our program to eliminate direct credit card fees for our small and medium nonresidential customers who pay their electric bills in that manner and implement a Payment Navigator program at our call centers to better assist our customers with their bills and ensure they are on the best rate based on their energy usage patterns. Finally, as I will more fully discuss below, the Company is proposing other mechanisms to help our low-income customers, in particular the CAP.

Q. WHAT OTHER WAYS ARE YOU PROPOSING FOR THE COMPANY TO HELP MITIGATE PRICE IMPACTS ON CUSTOMERS WHO ARE MOST IN NEED?

A. Based on the feedback and recommendations received from stakeholders during the Low-Income Affordability Collaborative, the Company is proposing new program offerings and options to help our customers who are most in need. Testimony in this case will discuss the CAP, a low-income bill assistance proposal that provides eligible customers with a flat monthly bill credit. Where eligible, CAP customers may be referred to income-qualified weatherization and EE services designed to lower a customer's electricity usage resulting in lower average bills over time. Pursuant to HB 951, the Company recently filed for approval of a Tariffed On-Bill Program which will allow customers to finance certain EE investments and energy upgrades on their electric bill. As part of its PBR Application, the Company is also proposing a Low-Income/Affordability PIM. Under this PIM, the proposed shareholder contributions to health and safety funds will help to complete the non-EE-related work necessary to qualify otherwise ineligible homes for EE savings and reduce low-income energy burdens.

Q. IS THE COMPANY PURSUING OTHER POTENTIAL OPPORTUNITIES TO OFFSET THE COST TO CUSTOMERS OF MODERNIZING THE GRID AND TRANSITIONING TO CLEANER ENERGY?

A. Yes. The Infrastructure Investment and Jobs and Act ("IIJA") signed into law on November 15, 2021 and the Inflation Reduction Act of 2022 ("IRA") signed into law on August 16, 2022, both present opportunities for the Company to pursue potential funding to mitigate the cost of the Company's existing and future planned investments. As noted in the Company's comments filed in Docket No. M-100, Sub 164, the IIJA represents a significant infrastructure funding opportunity for electric public utilities and their customers, an unprecedented commitment by the United States government to the country's physical systems, and a new era of government funding to support three sectors of the nation's economy: transportation, climate/energy/environment, and broadband. The Company intends to pursue opportunities that will optimize benefits for customers. The Company has developed a robust prioritization process to ensure we can respond quickly as funding opportunities announcements are released from federal and state agencies. DEP is actively responding to Requests for Information ("RFIs") from the federal government and has been filing such RFIs with the Commission to keep it apprised of how we are engaging with the federal government on how best to support our customers and communities with these competitive funding opportunities.

The IRA provides for substantial incentives in climate and energy-related provisions. IRA incentives will lower costs for solar, storage, wind, and nuclear, with potential compounding benefits if such resources can be optimally sited or meet other wage and domestic content requirements in the law. The Company is continuing to evaluate tax implications and applicability of this complex act and is confirming initial interpretations of the incentives for each resource. Importantly these incentives offset the inflationary impacts to the cost of resources such as solar, wind, storage, and nuclear. The Company will keep the Commission informed as additional IRA guidance is issued and IRS rules are published, which is anticipated to occur in 2023.

IV. COAL ASH COMPLIANCE

Q. AT THE CLOSE OF DEP'S PREVIOUS RATE CASE THE COMMISSION ASKED THE COMPANY TO SUBMIT A POST-HEARING FILING DISCUSSING VARIOUS ALTERNATE COAL ASH COST RECOVERY CONCEPTS, AND IN ITS ORDER THE COMMISSION REQUIRES DEP TO CONSIDER CONTEMPORANEOUS COST RECOVERY MECHANISMS FOR USE IN CONJUNCTION WITH THE "SPEND-DEFER-RECOVERY" METHOD THE COMPANY HAS TRADITIONALLY EMPLOYED. DID DEP DO THIS?

A. Yes. DEP did consider coupling contemporaneous recovery mechanisms (*i.e.*, either a run rate or a rider) with the "spend-defer-recover" mechanism. Specifically, DEP did so by updating its analysis of the impact of joining the two recovery methodologies upon (1) customer rates, and (2) the Company's principal credit metric, FFO/Debt.[4] The results of this analysis are set out in the testimony and exhibits of Witness Jiggetts in this case.

Q. WHAT CONCLUSIONS DO YOU DRAW FROM THIS ANALYSIS?

A. The results of the analysis show that implementing a contemporaneous coal ash cost recovery mechanism would both increase customer bills and negatively impact the Company's credit metrics. That in and of itself would lead DEP *not* to recommend implementation of a contemporaneous recovery mechanism. Furthermore, implementing such a mechanism would constitute a departure from the coal ash cost recovery settlement agreement ("CCR Settlement Agreement") the Company, along with DEC, painstakingly negotiated with the Public Staff, the Attorney General's Office, and the Sierra Club at the conclusion of the prior rate case.

Q. PLEASE EXPLAIN.

A. The CCR Settlement Agreement represents a significant compromise among the settling parties regarding recovery of coal ash costs. DEP and DEC forgo the opportunity to recover significant portions of their costs, including through application of a reduced cost of equity upon deferred coal ash cost balances. The settling counterparties give up the ability to make certain arguments to the Commission regarding future costs, including the Public Staff's "equitable sharing" concept. The agreed recovery mechanism is premised upon continuation of the "spend-defer-recover" model with the agreed reduction in

[4] "FFO," of funds from operations, is a measure of operational cash flow.

cost of equity, and to introduce in this case a significant variation to that model – a contemporaneous recovery feature – would represent a significant deviation from the settling parties' expectations regarding how future coal ash cost recovery should be handled. All parties to the CCR Settlement Agreement had to compromise to achieve the settlement, which the Commission approved. DEP strongly believes that in order to honor the compromises made by its counterparties to the CCR Settlement Agreement the recovery mechanism traditionally sought by the Company and approved by the Commission – the "spend-defer-recover" model – should continue to be implemented. That is the cost recovery mechanism DEP requests in this case.

V. IMPORTANCE OF A STRONG FINANCIAL POSITION

Q. WHY IS IT IMPORTANT TO DEP CUSTOMERS THAT THE COMPANY MAINTAIN A STRONG FINANCIAL POSITION?

A. DEP is investing and will continue to invest in our infrastructure to make it more resilient, smarter, cleaner, and more efficient. It is our responsibility to plan ahead and make these important investments efficiently and prudently. To deliver on these promises, it is critical that we maintain a strong financial position and thereby ensure that the Company has the financial strength and flexibility to fund long-term capital requirements, as well as the ability to meet short-term funding needs. The single-most determinative factor of a healthy balance sheet and strong financial position is timely recovery of costs and the ability to generate cash flows sufficient to meet obligations as they become due, in all market conditions.

The Company is therefore requesting an ROE of 10.2% based upon a proposed capital structure comprised of 53% equity and 47% debt. In support of this request, Witness Dr. Roger A. Morin presents testimony supporting his conclusion that cost of capital should be set at a ROE of 10.2%, which is both the midpoint and the average of the mathematical results from the various cost of capital studies performed by Dr. Morin. Witness Newlin presents testimony supporting the Company's proposed capital structure and the cost of long-term debt, and explaining how the Company is able to attract debt and equity investors on reasonable terms. In fact, the Company's cost of long-term debt of 3.70% is lower than the 4.04% cost of long-term debt from the prior rate case. The cost of long-term debt is directly supported by the Company's financial strength, cash flows, market access, and attractive credit ratings.

Q. PLEASE FURTHER DISCUSS THE BENEFITS TO CUSTOMERS OF DEP MAINTAINING A STRONG FINANCIAL POSITION.

A. Witness Newlin describes these benefits in greater detail, but I think it is important to emphasize the benefits that result from our overall request in this proceeding, particularly our requests on ROE, capital structure and timely recovery of costs. Historically, due to the strength of its financial position, the Company has enjoyed the flexibility to fund its long-term capital requirements, as well as to meet short-term liquidity needs, at an economical cost to customers. Ready access to capital on favorable terms is critical to serving our customers, and such access is most assured for companies that have solid financial positions, strong investment-grade credit ratings, and adequate cash flow generation to meet obligations as they become due. The financial flexibility that comes from the ability to access cost-effective capital in all market conditions, in such a capital-intensive industry, serves the best interests of our customers.

VI. CONCLUSION

Q. WHAT IS THE KEY OBJECTIVE OF THE COMPANY'S REQUESTED GENERAL RATE ADJUSTMENT?

A. As I mentioned at the beginning of my testimony, the electricity sector has entered a period of transformation and profound change driven by technological, environmental and operational forces, as well as changing customer expectations. Within this sea of change, the Company recognizes that its most important objectives are to continue providing safe, reliable, affordable, resilient, and increasingly clean electricity to our customers with high quality customer service, both today and in the future. To achieve this, the Company must continue to invest in improving our grid; pursue the energy transition our customers expect; invest in ways to make the energy we produce more diverse, more reliable, and cleaner for the benefit of our customers; and invest in new technologies to enhance the customer experience. Our Application is therefore made to support investments that benefit our customers while preserving the Company's financial position all while keeping prices for our customers as low as possible.

Q. DOES THIS CONCLUDE YOUR PRE-FILED DIRECT TESTIMONY?

A. Yes.