

1 PLACE: Dobbs Building

2 Raleigh, North Carolina

3 DATE: July 19, 2016

4 DOCKET NO.: E-2, Sub 1095

5 E-7, Sub 1100

6 G-9, Sub 682

7 TIME IN SESSION: 9:30 A.M. TO 12:29 P.M.

8 BEFORE: Chairman Edward S. Finley, Jr., Presiding

9 Commissioner Bryan E. Beatty

10 Commissioner ToNola D. Brown-Bland

11 Commissioner Don M. Bailey

12 Commissioner Jerry C. Dockham

13 Commissioner James G. Patterson

14 Commissioner Lyons Gray

15

16 IN THE MATTER OF:

17 Application of Duke Energy Corporation

18 and Piedmont Natural Gas, Inc. to Engage

19 in a Business Combination Transaction

20 and Address Regulatory Conditions and

21 Codes of Conduct

22 VOLUME 2

23

24

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1 P R O C E E D I N G S

2 CHAIRMAN FINLEY: Let's come back on the
3 record. Mr. Somers?

4 MR. GHARTEY-TAGOE: The Company calls Steve
5 Young to the stand.

6 CHAIRMAN FINLEY: Mr. Young.

7 STEVEN K. YOUNG; Being first duly sworn,
8 testified as follows:

9 DIRECT EXAMINATION BY MR. GHARTEY-TAGOE:

10 Q Mr. Young, please state your full name for the
11 record.

12 A Steven K. Young.

13 Q By whom are you employed?

14 A Duke Energy Corporation.

15 Q And what's your position with Duke Energy?

16 A I am the Executive Vice President and Chief
17 Financial Officer.

18 Q Now, prior to your appearance here today, did
19 you cause to be prefiled with this Commission testimony
20 consisting of some 14 pages in length?

21 A Yes, I did.

22 Q Do you have any corrections to that testimony?

23 A No, I do not have any corrections. However, I
24 would like to note that the common stock equity offering

1 mentioned on page 13, lines 6 through 8 of my prefiled
2 testimony, was completed on March 7th, 2016. On March
3 7th, the Company completed a common equity offering using
4 an equity forward structure, raising approximately 766
5 million in gross proceeds prior to transaction fees and
6 expenses. The net cash proceeds from this equity
7 offering have been held in escrow pending the closing of
8 the merger, and it is our intention to use this cash, net
9 of certain fees and payments, to fund a portion of the
10 cash consideration of the merger. As stated in my
11 prefiled testimony, the balance of the cash consideration
12 to Piedmont will be funded through debt, as well as other
13 sources of cash available at closing.

14 Q Now, with that update, if I were to ask you the
15 questions contained in your prefiled testimony today
16 under oath, would the answers remain the same?

17 A Yes.

18 MR. GHARTEY-TAGOE: Mr. Chairman, I move that
19 the prefiled testimony of Mr. Young be admitted into the
20 record as if orally given from the stand.

21 CHAIRMAN FINLEY: Mr. Young's prefiled direct
22 testimony consisting of 14 pages, filed January 15, 2016,
23 as updated, is copied into the record as if given orally
24 from the stand.

1 MR. GHARTEY-TAGOE: Thank you.

2 (Whereupon, the prefiled testimony
3 of Steven K. Young, as updated, was
4 copied into the record as if given
5 orally from the stand.)
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BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

DOCKET NO. E-2, SUB 1095
DOCKET NO. E-7, SUB 1100
DOCKET NO. G-9, SUB 682

In the Matter of)
)
Application of Duke Energy)
Corporation and Piedmont Natural)
Gas, Inc. to Engage in a Business)
Combination Transaction and)
Address Regulatory Conditions and)
Codes of Conduct)

**TESTIMONY OF
STEVEN K. YOUNG**

1 **Q. PLEASE STATE YOUR FULL NAME, BUSINESS ADDRESS, AND**
2 **POSITION WITH DUKE ENERGY CORPORATION.**

3 A. My name is Steven K. Young. My business address is 550 South Tryon
4 Street, Charlotte, North Carolina 28202. I am the Executive Vice President
5 and Chief Financial Officer of Duke Energy Corporation ("Duke Energy" or
6 the "Company"), the parent of Duke Energy Carolinas, LLC ("DEC") and
7 Duke Energy Progress, LLC ("DEP").

8 **Q. PLEASE SUMMARIZE YOUR EDUCATION AND PROFESSIONAL**
9 **QUALIFICATIONS.**

10 A. I have a Bachelor of Science Degree in Business Administration from the
11 University of North Carolina at Chapel Hill. I completed the Advanced
12 Management Program at the Wharton School of Business. I am a Certified
13 Public Accountant ("CPA") and Certified Management Accountant in the
14 state of North Carolina. I am a member of the American Institute of Certified
15 Public Accountants, Institute of Management Accountants, and National
16 Association of Accountants. I am also a member of the Edison Electric
17 Institute Accounting Executive Advisory Committee, and the Southeastern
18 Electric Exchange Accounting and Finance Section.

19 **Q. PLEASE SUMMARIZE YOUR PROFESSIONAL EXPERIENCE.**

20 A. My professional work experience began in 1980 when I joined Duke Power as
21 a financial assistant. After a series of promotions within the controller's
22 department, I was named manager of bulk power agreements in system
23 planning and operations in 1991, and manager of the rate department in 1993.

1 In April 1998, I was appointed as Vice President of Rates and Regulatory
2 Affairs, with responsibility for Duke Power's regulatory strategies and policies
3 in rate, financial and accounting matters. I was also accountable for the
4 Company's interaction with the utility commissions of North Carolina and
5 South Carolina, and the Federal Energy Regulatory Commission. I was named
6 Senior Vice President and Chief Financial Officer for Duke Power in
7 February 2003, Group Vice President and Chief Financial Officer in March
8 2004, and Vice President and Controller in June 2005. In December 2006, I
9 was named Senior Vice President and Controller for Duke Energy. In
10 addition to maintaining that role at the close of the merger between Duke
11 Energy and Progress Energy, Inc. in July 2012, I also became the Company's
12 Chief Accounting Officer. I was named to my current position in August
13 2013.

14 **Q. PLEASE DESCRIBE YOUR DUTIES AS DUKE ENERGY**
15 **CORPORATION'S CHIEF FINANCIAL OFFICER.**

16 **A.** As Chief Financial Officer, I lead the finance function of Duke Energy and its
17 operating subsidiaries, including DEC and DEP. In this capacity, I am
18 responsible for the controller's office, treasury, tax, risk management,
19 insurance, investor relations, corporate strategy and development, and
20 corporate audit services departments. These duties include accounting, cash
21 management and overseeing risk control policies.

22 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

1 A. The purpose of my testimony is to describe the financial strength, credit
2 quality, and liquidity of Duke Energy and Piedmont Natural Gas, Inc.
3 ("Piedmont") as stand-alone, unaffiliated legal entities. I will then discuss the
4 positive impact that the merger between Duke Energy and Piedmont
5 ("Transaction" or "Merger"), if approved, will have on these financial aspects
6 for the combined company, and I will highlight the benefits of the improved
7 financial position to both customers and investors. Finally, I will describe the
8 financial terms of the Merger and explain the financing that Duke Energy is
9 undertaking in connection with this transaction.

10 **Q. PLEASE EXPLAIN THE TERMS CREDIT QUALITY AND CREDIT**
11 **RATINGS.**

12 A. Credit quality (or creditworthiness) is a term used to describe a company's
13 overall financial health and its willingness and ability to repay all financial
14 obligations in full and on time. Assessments of creditworthiness are
15 performed by independent credit rating agencies, and result in the company's
16 credit rating and outlook.

17 Many qualitative and quantitative factors go into this assessment. For
18 regulated utilities, qualitative aspects may include the constructiveness of the
19 regulatory jurisdiction and the effectiveness of cost recovery mechanisms.
20 Other qualitative factors include a company's track record for delivering on its
21 commitments, the strength of its management team, its operating performance
22 and various characteristics of its service area. Quantitative measures

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1 generally focus on the relationship of cash flow to total indebtedness and cash
2 flow to fixed obligations such as principal and interest payments.

3 **Q. WHAT ARE THE CURRENT CREDIT RATINGS OF PIEDMONT,**
4 **DUKE ENERGY, DUKE ENERGY CAROLINAS AND DUKE**
5 **ENERGY PROGRESS?**

6 A. As of January 15, 2016, the long-term credit ratings of Piedmont, Duke
7 Energy, DEC and DEP are:

Entity	Corp Credit Rating (Moody's / S&P)	Sr. Unsecured Rating (Moody's / S&P)	Sr. Secured Rating (Moody's / S&P)	Outlook (Moody's / S&P)
Piedmont	A2/A	A2/A	Not Applicable	Stable/Watch Negative
Duke Energy Corporation	Baa1/A-	Baa1/BBB+	Not Applicable	Negative/Negative
Duke Energy Carolinas	A1/A-	A1/A-	Aa2/A	Stable / Negative
Duke Energy Progress	A2/A-	Not Applicable	Aa3/A	Stable/ Negative

8
9 **Q. PLEASE DESCRIBE THE SIGNIFICANCE OF THESE RATINGS ON**
10 **PIEDMONT AND DUKE ENERGY AS STAND-ALONE COMPANIES.**

11 A. The ratings I just described are solid investment grade credit ratings and
12 indicate that each company is in strong financial condition and is expected to
13 have the ability to meet debt obligations on time and in full. Duke Energy and
14 Piedmont operate in regulatory jurisdictions that are all considered by the
15 rating agencies to support credit quality (North Carolina, South Carolina,
16 Indiana, Ohio, Kentucky, Florida, and Tennessee). Each of these seven
17 jurisdictions is rated "Average" or "Above Average" by Regulatory Research

1 Associates. Duke Energy generates approximately 90% of its annual earnings
2 from regulated operations, and Piedmont generates approximately 92% of its
3 annual earnings from regulated operations.

4 Duke Energy's liquidity is also considered to be adequate by the rating
5 agencies. The Company maintains a \$7.5 billion Master Credit Facility with
6 commitments from approximately 30 banks. Total availability under these
7 facilities is approximately \$3.7 billion as of December 31, 2015, and the
8 Company had available cash of \$248 million.

9 Taken together, Duke Energy's healthy balance sheet, highly-regulated
10 business mix, and significant liquidity supports its investment grade credit
11 ratings. Maintaining investment grade ratings has been and will continue to
12 be a core financial objective for Duke Energy because doing so improves the
13 Company's access to capital on reasonable terms through various market
14 conditions. Customers benefit from the Company's ability to access the
15 market when needed to fund infrastructure investments and to refinance
16 existing indebtedness. In addition, high quality credit ratings lower borrowing
17 costs, also to the benefit of customers.

18 Piedmont also has adequate liquidity, with a revolving credit facility
19 comprising \$850 million in commitments from seven banks. As of December
20 31, 2015, Piedmont had \$370 million available under these credit facilities,
21 and approximately \$34 million in cash.

1 Q. WHAT IS MEANT BY S&P'S OUTLOOK OF "CREDITWATCH
2 WITH NEGATIVE IMPLICATIONS" AND MOODY'S "STABLE"
3 OUTLOOK FOR PIEDMONT?

4 A. S&P's CreditWatch is an opinion of the potential direction in the rating and
5 generally focuses on specific events and short-term trends. Subsequent to the
6 October 26, 2015 announcement of the acquisition, S&P affirmed Piedmont's
7 "A" senior unsecured credit rating, but placed it on credit watch with negative
8 implications. In this case, the negative watch indicates the potential for a
9 lower credit rating upon the close of the Transaction. It is important to note
10 that S&P's action is due to its use of a group rating methodology, where all
11 core subsidiaries of a parent company receive the same corporate credit rating
12 as the parent. It is common for S&P to take such action following an
13 acquisition even though the credit profile of the surviving subsidiary has not
14 materially changed. Because Duke Energy's current corporate credit rating of
15 "A-" is one notch lower than Piedmont's corporate credit rating of "A," S&P
16 may reduce Piedmont's rating to align with that of Duke Energy.

17 Moody's currently has Piedmont on stable outlook. An outlook from
18 Moody's generally indicates the direction of a rating over the medium term.
19 Moody's analyst Jairo Chung stated in the Moody's rating action dated
20 October 27, 2015, "Although Piedmont is a high quality utility with a strong
21 credit profile on a stand-alone basis, we believe it could benefit from being a
22 part of a larger company over the long run." Chung also stated, "Our
23 expectation is that Piedmont will continue to execute its large capital

1 investment program and that this announced transaction will have minimal
2 impact on Piedmont's fundamental credit profile."

3 **Q. WHAT STRENGTHS AND RISKS HAVE BEEN IDENTIFIED BY**
4 **EQUITY ANALYSTS OR CREDIT RATING AGENCIES**
5 **REGARDING REGULATED UTILITIES SUCH AS DUKE ENERGY**
6 **AND PIEDMONT?**

7 A. Equity analysts generally consider regulated utilities, such as Duke Energy
8 and Piedmont, to be in an investment category that provides stable, long-term
9 earnings and cash flows, which support attractive dividend policies and
10 earnings. The major risk factors faced by regulated utilities include regulatory
11 risk, environmental regulations, load growth, distributed generation, and
12 timely cost recovery mechanisms. Additionally, there are significant financial
13 risks associated with industries where large capital investments are needed to
14 fund infrastructure projects.

15 Based upon their public reports and statements made to us over time,
16 the credit rating agencies believe Duke Energy and Piedmont operate in
17 generally supportive regulatory environments that will support long-term
18 credit quality with timely and sufficient recovery of prudently incurred costs
19 and expenses. Nonetheless, in their discussions and reviews of the industry,
20 the credit rating agencies recognize the unique challenges of managing large
21 capital expenditure programs and the prospect of more stringent safety and
22 environmental mandates among the issues that could affect the credit quality
23 of regulated utilities like Duke Energy and Piedmont.

1 Given that Duke Energy and Piedmont both operate as regulated
2 utilities in similar service territories, the combination of these two companies
3 is not expected to introduce any new risks to the equity and credit analysts
4 who follow our companies. In fact, we believe the proposed Transaction
5 positions the combined company to better leverage the strengths of our
6 businesses and more effectively manage the risks associated with managing
7 regulated utility operations.

8 **Q. PLEASE DESCRIBE THE FINANCIAL STRENGTH, CREDIT**
9 **QUALITY AND LIQUIDITY OF THE COMBINED COMPANY IF**
10 **THE PROPOSED TRANSACTION IS APPROVED.**

11 A. Upon closing of the proposed Transaction, Duke Energy will maintain a
12 healthy balance sheet with strong investment grade ratings and more than 90%
13 of its annual earnings and cash flow coming from regulated operations. Duke
14 Energy will continue to be the largest electric utility holding company in the
15 United States, and will also become the 15th largest natural gas local
16 distribution company ("LDC"). The proposed Transaction is consistent with
17 Duke Energy's belief that utilities with operations in both regulated electric
18 and gas delivery can improve the overall customer experience through
19 economies of scale, diversification, and operational excellence. This is
20 expected to result in improved financial strength, greater liquidity, and
21 optimal operating flexibility, all of which will position the combined company
22 to operate more effectively as our industry continues to evolve.

1 Q. HOW WILL THE PROPOSED TRANSACTION IMPACT
2 PIEDMONT'S ABILITY TO ACCESS THE CAPITAL MARKETS?

3 A. As a core subsidiary of Duke Energy, Piedmont will have greater access to
4 capital at potentially better terms and conditions than if it remained a
5 standalone company due to the following advantages provided by Duke
6 Energy:

7 Expanded Investor Base

8 Duke Energy is the most active utility issuer in the capital markets
9 with a substantial following of equity and debt investors. As a less frequent
10 issuer, Piedmont has a smaller investor following, which can result in lower
11 investor appetite and less competitive deal terms. New issue spreads (or
12 borrowing rates above a benchmark index such as a 10-year Treasury rate) for
13 smaller, less frequent issuers are typically higher than those of larger, more
14 recognized names. To put this in context, Piedmont currently has
15 approximately \$1.6 billion of long-term debt and plans to issue another \$1.0
16 billion of debt in the next five years. A 10 basis point reduction in borrowing
17 costs results in \$1.0 million of annual interest expense savings for every \$1.0
18 billion of long-term debt issued.

19 Improved Financing Flexibility

20 As a core subsidiary of Duke Energy, Piedmont will have better
21 control over the timing and sizing of its capital markets transactions, which
22 can lead to improved deal terms. For example, investor demand is typically
23 stronger for bond offerings of \$250 million or larger. Transaction sizes lower

1 than this threshold typically involve a pricing premium as compared to larger,
2 comparably-rated transactions. This was evidenced by Piedmont's \$150
3 million senior unsecured offering in September 2015, which involved a new
4 issue spread of approximately 137.5 basis points as compared to the roughly
5 100 basis point peer average for comparably-rated senior unsecured utility
6 issuers in 2015. Smaller deal sizes can also result in more restrictive financial
7 and operating covenants as has been the case in some of Piedmont's privately-
8 placed senior notes under note purchase agreements in tranche sizes ranging
9 from \$35 million to \$200 million.

10 Access to Duke Energy's Cost-Advantaged Money Pool

11 As a Duke Energy subsidiary, Piedmont could become a participant in
12 Duke Energy's utility money pool agreement. This would provide Piedmont
13 with access to competitively-priced capital, especially in addressing shorter-
14 term capital needs. It also has the added benefit of optimizing the timing and
15 sizing capital market transactions, which can lead to more favorable terms.

16 Improved Access to Capital Markets During Periods of Volatility

17 Piedmont will benefit from improved access to capital, especially in
18 challenging or volatile market conditions when debt investors tend to favor
19 larger entities that are more active in the capital markets, and have more
20 liquidity and strong investment grade credit ratings. In the past 10 years, the
21 capital markets have experienced numerous periods of volatility where
22 smaller issuers have been disadvantaged relative to larger issuers with a
23 greater investor base.

1 Q. PLEASE EXPLAIN THE IMPACT OF THE PROPOSED MERGER
2 ON THE COMBINED COMPANY'S FINANCIAL STRENGTH AND
3 ACCESS TO THE CAPITAL MARKETS.

4 A. The combined company will have more geographic and regulatory diversity,
5 greater natural gas operations to compliment Duke Energy's existing electric
6 business, and a larger portion of the business associated with regulated
7 operations. This results in more stable cash flows and increased liquidity,
8 which appeal to debt investors.

9 The Merger will help solidify the combined company's long-term
10 earnings growth objectives. Piedmont's dividend policy is generally
11 consistent with that of Duke Energy's, and its regulated cash flows will
12 continue to support the Duke Energy dividend policy. This supports an
13 attractive total shareholder return proposition for equity investors, thereby
14 preserving reliable access to equity capital.

15 Q. IN BROAD TERMS, PLEASE DESCRIBE THE MERGER
16 TRANSACTION.

17 A. Duke Energy is acquiring Piedmont for approximately \$4.9 billion in cash and
18 assumption of approximately \$1.8 billion in Piedmont existing net debt.
19 Under the terms of the Agreement and Plan of Merger, each share of
20 Piedmont's common stock will be converted into the right to receive \$60.00 in
21 cash, without interest and less any applicable withholding taxes.

22 Q. HOW DOES DUKE ENERGY INTEND TO FINANCE THE
23 TRANSACTION?

1 A. As discussed in the Application and further detailed in our request for
2 expedited approval of financings related to the Piedmont transaction, Duke
3 Energy intends to finance this transaction through a combination of equity
4 (which may include the issuance of common stock, equity-linked securities
5 and/or through the company's dividend reinvestment program), long-term
6 debt and other potential sources of cash. The size of a common stock equity
7 offering is currently estimated to range between \$500 million and \$750
8 million.

9 With respect to the debt financing, Duke Energy intends to issue long-
10 term bonds at the holding company across a range of maturities. The final
11 structure of the maturities will be dependent on the ultimate amount of debt
12 financing and market conditions at the time of issuance. The Company plans
13 to issue up to \$4.5 billion in long-term senior notes of Duke Energy in one or
14 more underwritten public offerings during 2016. The amount to be raised
15 through either the equity or debt capital markets may be reduced to the extent
16 Duke Energy has other significant sources of cash available.

17 **Q. I SHOW YOU WHAT HAS BEEN MARKED AS EXHIBIT B, THE**
18 **COST/BENEFIT ANALYSIS FILED WITH THE APPLICATION. DO**
19 **YOU SPONSOR THIS EXHIBIT?**

20 A. Yes. My testimony has discussed the financial and risk benefits contained in
21 the Cost-Benefit analysis, and I am supporting that portion of the exhibit. Mr.
22 Frank Yoho is sponsoring the Piedmont-specific sections of the exhibit.

23

- 1 Q. DOES THIS CONCLUDE YOUR PRE-FILED DIRECT TESTIMONY?
- 2 A. Yes.

1 Q Mr. Young, do you have a summary of your
2 testimony with you today?

3 A Yes, I do.

4 Q Please go ahead and read it to the Commission.

5 A My testimony describes the financial strength,
6 credit quality and liquidity of Duke Energy Corporation
7 and Piedmont Natural Gas Company as stand-alone,
8 unaffiliated legal entities. I also discuss the positive
9 impact that the merger between Duke Energy and Piedmont
10 will have on these financial characteristics for the
11 combined company, and I highlight the benefits of the
12 improved financial position to both customers and
13 investors. My testimony also describes the financial
14 terms of the merger and explains the financing that Duke
15 Energy is undertaking in connection with this
16 transaction.

17 As of January 15, 2016, when the application
18 for approval of this transaction was filed, the long-term
19 credit ratings of Duke Energy, Piedmont, Duke Energy
20 Carolinas and Duke Energy Progress were solid investment
21 grade credit ratings and indicate that each company is in
22 strong financial condition and is expected to have the
23 ability to meet debt obligations on time and in full.
24 Duke Energy and Piedmont operate in regulatory

1 jurisdictions that are considered by the rating agencies
2 to support credit quality. Post-merger, Duke Energy and
3 Piedmont will maintain strong investment grade credit
4 ratings. S&P may reduce Piedmont's current credit rating
5 to align with that of Duke Energy, which has been one
6 notch lower than Piedmont's, but that is a common
7 practice following an acquisition, even though the credit
8 profile of the surviving subsidiary has not materially
9 changed. Moody's has stated its belief that Piedmont
10 could benefit from being part of a larger company over
11 the long run.

12 Upon closing of the transaction, Duke Energy
13 will continue to be one of the largest electric utility
14 holding companies in the United States and will also
15 become the fifteenth largest natural gas local
16 distribution company. The transaction is expected to
17 result in a financially strong organization, with greater
18 liquidity and optimal operating flexibility, which will
19 position the combined company to operate more effectively
20 in a changing regulatory environment as our industry
21 continues to evolve.

22 Post-merger, the combined company will have
23 more geographic and regulatory diversity, and greater
24 natural gas operations to compliment Duke Energy's

1 existing electric business. The combined company will
2 generate more than 90 percent of its annual earnings and
3 cash flow from regulated operations. This will result in
4 more stable cash flows and increased liquidity, which
5 appeal to debt investors. As a core Duke Energy
6 subsidiary, Piedmont will have greater access to capital
7 at potentially better terms and conditions than if it
8 remained a stand-alone company.

9 I will now describe the merger transaction
10 itself in broad terms. Under the Merger Agreement, Duke
11 Energy is acquiring Piedmont for approximately 4.9
12 billion in cash and the assumption of approximately 1.8
13 billion in Piedmont's existing net debt. Each share of
14 Piedmont's stock will be converted into the right to
15 receive \$60 in cash, without interest and less any
16 applicable withholding taxes.

17 Duke Energy requested and received approval
18 from this Commission to finance the transaction through a
19 combination of equity, long-term debt and other potential
20 sources of cash.

21 This concludes my summary.

22 Q Mr. Young, were you in the courtroom yesterday
23 during the testimony of Ms. Good and Mr. Skains?

24 A Yes.

1 Q Now, there were a few questions that were
2 deferred to you. Do you recall that?

3 A Yes, I do.

4 Q Do you recall a question from Chairman Finley
5 regarding how the diversity of resources is a benefit to
6 the mer--- from the merger?

7 A Yes, I do.

8 Q Can you address that issue?

9 A Yes. Diversity of resources touches on a
10 number of factors, and I'll mention a few. One obvious
11 factor here is diversity of different types of
12 businesses. The combination will bring into Duke Energy
13 gas LDC operations, and this will help fill out our gas
14 platform that we are now attempting to build. Although
15 small, Piedmont will be less than 5 percent of Duke
16 Energy. It will help diversify away from our already
17 strong regulated electric business. That's one form of
18 diversity.

19 There's also diversity of geography and
20 regulatory jurisdictions. We will be moving into
21 Tennessee in the combined entity. That provides some
22 further diversification.

23 On a financial note there is a benefit of
24 diversification as well for Piedmont by joining the Duke

1 family. Duke Energy and its operating subsidiaries are
2 typically utilized and -- by a wide variety of debt
3 holders, much wider and more diverse than what Piedmont
4 currently has access to. Bond investors typically look
5 to larger entities such as Duke Energy. There are a
6 number of bond investors that I've spoken to that have
7 not invested in Piedmont in the past due to the size. So
8 diversity of an investor base will also be another
9 example of a benefit.

10 Q Do you recall Mr. Runkle's questions regarding
11 risk factors contained in the Piedmont 10-K?

12 A Yes, I do.

13 Q Does Duke Energy file a 10-K as well?

14 A Yes. Duke Energy files a 10-K.

15 Q And would a Duke Energy 10-K also include risk
16 factors?

17 A Yes. All 10-K filings with the Securities and
18 Exchange Commission, the SEC, are required to have a
19 section listing risk factors. This is a requirement from
20 the SEC, a very explicit requirement. The risk factor
21 section is, by definition, a section where every entity,
22 whether it's Duke or Piedmont or IBM or GE, must describe
23 all of the significant risks that might occur to an
24 entity, no matter how remote. We talk about hurricanes,

1 cyber terrorism, nuclear issues on the Duke Energy side.
2 So it is a laundry list of potential negative things that
3 an investor can look through to understand all of those
4 types of factors.

5 Q Do you also recall questions about forward-
6 looking statements?

7 A Yes, I do.

8 Q How do those fit into the 10-K?

9 A The forward-looking statement reference that
10 was discussed yesterday is very similar to risk factors.
11 And in certain parts of a 10-K report, particularly
12 Management Discussion and Analysis, the MD&A section,
13 will often refer to strategic intent, it will talk about
14 future efforts underway and potentially future results.
15 So whenever you're discussing the future in an SEC
16 document, you have to put forth some warnings about
17 forward-looking statements, and those warnings are to the
18 investor to say that these are -- this material may
19 contain information about the future, nobody can read
20 into the future, so here are some of the risks that are
21 associated with forward-looking statements. It's very
22 similar to risk factors. The two sections typically
23 refer to each other in the document.

24 Q Do you also recall a question from Chairman

1 Finley about income taxes and why there were no
2 ramifications of income taxes included in the cost
3 benefit analysis filed with the Application?

4 A Yes, I do.

5 Q Now, why -- why was income taxes not included
6 in that cost benefit analysis?

7 A Well, we looked at income taxes very thoroughly
8 during the due diligence phase of the merger, and in
9 assessing income taxes, we saw that there were no
10 significant changes as a result of this acquisition.
11 Additionally, I would mention that post acquisition,
12 Piedmont will become a member of our tax sharing
13 agreement, and for rate setting purposes we will compute
14 Piedmont's income taxes on a stand-alone basis, very
15 similar to how they're computed now, and that will help
16 protect customers from any tax effects of the combined
17 entity. But as I said earlier, we see no significant
18 impacts in income taxes from this combination.

19 MR. GHARTEY-TAGOE: Thank you, Mr. Young. Mr.
20 Young is available for cross examination.

21 CHAIRMAN FINLEY: Cross examination, Mr.
22 Runkle?

23 CROSS EXAMINATION BY MR. RUNKLE:

24 Q Good morning, Mr. Young. I am John Runkle for

1 NC WARN, The Climate Times and North Carolina Housing
2 Coalition.

3 I wanted to talk to you initially about the
4 merger price. As you said in your testimony, and the
5 panel said yesterday, the purchase price was
6 approximately 4.9 billion, and assuming another 1.8
7 billion in debt; is that correct?

8 A That's correct.

9 Q And so the book value is approximately 1.1
10 billion?

11 A Closer to 1.5 billion.

12 Q Okay. And when did you -- when did you come up
13 with the book value of 1.5 billion?

14 A Just looking at financial statements in the
15 past.

16 Q Okay. Is that a recent valuation, or is that
17 one that's been outstanding?

18 A I think based on some fairly recent financial
19 statements, that was -- I think around 1.5 billion was
20 the number I was looking at for book value.

21 Q So what is the acquisition premium, then, of
22 the merger?

23 A It would be in the neighborhood of three and
24 half billion.

1 Q Okay. So the acquisition premium does not
2 consider the debt assumption?

3 A Typically, when you look and describe an
4 acquisition premium, you're looking at the equity value,
5 the 4.9 billion, less the book value of, say, roughly one
6 and a half billion, and that leaves you with about 3.5
7 billion.

8 Q Okay. Now, is -- in the questions yesterday,
9 Ms. Good said that part of the acquisition premium was
10 that Piedmont was a fairly healthy company. Do you
11 recall that testimony?

12 A Yes.

13 Q It was fairly strong, had good metrics and that
14 kind of thing.

15 A Yes. Piedmont is a very strong company, and
16 they are one of the premier gas distribution franchises
17 in the country. There are not many of them. They have a
18 terrific footprint in the Carolinas, in the Nashville
19 area. They have a great management team, terrific record
20 on safety, customer satisfaction, reliability, a great
21 growth profile. And we know them well. They're
22 headquartered in North Carolina --

23 Q Now --

24 A -- so it was a great value.

1 Q Excuse me. Now, part of that -- what you just
2 described would be called -- would be considered to be
3 goodwill?

4 A Yes.

5 Q Out of the 3.5 billion acquisition premium, how
6 much of that is goodwill?

7 A I think the majority of it will be classified
8 as goodwill, given the purchase accounting related to
9 regulated entities. I think the majority of that will be
10 goodwill.

11 Q In the -- in the purchase, did you put a price
12 on goodwill?

13 A We certainly put a value on Piedmont as a
14 whole, the \$60 a share, the 4.9 billion. It was a
15 competitive process. There were others interested at
16 very similar prices. Again, when you're valuing
17 something, you look at metrics, you look at strategic
18 value. Building a gas platform was important to us.
19 Again, a premier franchise such as Piedmont located in
20 the Carolinas that we know, with that type of service
21 territory and growth profile and operational history,
22 they don't come along that often. That's why the value
23 was high.

24 Q So in looking at the strategic value and

1 whatever assets that the Company has, there's also --
2 part of the acquisition premium is specifically goodwill;
3 is that correct?

4 A Yes. On the -- on the books post acquisition,
5 there will be a goodwill number on Duke Energy's books.
6 I think it will be in the ballpark of three and a half
7 billion.

8 Q Uh-huh. So the -- okay. Now, Piedmont is also
9 a -- operates in regulated and non-regulated
10 jurisdictions, does it not?

11 A It has businesses that are non-regulated, but
12 the vast majority of their businesses are regulated.

13 Q And that's in North and South Carolina; is that
14 correct?

15 A They have businesses in both North and South
16 Carolina and in Tennessee.

17 Q It is regulated -- is Tennessee a regulated
18 jurisdiction?

19 A Primarily regulated, yes.

20 Q And in those regulated states, jurisdictions,
21 they have exclusive service areas, do they not?

22 A Yes. That's correct.

23 Q So in those areas there's no competition; is
24 that the short way of saying it?

1 A A very rough way of saying that, yes.

2 Q Now, in -- out of the 3.5 billion acquisition
3 premium, is there a consideration that much of Piedmont's
4 business is in the regulated jurisdiction?

5 A Well, I think certainly a significant part of
6 the value in our eyes, and in the market's eyes, is
7 Piedmont's regulated business. It is a very strong
8 regulated profile business rate, regulatory
9 jurisdictions, excellent growth profiles, good cost
10 recovery mechanisms. That is certainly a large part of
11 their business and a large part of the value.

12 Q So in your -- in your testimony you look at --
13 you describe the ways that -- that Duke Energy is going
14 to raise the cash to pay for Piedmont; is that correct?

15 A Yes.

16 Q Now, that would be a mixture of your stock --
17 stock equity offer, offering various dividend
18 reinvestment programs, long-term debt and other sources
19 of cash, so it's a mix of different pots of money?

20 A Yes. That's correct.

21 Q So how is -- in the -- in the short term, say,
22 the next year or two, how is Duke Energy going to pay
23 back those -- those different sources of cash and the
24 long-term debt?

1 A Well, let me discuss the financing of Duke
2 Energy as a whole. We are in the capital markets
3 extensively. And this Piedmont acquisition, although
4 very important and very strategic to us, is one part of
5 the many investments that we make. We will invest \$7
6 billion a year, roughly, outside of an acquisition like
7 Piedmont. We have an extensive record of going into
8 capital markets and issuing long-term debt at the holding
9 company level, and at each of our operating subsidiary
10 levels Piedmont will be an operating subsidiary as well,
11 with the ability to issue debt under its own credit
12 rating. And through these various sources and
13 capabilities of issuances and entries into the market,
14 the debt markets, we can raise money in that fashion.

15 Additionally, we can periodically raise common
16 equity. There are a number of ways to do that. We did
17 an equity forward related to this transaction. Response
18 was very strong, three times oversubscribed, and we
19 executed on that in early March. As I discussed earlier,
20 we periodically will institute a dividend reinvestment
21 plan to raise equity. We have discussed publicly that we
22 intend to do that probably starting after 2017. That's a
23 way to raise several hundred million of equity very
24 efficiently each year. We also have access to short-term

1 markets, commercial paper, that help us bridge various
2 financing needs. So it's through this combination of
3 capabilities that we raise money.

4 I would also mention that we have exited some
5 businesses. We exited our Midwest generation business,
6 which is a merchant business, not consistent with the
7 strategy that we're moving towards, recognized \$2.8
8 billion of proceeds that we utilized to help fund our
9 ongoing businesses. And we currently have announced an
10 intent to exit our international business, and that will
11 provide proceeds. We've publicly stated that those
12 proceeds will be used to displace the need for long-term
13 debt. So there are a number of levers available to us.

14 Q Is there any expectation from Duke Energy that
15 the -- Piedmont, as a wholly-owned subsidiary, will pay
16 off the debt and the other cash options?

17 A What Piedmont will do, they will be their own
18 operating subsidiary. They will have a capital structure
19 consistent with what the regulatory commission has set in
20 place, probably roughly 50-50 in terms of the debt and
21 equity. They will be running their operations, and they
22 will meet their debt obligations just as Duke Energy
23 Carolinas does and Duke Energy Progress does. And we
24 will maintain the financial health of all of the

1 operating entities, as well as the corporate holding
2 company.

3 Q So how does -- how does Duke pay off the \$4.9
4 billion purchase price? Is that through profits from
5 Piedmont over the years or...

6 A Well, not just through Piedmont. We will be
7 issuing holding company debt --

8 Q Uh-huh.

9 A -- to help fund this purchase. And, again,
10 we're out in the markets at various times with all of our
11 operating companies issuing securities, as necessary, but
12 all of our operating companies are profitable, healthy.
13 The holding company is profitable and healthy. The cash
14 flows from the various operations of our subsidiaries
15 should very well be able -- enable us to pay back all of
16 our obligations, as we have done for decades of service.

17 Q Now, Duke Energy Progress and Duke Energy
18 Carolinas are purchasing natural gas from Piedmont, are
19 they not?

20 A Yes.

21 Q And they will continue to do so?

22 A Yes. I believe they will.

23 Q Do you consider this to be an affiliated
24 transaction?

1 A If the merger -- if this acquisition is
2 consummated, then it would go into the category of an
3 affiliate transaction, which is well governed by our
4 affiliate rules.

5 Q In response to an earlier question about the
6 diversity of resources, you said that it was Duke
7 Energy's goal to build a natural gas platform. Can you
8 describe what you mean by a natural gas platform?

9 A It's a platform that consists of regulated gas
10 infrastructure business. Piedmont would be a very
11 important part of that. In addition to that, our
12 investment in the Atlantic Coast Pipeline that Ms. Good
13 discussed yesterday and the investment in Sabal Trail
14 Pipeline are also examples of the gas platform that we
15 are interested in.

16 Q Approximately, what is Duke Energy's investment
17 into the Atlantic Coast Pipeline?

18 A Our ownership share is 40 percent of that
19 project. We estimate that that project, which is not yet
20 complete, would be in the range of a total of \$5 billion,
21 so our investment would be roughly \$2 billion.

22 Q And then Piedmont Natural Gas I saw has a share
23 of the Atlantic Coast Pipeline?

24 A They do. That's correct.

1 Q And I think their share is 10 percent?

2 A Yes.

3 Q All right. Now, on the Sabal Trail Pipeline,
4 what is Duke's investment in that?

5 A Our investment is seven and a half percent.

6 Q And what is the cost of the Sabal Trail
7 Pipeline?

8 A Our investment, our seven and a half piece,
9 will be in the neighborhood of \$225 million.

10 Q Does Piedmont have a piece of the Sabal Trail
11 Pipeline?

12 A No, they do not.

13 Q What is the strategic goal of building a
14 natural gas platform? What is -- what is Duke Energy's
15 strategic goal for building that platform?

16 A Well, I think our strategic goal is to be a
17 regulated energy infrastructure. We already have a
18 strong footprint on the electric side, with franchises in
19 the Carolinas, Florida, the Midwest on the electric side.
20 We have gas distribution in the Cincinnati area and
21 northern Kentucky area that exists. And these
22 businesses, gas and electric regulated businesses, have a
23 lot of commonality here. They are very stable
24 businesses. They involve long-term investments. It is

1 very consistent with our management team profile, our
2 history. So expanding into gas and diversifying out of
3 electric provides us diversity of businesses, of cash
4 flows, and that ultimately helps support our overall
5 proposition to our customers and to our shareholders,
6 which is to provide stable earning streams.

7 Q Now, in the overlapping service areas between
8 Piedmont and either Duke Energy Carolinas or Duke Energy
9 Progress, as a hypothetical I am a residential homeowner,
10 and I have the option to either go with natural gas for
11 heating, air conditioning, or I can use electricity.
12 Fairly common decision I need to make as a homeowner; is
13 that correct?

14 A Often a decision that homeowners have a choice
15 on.

16 Q And in those jurisdictions there was
17 competition between Piedmont and the -- and Duke Energy
18 on which way to go; is that correct?

19 A Yes. I want to clarify a bit. Most homes are
20 going to need electricity under any circumstance. I
21 think you're typically talking about home heating,
22 whether you use an electric heat pump or whether you use
23 gas or propane.

24 Q Or a water heater. There may be other kinds --

1 A There may be some other devices, yes.

2 Q But there was competition, or there is
3 competition for a homeowner between using electricity for
4 those purposes and using natural gas.

5 A There is, and there will continue to be.

6 Q There will continue to be competition between
7 who and who now?

8 A Customers will continue to have the same
9 choices that they've had in the past about how they want
10 to heat and cool their homes.

11 Q And going up, commercial facilities would have
12 the same choice between electricity and natural gas?

13 A Yes.

14 Q And industrial customers would also have that
15 opportunity?

16 A Yes.

17 Q And your position is that that will be the same
18 level of competition that it is now?

19 A Yes. And I would also state that Mr. Yoho, the
20 witness following me, would have more background to
21 answer these areas of competition as well.

22 Q I thought your earlier testimony was that
23 because of these exclusive service areas and regulated
24 jurisdictions, that was an asset that was part of the

1 acquisition premium.

2 A Well, the value of Piedmont, part of the value
3 of Piedmont is they have very strong franchises and
4 regulated businesses, regulated gas businesses, and
5 that's part of the value.

6 Q So in looking at the purchase and the various
7 strengths and assets of Piedmont Natural Gas, how forward
8 did you look? Was one year? Ten years? Fifteen years?

9 A In terms of the purchases of natural gas?

10 Q Well, no, no. In looking at the value of
11 Piedmont, how far out did you run the numbers?

12 A Oh. We looked under a number of scenarios over
13 long ranges of time in putting values onto Piedmont.

14 Q And "long ranges of time," what kind of time
15 period is that?

16 A Oh. We typically have done five and 10-year
17 scenarios, and you'll put a terminal value into the
18 calculations which represents a perpetuity type value
19 there.

20 Q In your long -- or these -- how would you
21 describe these? Not forecasts. They're -- how would you
22 describe it?

23 A I think forecast is a reasonable --

24 Q Okay.

1 A -- term.

2 Q In the forecasts of Piedmont's future, did you
3 look at any changes in the price of natural gas?

4 A We, in the course of our normal business even
5 for Duke, in the integrated resources plannings forecasts
6 that we do, we will look at various changes in the price
7 of natural gas.

8 Q And do you do long-term forecasting of the
9 price of natural gas?

10 A As part of the integrated resource planning
11 process we do, yes.

12 MR. RUNKLE: I have no further questions for
13 the witness.

14 CHAIRMAN FINLEY: Other questions on cross
15 examination?

16 (No response.)

17 CHAIRMAN FINLEY: Redirect?

18 MR. GHARTEY-TAGOE: A couple questions, Mr.
19 Chairman.

20 REDIRECT EXAMINATION BY MR. GHARTEY-TAGOE:

21 Q Mr. Young, do you recall the questioning around
22 the acquisition premium?

23 A Yes.

24 Q Do you have the cost-benefit analysis that's

1 Exhibit B to the Application in front of you?

2 A I do.

3 Q Would you turn to page 7 of that exhibit.

4 A Yes. I'm there.

5 Q And the last row there, that addresses the
6 acquisition premium, does it not?

7 A Yes, it does.

8 Q And as I read it, it says the acquisition
9 premium is approximately 3.4 billion as of October 31st,
10 2015, correct?

11 A That's correct, in that ballpark.

12 Q And who is -- is this going to be charged to
13 ratepayers or customers?

14 A No. It will not be incorporated into rates in
15 any way, form or fashion. I neglected to mention that.
16 I should have mentioned that. But the cost of service
17 for Piedmont services will be based upon the historic
18 book value. That will continue. The acquisition premium
19 will not be incorporated into customer rates.

20 Q There was also a question or series of
21 questions about Piedmont's debt that Duke is assuming.
22 Do you recall that?

23 A Yes.

24 Q Now, Piedmont is obligated to pay those debts

1 whether Duke merges with Piedmont or not; is that not
2 true?

3 A That's absolutely correct.

4 Q And that obligation remains after the merger,
5 correct?

6 A That's correct.

7 Q There was also a question about Duke buying --
8 DEP and DEC buying gas from Piedmont?

9 A Yes.

10 Q Do you recall that? Did you mean to say they
11 actually buy capacity and transportation as opposed to
12 gas?

13 A That's more correct. That's correct.

14 MR. GHARTEY-TAGOE: That's all we have, Your
15 Honor.

16 CHAIRMAN FINLEY: Okay. A few questions, Mr.
17 Young, from the Commission and the Commission staff.

18 EXAMINATION BY CHAIRMAN FINLEY:

19 Q You mention in your responses to the
20 supplemental questions about being -- part of the
21 combined enterprise being regulated by the Tennessee
22 Regulatory Authority?

23 A Yes. That's correct.

24 Q What is the benefit of that, again?

1 A Well, what I was speaking about there is just
2 in general there is diversity of having -- being in
3 multiple jurisdictions, based upon the economy maybe
4 rising in one jurisdiction, falling in the other. We've
5 seen that between the Midwest and Florida and the
6 Carolinas. So it's the geographic diversity as opposed
7 to necessarily a regulatory commission jurisdiction.

8 Q You certainly don't intend to have your
9 electric enterprises regulated by the Tennessee
10 Regulatory Authority?

11 A Oh, no. No, sir. Not at all.

12 Q On page 7 of your testimony beginning on line
13 14, you state, quote, "Because Duke Energy's current
14 corporate credit rating" -- is A-, which -- "is one notch
15 lower than Piedmont's corporate credit rating of A, S&P
16 may reduce Piedmont's rating to align with" Duke Energy.

17 In Piedmont's last general rate case, Docket Number G-9,
18 Sub 631, return witness Dr. Murry was asked, "Were there
19 other measures of financial risk you studied?" And he
20 responded, quote, "I reviewed published measures of
21 financial risk that investors are likely to consider when
22 making an investment decision such as bond ratings," end
23 quote. Is it possible that the lower bond rating could
24 be used to argue for a higher return on equity in

1 Piedmont's next general rate case?

2 A No. We would not make that argument in the
3 next general rate case, and I would point out a couple of
4 items here. I think S&P is the entity that's looking at
5 potentially moving Piedmont's credit rating down a notch.
6 I don't believe that is significant in and of itself. As
7 I mentioned in my testimony, I think there are a lot of
8 benefits to being part of Duke Energy. In the financing
9 arena, that will more than offset the one-notch potential
10 downgrade there. And additionally, overriding all of
11 this, we have entered into an agreement that if, by
12 virtue of this transaction, financing costs are higher
13 and that can be shown, then there will be an adjustment
14 in any rate proceeding to Piedmont's cost of service for
15 that.

16 Q That's in your Stipulation with the Public
17 Staff.

18 A That's correct.

19 Q On page 7 of your testimony, beginning at line
20 20 you quote Moody's analysis, Jairo, I think I'm
21 pronouncing that correctly, Chung as saying, quote,
22 "Although Piedmont is a high quality utility with a
23 strong credit profile on a stand-alone basis, we believe
24 it could benefit from being a part of a larger company

1 over the long run." What did he mean, if you know, by
2 the "over the long run"?

3 A Yes. I think what's being referred to here is
4 that over an extended period of time, as Piedmont makes
5 financings, which they have traditionally done and will
6 continue to do, they will enter into the debt markets
7 periodically, that over a period of time the benefits
8 that I described earlier, access to a deeper pool of
9 investors, access to low cost money pool for short-term
10 funds to help bridge to larger financings, those types of
11 capabilities that don't exist for Piedmont now that will
12 exist after the acquisition, those types of arrangements
13 can provide benefits. I think that's what's being
14 referred to here.

15 Q On page 11 of your testimony, beginning on line
16 10, you discuss Piedmont's access to Duke Energy's cost-
17 advantaged money pool. On average, do you expect
18 Piedmont to be a net borrower or a net lender from the
19 money pool? And we ask that because it's our
20 understanding that PSNC is part of the SCANA money pool,
21 and it looks like to us that PSNC has been pretty much a
22 lender occasionally of large sums from that money pool.

23 A I would expect, based on what I've seen, that
24 Piedmont has a strong growth profile making investments

1 into new pipes, pipe security, those types of things,
2 that they would be a borrower, a user of the money pool.
3 And, again, the money pool at any given time, the sister
4 utilities on the electric side may have excess funds to
5 put into the pool, and I think that will be useful to
6 Piedmont. I can't predict the future, but they certainly
7 -- Piedmont has certainly had a strong investment
8 profile.

9 CHAIRMAN FINLEY: Are there other questions
10 from other Commissioners? Commissioner Brown-Bland.

11 EXAMINATION BY COMMISSIONER BROWN-BLAND:

12 Q Mr. Young, just one quick one. In terms of the
13 customer decision between electric heating and cooking or
14 gas heating and cooking -- and I understand this may get
15 more into Mr. Yoho's area, but from where you sit now, do
16 you see that as a neutral decision to the Company?

17 A Yes. I think that, again, we try to provide,
18 under regulation, cost-based services and rates to our
19 customers that reflect electric service. Piedmont
20 provides cost-based services for gas, and the customer
21 has choices and opportunities in both -- in both arenas
22 there. And we both strive to come up with products and
23 services that are attractive to our customers, so we will
24 continue to do that.

1 COMMISSIONER BROWN-BLAND: Thank you.

2 CHAIRMAN FINLEY: Questions on the Commission's
3 questions? Mr. West.

4 MR. WEST: I just have a couple of questions
5 about the credit rating issue, and I need to ask a couple
6 quest--- predicate questions first.

7 CROSS EXAMINATION BY MR. WEST:

8 Q Mr. Young, were you in the hearing room when
9 some questions were raised about Carolina Power & Light
10 acquiring and then divesting itself of NCNG?

11 A Yes, I was.

12 Q And were you -- were you here when the Chair
13 was asking about Duke acquiring, I think it was, Western
14 and then divesting itself of Western?

15 A Of West Coast --

16 Q West Coast.

17 A -- Gas, yes.

18 Q In either of those divestments, was there any
19 write-down of goodwill?

20 A I don't recall a write-down of goodwill when we
21 spun off the gas businesses, Spectra, that was back in, I
22 believe, '06. And, again, with the spinoff, I don't know
23 that there's going to be an impairment of goodwill under
24 that accounting methodology. I don't recall that, but

1 I'm not certain.

2 Q So let me -- let me try a hypothetical. If in
3 five years a significant carbon tax was imposed and
4 natural gas became a less desirable fuel source, and as a
5 result, Duke decided to divest itself of Piedmont, would
6 Duke be expected to write down the goodwill associated
7 with this acquisition?

8 A Oh, I don't know the facts and circumstances
9 under that hypothetical. I don't know are we selling it
10 to somebody? Are we doing a spin? There's any number of
11 criteria there, and I don't know that a carbon tax is
12 necessarily going to significantly impact Piedmont
13 relative to other businesses. You know, the value,
14 again, of a -- of gas infrastructure, as opposed to the
15 pass-through cost of gas commodity, which Piedmont is
16 simply a transport mechanism for, you know, it may not
17 impact the value of Piedmont. I'd have to see all the
18 circumstances.

19 Q And I understand. I'm asking a hypothetical,
20 though. So if Duke decided to divest itself of Piedmont,
21 are there any circumstances under which you could see a
22 requirement to write down the \$3.4 billion of goodwill?

23 A It just depends on too many factors.

24 Q If you did have to write down the goodwill,

1 would it have any significant impact on Duke's credit
2 rating?

3 A Again, what rating agencies are you going to
4 look to as your ability to meet obligations, which is
5 more of a cash flow measure? We've had impairments
6 before of assets that are noncash that have not affected
7 our credit ratings in the past. We've had impairments
8 when we sold our Midwest generation assets which were in
9 a merchant environment, and we saw no change in our
10 credit ratings. In fact, it was viewed as positive that
11 we were divesting ourselves of that business which would
12 produce cash proceeds. So you've got to look at a number
13 of factors here. That was actually seen as credit
14 positive and it was associated with an impairment.

15 MR. WEST: I don't have any further questions.
16 Thank you.

17 MR. GHARTEY-TAGOE: No questions.

18 CHAIRMAN FINLEY: All right. Thank you, Mr.
19 Young.

20 (Witness excused.)

21 (Mr. Jeffries distributing summaries.)

22 MR. RUNKLE: Mr. Chairman, we will also pass
23 out our cross examination exhibits.

24 MR. JEFFRIES: Piedmont will call Frank Yoho to

1 the stand, please.

2 FRANK YOHO; Being first duly sworn,

3 testified as follows:

4 DIRECT EXAMINATION BY MR. JEFFRIES:

5 Q Mr. Yoho, could you state your name and
6 business address for the record, please.

7 A Franklin H. Yoho, 4720 Piedmont Road Drive,
8 Charlotte, North Carolina.

9 Q And where do you work, Mr. Yoho?

10 A For Piedmont Natural Gas.

11 Q And what's your position at Piedmont?

12 A Senior Vice President and Chief Commercial
13 Officer.

14 Q Can you describe for the Commission what your
15 basic responsibilities are in that position?

16 A Typically for acquisition of natural gas,
17 transportation and for the selling and marketing of
18 natural gas services, along with transportation, and our
19 relationship with our customers.

20 Q Are you the same Frank Yoho that prefiled
21 testimony in this proceeding on January 15th, 2016,
22 consisting of nine pages?

23 A Yes, I am.

24 Q And do you have any corrections to that

1 testimony?

2 A No, I do not.

3 Q Mr. Yoho, if I asked you the same questions
4 that are set forth in your prefiled testimony while
5 you're on the stand today, would your answers be the
6 same?

7 A Yes, they would.

8 MR. JEFFRIES: Mr. Chairman, Piedmont would ask
9 that Mr. Yoho's prefiled testimony be entered into the
10 record as if given orally from the stand.

11 CHAIRMAN FINLEY: Mr. Yoho's prefiled direct
12 testimony consisting of nine pages, filed January 15,
13 2016, shall be copied into the record as if given orally
14 from the stand.

15 MR. JEFFRIES: Thank you, Mr. Chairman.

16 (Whereupon, the prefiled testimony
17 of Frank Yoho was copied into the
18 record as if given orally from the
19 stand.)

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BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

DOCKET NO. E-2, SUB 1095
DOCKET NO. E-7, SUB 1100
DOCKET NO. G-9, SUB 682

In the Matter of)
)
Application of Duke Energy Corporation)
and Piedmont Natural Gas Company, Inc. to)
Engage in a Business Combination)
Transaction and Address Regulatory)
Conditions and Code of Conduct)

**TESTIMONY OF
FRANK YOHO**

1 Q. PLEASE STATE YOUR NAME AND YOUR BUSINESS ADDRESS.

2 A. My name is Frank Yoho. My business address is 4720 Piedmont Row
3 Drive, Charlotte, North Carolina.

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

5 A. I am currently employed by Piedmont Natural Gas Company, Inc.,
6 ("Piedmont") as Senior Vice President and Chief Commercial Officer.

7 Q. PLEASE DESCRIBE YOUR EDUCATIONAL AND PROFESSIONAL
8 BACKGROUND.

9 A. I have a Bachelor of Arts degree in economics from Washington &
10 Jefferson College and a Masters of Business Administration degree from
11 The Ohio State University. Prior to coming to work at Piedmont in 2002, I
12 was Vice President for Business Development at CT Communications, a
13 diversified telecommunications provider headquartered in Concord, North
14 Carolina. Prior to that, I served as Senior Vice President for Marketing and
15 Gas Supply for Public Service Company of North Carolina, Inc., a local
16 natural gas distribution company ("LDC") headquartered in Gastonia, North
17 Carolina.

18 Q. PLEASE DESCRIBE THE SCOPE OF YOUR PRESENT
19 RESPONSIBILITIES FOR PIEDMONT.

20 A. I am the corporate officer responsible for Piedmont's commercial
21 operations, which includes gas supply, transportation, sales, and marketing.
22 I am also responsible for Piedmont's customer service functions, as well as
23 federal energy regulatory matters.

1 Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THIS
2 COMMISSION OR ANY OTHER REGULATORY AUTHORITY?

3 A. Yes, I have testified on numerous occasions before this Commission, the
4 Public Service Commission of South Carolina, and the Tennessee
5 Regulatory Authority.

6 Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS
7 PROCEEDING?

8 A. The purpose of my testimony in this proceeding is to support the merger
9 approval application ("Application") filed by Duke Energy Corporation
10 ("Duke Energy") and Piedmont, and to provide the Commission with
11 information regarding the ongoing post-merger operations planned for
12 Piedmont and to support the Cost-Benefit Analysis filed with the merger
13 Application.

14 Q. COULD YOU PLEASE DESCRIBE YOUR POSITION WITH
15 PIEDMONT AFTER THE MERGER CLOSES?

16 A. Yes. As Piedmont witness Tom Skains indicated in his testimony, he will
17 retire as Piedmont's Chairman, President, and Chief Executive Officer
18 ("CEO") on the effective date of the Duke Energy and Piedmont merger
19 ("Merger"), at which time I will assume responsibility for Piedmont's
20 operations, as well as Duke Energy's gas LDC operations and the
21 consolidated gas pipeline investments. In this role I will report directly to
22 Lynn Good, Duke Energy's President and CEO, and will be responsible for
23 the operations of Piedmont going forward.

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1 Q. HOW WILL THE MERGER AFFECT PIEDMONT'S
2 OPERATIONS?

3 A. As has been indicated in prior public statements about the Merger, and as is
4 reflected in the Merger documents themselves, the intent of the parties is
5 that Piedmont will continue as a fully functional operating natural gas utility
6 subsidiary of Duke Energy following closing. Piedmont will maintain its
7 core management team and strong local presence to ensure the continued
8 provision of safe, reliable and efficient natural gas service in and throughout
9 the service areas in which we currently operate. For that reason, from a day-
10 to-day operations perspective, the Merger will be seamless. The Merger
11 will also be seamless from the perspective of our customers, as it will occur
12 without any change to the terms or conditions applicable to the natural gas
13 service we provide them or to the level of Piedmont's focus on customer
14 service.

15 Duke Energy has a team of highly qualified leaders, managers and
16 employees, with many years of experience providing safe and reliable
17 electric and gas service in the Carolinas and elsewhere. Likewise, Piedmont
18 has over 60 years of experience providing natural gas service in the
19 Carolinas and Tennessee, with leaders, managers, and employees who have
20 broad and deep capabilities in a wide range of areas in the natural gas
21 industry. I believe that one of the many strengths of this Merger is that
22 Duke Energy's history, perspective, and commitment to operational
23 excellence ensures that it understands the critical importance of Piedmont's

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1 service obligations and ensures that safe and reliable natural gas service will
2 continue to be provided. Therefore, in the most important of ways,
3 Piedmont will not be impacted by the Merger – there will be no
4 diminishment of Piedmont’s commitment to the safety of our employees,
5 public safety around the natural gas assets we operate, reliability of the
6 provision of natural gas service, and continued excellence in customer
7 service.

8 **Q. HOW WILL THE MERGER AFFECT PIEDMONT’S CUSTOMERS?**

9 A. As I previously mentioned, the Merger will be seamless for our customers.
10 We will continue to promote EASE with our customer service and field
11 employees – we are Experts at what we do, we Appreciate our customers,
12 Safety is our first priority, and we are Easy to do business with. This focus
13 on customer service has already achieved positive results with our
14 customers, as reflected in recent J.D. Power survey results and Cogent
15 Reports utility brand rankings. We will not waver in that focus.
16 Furthermore, the Merger will not cause an increase to customer rates
17 because Piedmont will not be seeking rate relief for the Merger transaction
18 costs. Overall, there will be no adverse rate or operational consequence to
19 our customers as a result of this Merger.

20 **Q. WHAT CHANGES DO YOU PERCEIVE OCCURRING ONCE THE**
21 **ACQUISITION IS CLOSED?**

22 A. As Duke Energy has stated, this Merger is not based on “synergies” but
23 instead upon long-term strategic growth opportunities and an expansion of

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1 its natural gas business. And while the intention is to leave Piedmont as a
2 separate utility subsidiary of Duke Energy, we do anticipate some
3 consolidation of functions to result from the Merger in areas where Duke
4 Energy and Piedmont have overlapping or redundant capabilities. This
5 consolidation of functions will primarily occur at the corporate or
6 supporting services level and not in areas involving the operation of our core
7 natural gas facilities or services. Duke Energy and Piedmont are currently
8 engaged in a joint integration planning process to identify where and how
9 the business operations of the two companies can be efficiently consolidated
10 following closing. Some of the anticipated savings associated with these
11 integration efforts are reflected in the Cost-Benefit Analysis filed with the
12 Application in this docket.

13 **Q. HOW WILL THE MERGER IMPACT PIEDMONT'S PROVISION**
14 **OF UTILITY SERVICES IN NORTH CAROLINA AND THE**
15 **COMMISSION'S JURISDICTION OVER THOSE SERVICES?**

16 **A.** We anticipate positive impacts from the Merger for our customers.
17 Piedmont customers will benefit from the adoption of best practices that will
18 be determined during the ongoing integration planning process. In short,
19 after the Merger, Piedmont will continue to provide safe and reliable natural
20 gas service to the public with the same high level of customer service and
21 operational excellence that we currently provide. This service will also
22 continue to be fully regulated by this Commission and the other state public
23 service commissions under whose jurisdiction we operate.

1 Q. COULD YOU PLEASE DISCUSS YOUR PERCEPTION OF THE
2 COSTS AND BENEFITS OF THIS PROPOSED TRANSACTION AS
3 REFLECTED IN THE COST-BENEFIT ANALYSIS FILED WITH
4 THE APPLICATION IN THIS DOCKET?

5 A. Yes. The Cost-Benefit Analysis filed with the Application in this
6 proceeding is an effort to identify both costs and savings associated with the
7 proposed Merger. This document was prepared by a number of employees
8 of both Duke Energy and Piedmont and represents our collective best-
9 thinking about the impacts of the Merger on costs and operations of the two
10 companies. As is evident from the Analysis, some of the costs and benefits
11 are more quantifiable than others but all represent impacts expected to result
12 from the Merger.

13 Q. DO YOU AGREE WITH THE COSTS AND BENEFITS IDENTIFIED
14 IN THE ANALYSIS?

15 A. Yes, although I would also point out that we expect further benefits to be
16 identified (and quantified) through the Merger integration process that is
17 currently ongoing. Customers will realize the additional cost savings
18 benefits in future rate proceedings.

19 Q. DO YOU BELIEVE THAT THE MERGER WILL PROVIDE NET
20 BENEFITS TO CUSTOMERS?

21 A. Yes. As is indicated in the Cost-Benefit Analysis, Duke Energy and
22 Piedmont currently anticipate that the Merger will result in savings of
23 approximately \$9.45 million annually in the costs of operating Piedmont.

1 These savings are largely ongoing in nature and will be passed through to
2 Piedmont's customers pursuant to future general rate proceedings,
3 effectively reducing the revenue requirement in the next general rate case.
4 In addition to these direct economic costs savings, the Cost-Benefit Analysis
5 also identifies a number of more qualitative benefits that will accrue to the
6 Company and its customers as a result of the Merger.

7 **Q. WILL CUSTOMERS BEAR SIGNIFICANT COSTS OR OTHER**
8 **DETRIMENTS ASSOCIATED WITH THE MERGER?**

9 A. No. There are, of course, immediate transactional costs associated with the
10 Merger, which are identified in the Cost-Benefit Analysis. These costs will
11 not be borne by Duke Energy or Piedmont customers because we will not be
12 seeking rate relief for these costs. Instead, they will be paid by Duke
13 Energy shareholders and thus will have no detrimental impacts on either
14 company's customers. Additionally, integration consultant costs of \$4.75
15 million are identified in the Cost-Benefit Analysis. We reserve the right to
16 seek to recover integration costs from customers in future rate proceedings
17 to the extent such costs result in net benefits.

18 **Q. DO YOU HAVE ANYTHING ELSE TO ADD TO YOUR**
19 **TESTIMONY?**

20 A. I would only add that I have been proud of the performance and
21 accomplishment of Piedmont since the time I came to work at this company,
22 and that I am excited about Piedmont's future under the new ownership of
23 Duke Energy as a part of that family of corporate energy companies.

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- 1 Q. DOES THIS CONCLUDE YOUR PRE-FILED DIRECT
2 TESTIMONY?
3 A. Yes, it does.

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Jan 15 2016
Jul 26 2016

1 Q Mr. Yoho, have you prepared a summary of your
2 direct testimony?

3 A Yes, I have.

4 Q Could you please provide it for the Commission?

5 A Yes. My name is Frank Yoho, and I am the
6 Senior Vice President and Chief Commercial Officer of
7 Piedmont Natural Gas Company.

8 The purpose of my testimony in this proceeding
9 is to support the merger approval application of Duke
10 Energy and Piedmont, and to provide the Commission with
11 information regarding the ongoing post-merger operations
12 planned for Piedmont and to support the cost benefit
13 analysis filed with the merger application.

14 Following the closing of the proposed merger, I
15 will assume responsibility for the leadership of
16 Piedmont, as well as management responsibility for Duke
17 Energy's Midwest gas distribution operations and natural
18 gas joint venture investments. In this capacity, I will
19 report directly to Duke Energy CEO Lynn Good.

20 As has been indicated in a number of public
21 statements about the merger, it is the intent of Duke
22 Energy and Piedmont that Piedmont continue to operate as
23 a fully functional gas utility following closing.
24 Piedmont will be managed primarily by current Piedmont

1 officers and will maintain strong local presence
2 throughout our existing service area to ensure the
3 continued provision of safe, reliable and affordable
4 natural gas service to our customers. This service will
5 be provided at the same rates, terms and conditions of
6 service as govern our operations now. As such, I believe
7 that the merger will be essentially seamless to our
8 customers.

9 As has been indicated in multiple regulatory
10 filings and public statements, this merger is not based
11 on synergies between Duke Energy and Piedmont, but is
12 strategic in nature. As such, and with the exception of
13 some integration measures designed to consolidate and
14 optimize corporate service functions, job displacement
15 should be limited. Piedmont and Duke Energy are
16 currently actively working on a plan to effectuate this
17 integration of Piedmont into the Duke Energy corporate
18 structure. We do not anticipate significant changes upon
19 closing.

20 We also believe this merger will have
21 significant benefits and little to no cost to our
22 customers. As is reflected in the cost-benefit study
23 that was filed with our application in this case, we
24 anticipate roughly \$9.45 million of annual savings from

1 the merger, primarily as a result of efficiencies gained
2 through the elimination of what would otherwise be
3 duplicative governance or public company related costs.
4 These projected benefits have been bolstered and
5 increased by the monetary concession made by Duke Energy
6 and Piedmont in the Public Staff settlement. We also
7 believe that the merger will have other benefits to our
8 customers and our operations in general which we believe
9 are real, but not easily quantifiable. These benefits
10 are also identified in our cost-benefit summary.
11 Finally, the ongoing integration efforts between Duke
12 Energy and Piedmont should yield additional savings as
13 the companies seek to implement efficiencies and
14 eliminate redundant or overlapping capabilities. This
15 merger will not harm customers as under our settlement
16 with the Public Staff, as well as our initial
17 commitments, customers will be effectively insulated from
18 the cost of this transaction.

19 Finally, I would like to say that I am very
20 proud to have been part of the Piedmont management team
21 and am both honored and excited about the prospect of
22 taking over leadership responsibility for Piedmont and
23 Duke's natural gas operations following the closing of
24 this merger. I would also like to express my

1 appreciation for the collaborative approach the Duke
2 organization has taken during this integration effort.

3 This concludes my summary.

4 MR. JEFFRIES: Thank you, Mr. Yoho. Mr. Yoho
5 is available for cross examination and questions from the
6 Commission.

7 CHAIRMAN FINLEY: Cross examination?

8 CROSS EXAMINATION BY MR. RUNKLE:

9 Q Good morning, Mr. Yoho. My name is John
10 Runkle, representing NC WARN, the Climate Times and the
11 North Carolina Housing Coalition.

12 A Good morning.

13 Q So what would be your new position with Duke
14 Energy?

15 A I'm responsible for the gas operations, which
16 include the 500,000 utility customers in the Cincinnati
17 metropolitan area and Ohio and Kentucky, and the existing
18 Piedmont utility operations in North Carolina, South
19 Carolina and Tennessee, including our natural gas
20 ventures investments for both companies.

21 Q And does a new title come along with that?

22 A Yes, it does.

23 Q And what would be your new title?

24 A Executive Vice President and President of

1 Natural Gas.

2 Q Okay. And then you will report directly to Ms.
3 Good?

4 A Yes, I will.

5 Q How many other reports does she have?

6 A I'm not sure exactly. I know her senior team
7 of -- a good many of them, at least six, and then some
8 other direct reports, but I don't know the exact number.

9 Q Now, were you in the courtroom yesterday to
10 hear the testimony of Ms. Good and Mr. Skains?

11 A Yes, I was.

12 Q Now, and part of my questions to them was about
13 various risk factors that were on Piedmont Natural Gas's
14 10-K; is that correct?

15 A Yes.

16 Q Okay. Now, there were quite a number of the
17 risk factors in the 10-K. Do you -- in your opinion and
18 your experience, which ones do you think are most
19 significant?

20 A Well, I think the risk factors, it depends on
21 which one you look at, are what are worst case scenarios,
22 as Mr. Young described, so in most every case they are
23 just, in many cases, extreme situations, so I don't
24 really think I could pick out any one versus another.

1 Q And in your opinion, are there no risks for
2 Piedmont Natural Gas in the future, near future?

3 A Our risks are like any other company's risks or
4 any other energy company's risks, whether it be the
5 economy or some other event, a hurricane or so on and so
6 forth, so there are risks, yes, sir.

7 MR. RUNKLE: Let's -- I put up before you and I
8 handed out to the attorneys and the Commission two
9 exhibits, and we will have the first one as marked,
10 "Marcellus/Utica On Pace," as NC WARN Yoho Cross Exhibit
11 1, and the Bloomberg article, "Get Your Pipeline Out of
12 My Yard," as NC WARN Yoho Cross Exhibit 2.

13 CHAIRMAN FINLEY: They shall be so marked.

14 (Whereupon, NC WARN Yoho Cross
15 Examination Exhibits 1 and 2 were
16 marked for identification.)

17 Q Now, in looking at the current state of
18 Piedmont Natural Gas, a substantial part of their gas
19 purchases from the Marcellus/Utica region, is that a
20 fracking play?

21 A No. That would be a smaller portion of our
22 current portfolio.

23 Q Okay. And so where is -- where is the majority
24 of your natural gas coming from?

1 A It historically has been from the Gulf Coast.
2 We are -- since there are major supply basins in both now
3 the Northeast and the Southwest, we are looking to
4 diversify to create a bigger balance of gas coming from
5 both the Southwest and the Northeast, so it --

6 CHAIRMAN FINLEY: Mr. Yoho, pull that
7 microphone up a little closer.

8 THE WITNESS: Okay. Yes, sir.

9 CHAIRMAN FINLEY: Move it over towards Mr.
10 Runkle so you can talk into it, please.

11 THE WITNESS: There you go. Thank you.

12 Q And so you say that in the -- your future plans
13 are to increase your purchases from the Northeast in the
14 Marcellus fracking play?

15 A From the Marcella resource, yes, to increase
16 that so it's a more balanced supply portfolio.

17 Q Is that the reason that Piedmont and presumably
18 Duke Energy are involved with the Atlantic Coast
19 Pipeline?

20 A It's one of the reasons. The other reason is
21 it's one of the most prolific plays, and we both have the
22 growing demand for those gas supplies. And so it is
23 demand driven, so we look for options that both diversify
24 and was able to achieve something cost effective for our

1 customers.

2 Q Now, looking at NC WARN Yoho Cross Exhibit 1,
3 look at the chart and the --

4 A Mine doesn't have -- they're kind of blank, so
5 could you describe which one is 1? Okay. I got it.

6 Q One (1) is the one with the Marcellus/Utica,
7 and 2 is the Bloomberg article.

8 A Okay. Thank you.

9 Q If you will look at the chart, the dotted line
10 is the gross scenario of the Marcellus and Utica fracking
11 plays.

12 A Okay.

13 Q Is it? I mean, you need to tell me. Is that
14 your understanding of what the chart is?

15 A Well, let me read this more carefully.

16 Q All right.

17 A (Reviewing document.) It's a little bit
18 confusing. It looks like what that says, but it looks
19 like it's showing the growth in the different plays from
20 the different parts of the country, yes.

21 Q Now, the different colored are -- the different
22 colored --

23 A Okay.

24 Q -- areas are the pipe -- the planned pipeline

1 capacity additions by each of the corridors. Is that
2 your understanding of the chart?

3 A Okay. Now I understand. Yes.

4 Q Okay. And so the -- we have additional Gulf
5 into pipeline capacity, additional Midwest, East and
6 South Atlantic and then Canadian pipelines. Is that your
7 understanding?

8 A Yes. That's the way it's listed at the top of
9 the --

10 Q Okay.

11 A -- graph.

12 Q Now, is your understanding that there will be,
13 you know, looking at all the proposed and planned
14 pipeline capacity, will there be more natural gas
15 capacity through the pipelines than there is natural gas
16 capacity?

17 MR. JEFFRIES: Mr. Chairman, we'd object.
18 These questions, I -- there's no connection to the public
19 interest of the merger between Duke and Piedmont.

20 CHAIRMAN FINLEY: Mr. Jeffries, I'll give you
21 the same continuing objection that I gave Mr. Somers.
22 You know, there's a little bit of a nexus having to do
23 with the natural gas platform that we're talking about.
24 It's a bit of a nebulous concept here. Whether it's

1 enough of a nexus to make these questions and this topic
2 relevant to this case is still an open question in my
3 mind.

4 MR. JEFFRIES: Thank you, Mr. Chairman.

5 CHAIRMAN FINLEY: I'll give you a continuing
6 objection.

7 A Not being an expert on, to answer your
8 question, on the various pipelines, the -- when we
9 approached additional pipelines, we looked at our needs
10 relative to when Duke and Piedmont went out and what was
11 -- what was the most competitive supply to meet our
12 needs, and also -- so I don't -- I'm not familiar with
13 which pipelines are in this chart and which will be
14 approved. They have to go through an approval process
15 that protects -- at the FERC, but from a Piedmont and
16 Duke perspective, we went out competitively and looked
17 for all the options to satisfy a real demand projection,
18 and so the Atlantic Coast Pipeline is very unique and it
19 is -- or what drives most successful pipelines, it's
20 demand driven. And so there is demand behind this, and
21 this Atlantic Coast Pipeline was the most competitive
22 option to get low cost gas supplies and achieve
23 diversification.

24 On top of that, you've got the competitive

1 advantage of the Atlantic Coast Pipeline also opens up
2 opportunities for development in the eastern part of
3 North Carolina, which from an economic development
4 perspective is very attractive for the state and very
5 beneficial, we believe, in the long term.

6 Q Now, like Mr. Young, did you do forecasts of --
7 future forecasts of what the availability and price of
8 natural gas would be?

9 A We look at general market indicators to give us
10 what the expectations are, and we also follow the --
11 we're not experts, but we do follow the general industry,
12 is what the costs are for developing the fields, and
13 we're very comfortable with that, yes.

14 Q And what are the sources of your information
15 regarding the availability different fields?

16 A The near term would be -- is what you see from
17 the general industry press of what cost and returns are
18 on the different plays, and it's just in the public
19 domain in talking to the producing and this community
20 energy business that the efficiency of their ability to
21 develop natural gas resources, they are getting very,
22 very efficient, and the cost continues to come down, from
23 my understanding, not being an expert, to achieve
24 acceptable returns which has benefited all our customers.

1 Q And so your admission is that you are not an
2 expert in natural gas futures?

3 A Correct. I am not a futures expert. I -- my
4 experience is in natural gas supply and developing
5 resources and understanding not futures plays, but
6 expectations of what it takes for drillers to
7 successfully develop natural gas resources, and that is
8 typically the driver of what will make them drill and
9 develop the resources, will they get -- can they
10 efficiently do it to get a return on their investment.

11 Q How many years do you look forward? I mean,
12 how many years are you looking out and you say you're
13 satisfied with the projections?

14 A I don't have an exact timeline relative to;
15 it's just the expectation of the resource available,
16 that's available to in the United States, and so -- and
17 the cost to develop that resource and listening to
18 experts in the industry and also reading industry press,
19 and so the cost to develop has continued to come down and
20 the resource base has continued to expand.

21 Q Now, in looking at the -- your -- Piedmont's
22 contracts in the Gulf, who are your main suppliers?

23 A We have a portfolio on a given year of anywhere
24 from 40 to 50, so it could be a producer, it could be a

1 marketer, it could be an aggregator, it could be a lot of
2 different, so we -- that's the beauty of the natural gas.
3 It's a very liquid market, so it's a very competitive
4 market. So we probably, in a given year, will use
5 anywhere from 40 to 50 suppliers to serve our customers'
6 needs that we actually buy and sell to. Transportation
7 customers go on the market for their own accounts.

8 Q And then similarly for the Northeast Marcellus
9 and Utica plays, how many -- how many companies would you
10 be purchasing from?

11 A There are multiple, same amount of, and we'll
12 do some longer term deals, some shorter term deals, but
13 once again it's a very liquid market, such as the
14 Atlantic Coast Pipeline where it originates from is one
15 of the largest and most liquid natural gas markets, and
16 that's also what made it attractive in the U.S.

17 Q And specifically about the Atlantic Coast
18 Pipeline, how many years forward looking were you in
19 assessing whether there would be adequate supply?

20 A We anticipate there will be adequate supply, as
21 most recently estimated in the U.S., North America,
22 pushing 100 years is probably the best estimates I've
23 ever seen in my career. The contracts we signed for the
24 pipeline, though, are more in the line of 20-year terms,

1 and we're comfortable that there are plenty of supplies
2 to satisfy the needs of our contracts under those
3 capacity pipelines for the term of those arrangements.

4 MR. RUNKLE: I have no further questions.

5 CHAIRMAN FINLEY: Any other cross?

6 (No response.)

7 CHAIRMAN FINLEY: Redirect?

8 MR. JEFFRIES: One question, Mr. Chairman.

9 REDIRECT EXAMINATION BY MR. JEFFRIES:

10 Q Mr. Yoho, in your experience, is it uncommon
11 for the number of pipeline projects constructed in a
12 particular region to be fewer than the number of pipeline
13 projects that might be announced for that region in a
14 particular time period?

15 A Absolutely. They have to go through the -- a
16 process to be approved, so that's correct.

17 MR. JEFFRIES: No further questions, Mr.
18 Chairman.

19 CHAIRMAN FINLEY: Questions from the
20 Commission? Commissioner Brown-Bland.

21 EXAMINATION BY COMMISSIONER BROWN-BLAND:

22 Q Good morning, Mr. Yoho.

23 A Good morning.

24 Q Are there advantages resulting from this

1 proposed merger in -- in the siting of facilities, and
2 that is like between the use of the subsidiaries' right-
3 of-ways, each others' right-of-ways?

4 A Absolutely. Anywhere from right-of-way
5 development and being more coordinated and causing less
6 disruption, to aerial overviews, to coordinating with
7 actual construction or dealing with contractors. There's
8 a lot of advantage there since while we have very
9 different skill sets, there are some common activities
10 that there's some advantage in working together.

11 Q If you know, under what conditions, if any,
12 could Piedmont use the right-of-ways owned by DEC or DEP?

13 A We -- I am not familiar with exactly what will
14 happen and what can happen there, but those will all be
15 evaluated. Right now our focus has been on day one, so
16 from an employee and a customer perspective things are
17 seamless. Those will be areas, as we move through the
18 processing, we know that day one we are adequately
19 prepared to really do this well, especially from a
20 customer's perspective. Those will be issues that will
21 clearly be addressed to look for those opportunities, but
22 at this point in time I'm not aware of anything
23 specifically.

24 Q So once Piedmont is in the Duke family, would

1 you assume that the rights-of-way that Duke presently
2 owns would also be to the benefit of Piedmont?

3 A Yeah. We will look for every efficiency to
4 keep cost down, keep construction down and reduce -- to
5 our customers' benefits and the public itself.

6 Q Can you describe for me the Sabal Trail
7 Pipeline and that project?

8 A Sabal Trail was originated and invested by
9 Duke. It is a pipeline to bring Gulf Coast supplies, I
10 believe -- I'm not that familiar with it -- into the
11 Florida market, so I am not that familiar with the Sabal
12 Trail. It will be new to the natural gas venture
13 portfolio, but it's a very good project.

14 Q All right. My understanding is that Transco is
15 broken up into market zones with different rates in the
16 different zones; is that right?

17 A That's correct.

18 Q And so Piedmont is presently in Zone 5?

19 A Correct.

20 Q And the Sabal Trail would be in Zone 4; is
21 that --

22 A I think it comes across off of Transco and
23 heads to Florida across Georgia -- across Alabama and
24 Georgia and heads into Florida, I believe, and so it does

1 not get into the Carolinas market, that's correct. There
2 is no Sabal Trail capacity that comes into the Carolinas
3 market. It does target capacity into the Florida market
4 for Duke's Florida properties.

5 Q Well, if Transco, in a case before -- if
6 Transco had a case before FERC, and the interests of Zone
7 5 or 4 came to be at odds with each other, what -- what
8 position would Piedmont take?

9 A Well, in this case, Sabal Trail is not part of
10 Transco. It has some leased capacity. So how that fits
11 into a rate proceeding I'm not exactly sure, but Piedmont
12 itself would take the position to best serve Piedmont's
13 customers in the Carolinas, and then you would have -- in
14 representing the customers, then we would have -- the way
15 we structure it, we have a ventures group that will
16 oversee all our ventures, and they take the position as
17 an owner; we would take -- separate different groups.
18 Different attorneys would take the position as the
19 customer. This is common in several of our projects
20 where we have equity investments, and I think our
21 customers in that structure have been very well served.

22 Q So you have experience dealing with both kinds
23 of --

24 A Yes.

1 Q -- kinds of structures. I want to just go back
2 a minute to this issue of the gas/electric competition
3 that will be present if the merger is consummated. In
4 terms of marketing your gas product, will things change
5 or you anticipate you would market in the same manner
6 that you do today?

7 A I fully anticipate we will market in the same
8 manner we do today. That's our commitment.

9 Q And so if there were to be, say, a big
10 industrial customer, we would expect -- and it was in DEC
11 territory, service territory, we would expect a
12 representative of DEC to show up, make the pitch, discuss
13 the customer's needs, and we would also expect Piedmont
14 to do the same?

15 A That's correct. The belief is if the customer
16 fully understands their options and --

17 Q So from --

18 A -- see that they have a choice, they're going
19 to be a more satisfied customer, and Duke energy as a
20 whole is going to be better served by having satisfied
21 customers.

22 Q So from Piedmont's perspective, you'd be just
23 as aggressive as you are today?

24 A Yes, ma'am.

1 Q Even against DEC or DEP?

2 A Yes.

3 COMMISSIONER BROWN-BLAND: All right. Thank
4 you.

5 THE WITNESS: You're welcome.

6 EXAMINATION BY CHAIRMAN FINLEY:

7 Q Mr. Yoho, were you part of the team that
8 negotiated with the Public Staff, CUCA and EDF in coming
9 up with stipulations that have been presented in this
10 case?

11 A No. I was familiar with, but I was not part of
12 the team. That would be represented by Mr. Barkley.

13 Q All right.

14 A But I was familiar with the process.

15 CHAIRMAN FINLEY: Okay. Thank you. Are there
16 questions on the Commission's questions?

17 (No response.)

18 CHAIRMAN FINLEY: Very well. Thank you, Mr.
19 Yoho.

20 (Witness excused.)

21 MR. GHARTEY-TAGOE: Mr. Chairman, before we
22 call the next -- before the next witness comes up, I want
23 to be sure that Mr. Young was excused, if --

24 CHAIRMAN FINLEY: He may be excused without

1 objection. And Mr. Runkle, your two exhibits we're going
2 to tentatively accept those subject to the ongoing
3 objection of Piedmont. We'll --

4 MR. JEFFRIES: May I be heard, Mr. Chairman? I
5 think Mr. Runkle -- we have no objection to cross examine
6 -- the subject of the ongoing objection to relevance, we
7 have no objection to Yoho Cross Examination Number 1, but
8 Number 2, I don't believe there were any questions asked
9 about that.

10 MR. RUNKLE: I was prepared to withdraw Exhibit
11 Number 2 because we did not use it. We'd move that
12 Exhibit 1 be introduced into evidence.

13 CHAIRMAN FINLEY: All right. Exhibit 1 is
14 taken into evidence tentatively, subject to the
15 objection, and Exhibit 2 has been withdrawn.

16 MR. JEFFRIES: Thank you, Mr. Chairman.

17 (Whereupon, NC WARN Yoho Cross
18 Examination Exhibit Number 1 was
19 admitted into evidence.)

20 MR. JEFFRIES: Piedmont would call Mr. James
21 Reitzes to the stand.

22 JAMES D. REITZES; Being first duly sworn,
23 testified as follows:

24 DIRECT EXAMINATION BY MR. JEFFRIES:

1 Q Good morning, Mr. Reitzes.

2 A Good morning.

3 Q Could you please state your name and business
4 address for the record, please?

5 A Yeah. James D. Reitzes. My business address
6 is 8050 M Street, Northwest, Washington, D.C.

7 MR. JEFFRIES: The seating arrangements up
8 there are a little challenging sometimes. If you could
9 make sure that mic is as close to you as you can get so
10 everyone can hear you. Yeah. It will pull forward a
11 little bit.

12 Q Where do you work, Mr. Reitzes?

13 A I work at The Brattle Group. We're an economic
14 consulting firm that does a lot of work in the energy
15 industry.

16 Q Okay. Could you briefly describe what you
17 personally do at The Brattle Group.

18 A My area of expertise is -- my background is in
19 competition. I spent five years at the Federal Trade
20 Commission. I do expert testimony and other analysis in
21 litigation and competition matters specifically focused
22 on the energy industry. I've done work in the energy
23 industry probably for 18, 19 years now, including
24 analyzing market power in previous merger cases,

1 providing advice to RTOs on how to look for market power
2 and market manipulation and doing other sort of
3 consulting work with energy sector clients.

4 Q And you've provided a CV of your experience
5 that was attached to your testimony in this docket; is
6 that correct?

7 A Yes, I did.

8 Q Okay. Thank you. Are you the same James
9 Reitzes that prefiled testimony on January 15th, 2016,
10 consisting of five pages and your CV?

11 A I am.

12 Q And Mr. Reitzes, did you also prepare the
13 market power study that was attached to Duke Energy and
14 Piedmont's application in this proceeding?

15 A Yes. I was -- I prepared that report.

16 Q Okay. Thank you. And was that testimony and
17 that report, they were prepared by you or under your
18 supervision?

19 A Exactly.

20 Q Okay. Do you have any changes or corrections
21 to your testimony or to the market power study?

22 A No, I do not.

23 Q And if I asked you the same questions that were
24 contained in your prefiled testimony while you were on

1 the stand today, would your answers be the same?

2 A Yes, they would.

3 MR. JEFFRIES: Mr. Chairman, we'd request that
4 Mr. Reitzes' prefiled testimony be entered into the
5 record as if given orally from the stand.

6 CHAIRMAN FINLEY: Mr. Reitzes' direct prefiled
7 testimony consisting of five pages, filed January 15,
8 2016, is copied into the record as if given orally from
9 the stand.

10 MR. JEFFRIES: Thank you, Mr. Chairman.

11 (Whereupon, the testimony of
12 James D. Reitzes was copied into
13 the record as if given orally from
14 the stand.)

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BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

DOCKET NO. E-2, SUB 1095
DOCKET NO. E-7, SUB 1100
DOCKET NO. G-9, SUB 682

In the Matter of)
)
Application of Duke Energy Corporation)
and Piedmont Natural Gas Company, Inc. to)
Engage in a Business Combination)
Transaction and Address Regulatory)
Conditions and Code of Conduct)

TESTIMONY OF
JAMES D. REITZES

1 **I. QUALIFICATIONS AND PURPOSE**

2 **Q. PLEASE STATE YOUR NAME, OCCUPATION AND BUSINESS**
3 **ADDRESS.**

4 A. My name is James D. Reitzes. I am a Principal of The Brattle Group, an
5 economic and management consulting firm with offices in Cambridge, MA;
6 Washington, District of Columbia; San Francisco, California; New York; New
7 York, London, England; Rome, Italy; Madrid, Spain; and Toronto, Canada.
8 My business address is 1850 M Street NW, Washington, District of Columbia.

9 **Q. PLEASE DESCRIBE YOUR EDUCATION AND PROFESSIONAL**
10 **EXPERIENCE.**

11 A. I received a Bachelor of Arts in economics and history from Stanford
12 University and a Doctor of Philosophy in Economics from the University of
13 Wisconsin-Madison. My areas of specialization within economics are
14 industrial organization, which includes the examination of firm behavior
15 under various market conditions, and international trade. I also have
16 completed field courses in finance. I have been involved in competition and
17 regulatory matters for more than twenty-five years, including five years at the
18 Federal Trade Commission and more than twenty years in private consulting
19 practice. My consulting practice is focused on antitrust and competition in the
20 energy and transportation sectors.

21 **Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THIS**
22 **COMMISSION?**

1 A. No, I have not testified before this Commission. However, I have previously
2 testified before the Federal Energy Regulatory Commission ("FERC") on
3 various competitive issues, including the price impacts associated with
4 mergers and acquisitions, and the effectiveness of market power mitigation
5 protocols used in RTO markets. In addition, on several occasions, I have
6 provided testimony or reports to state public utility commissions that analyze
7 whether energy, renewable energy credits, or electric generating assets were
8 purchased or sold at the best possible price. On several occasions, I have been
9 involved in the design of procurement/auction processes to supply generation
10 for utility default service obligations (also known as standard-offer service
11 ("SOS")). A more complete description of my qualifications is attached as
12 Reitzes Exhibit **JDR-1**.

13 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

14 A. I have been asked by Duke Energy Corporation ("Duke") and Piedmont
15 Natural Gas, Inc. ("Piedmont"), together "Applicant," to analyze whether the
16 proposed merger of Duke and Piedmont (hereafter, Transaction) has any
17 potential adverse competitive impacts on wholesale and retail electricity and
18 natural gas markets in North Carolina. The potential impact would result
19 from the addition of Piedmont to DEC ("DEC"), and DEP ("DEP") as Duke's
20 utility affiliates in the Carolinas. Applicant requested the market power
21 analysis as required by this Commission's Order Requiring Filing Analyses
22 issued on November 2, 2000, in Docket No. M-100, sub 129. In that Order,
23 this Commission required that any party seeking to engage in a business

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1 combination within the electric or natural gas industries should file a market
2 power analysis on the same date that the application is filed.

3 **II. DESCRIPTION OF ANALYSIS AND TRANSACTION**

4 **Q. HAVE YOU PREPARED A MARKET POWER ANALYSIS AS**
5 **REQUESTED?**

6 **A.** Yes. I prepared a market power analysis, which was filed in this matter as
7 Exhibit B to the Application, and I am sponsoring that exhibit.

8 **Q. PLEASE DESCRIBE THE TRANSACTION AND BRIEFLY**
9 **SUMMARIZE YOUR ANALYSIS.**

10 **A.** The Transaction involves the purchase of a natural gas distribution company
11 with a service territory in North Carolina (*i.e.*, Piedmont) by Duke Energy,
12 which operates two regulated electric utilities (DEC and DEP) with service
13 territories in North Carolina. My analysis of competitive impact focuses on
14 the limited areas of overlap, including: (i) "inter-fuel" competition between
15 gas and electricity as alternative sources of energy; (ii) ownership of gas
16 transmission rights by each of the merging parties and any potential effect of
17 the Transaction on the price of released gas transport capacity and/or
18 delivered gas in North Carolina; and (iii) the potential effects of the
19 Transaction on third-party generation.

20 **Q. WHAT ARE YOUR FINDINGS?**

21 **A.** I find that the Transaction will not adversely affect competition, and will not
22 create an increased ability to exercise market power.

1 In particular, current regulations sufficiently constrain retail electric and gas
2 pricing, such that the Transaction will not adversely affect electric-gas retail
3 competition. Moreover, my analysis shows that the Transaction will not
4 diminish Piedmont's incentive to develop gas infrastructure, nor will it reduce
5 Duke's incentive to develop electric infrastructure. I also find that the
6 economic conditions in the electric and gas markets, as well as regulatory
7 provisions currently in place, are such that the Transaction will increase
8 neither the incentive nor the ability of Duke or Piedmont to raise delivered gas
9 prices or withhold gas transmission capacity or gas transport services.

10 Lastly, there are no "vertical" market power concerns that the Transaction will
11 directly disadvantage independent power producers ("IPPs") who serve
12 wholesale electric customers in competition with Duke.

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

14 **A.** Yes, it does.

James David Reitzes
Principal

Washington, DC

+1.202.955.5050

James.Reitzes@brattle.com

Dr. James D. Reitzes received his B.A. in economics and history from Stanford University in 1978, and his Ph.D. in economics from the University of Wisconsin in 1986. He specializes in providing economic analyses and expert testimony pursuant to regulatory proceedings in the energy and transportation sectors and litigation in the areas of antitrust, competition, and intellectual property.

Dr. Reitzes has provided expert analysis and testimony in energy-related competition and regulatory matters before the Federal Energy Regulatory Commission, state public utility commissions, and federal antitrust agencies. In the transportation sector, he has offered expert analysis and testimony in proceedings involving the U.S. Department of Transportation, U.S. Department of Justice, the European Commission, the European Court of First Instance, and national antitrust authorities. He also has provided economic consulting services to clients in the United States, Canada, the European Union, South America, and Africa.

Since joining The Brattle Group as a Principal in April 1998, Dr. Reitzes has been involved in energy regulatory, strategy, and litigation matters for utilities, RTOs, cooperatives, municipal power providers, and industrial customers. Most recently, Dr. Reitzes has been involved in formulating and managing auction and RFP processes for procuring electric power supplies (including renewable power and renewable energy credits), valuing investments in specified generation assets as well as purchases of energy and capacity (in comparison to other generation or procurement alternatives), analyzing the value and risks associated with particular features of power purchase agreements and EPC contracts, designing energy procurement strategies to support standard-offer service obligations, critiquing RTO market-monitoring policies and market design features, assessing the competitive implications of mergers and acquisitions in power markets, providing analyses of alleged market manipulation and exercises of market power in the energy sector, and designing transitional regulation strategies.

Dr. Reitzes has authored several articles on firm strategies with respect to pricing, quality, R&D investment, and merger behavior, published in leading economics and legal journals. He also is an author of a book that assesses the domestic impact of U.S. international trade policies.

REPRESENTATIVE ENERGY SECTOR EXPERIENCE**Retail Market Design and Power Procurement for Standard-Offer Service Customers**

- For a utility in Pennsylvania, submitted testimony that analyzed cost and risk differences associated with full-requirements versus block-and-spot procurements of power supplies for default service customers. Analysis included estimates of the implied price premium for covering volumetric and pricing risk that was associated with past procurements of full-requirements power supplies, showing that this premium was relatively modest in size.

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- For a utility in Pennsylvania, submitted testimony that estimated the expected level and variance in procurement costs associated with different portfolio strategies for providing electric power to default service customers. Analysis showed how different portfolio combinations of spot and forward purchases were likely to perform under different assumptions regarding the timing and frequency of forward purchases.
- For a utility in Maryland, submitted testimony that assessed differences in the expected cost and risk profile of different portfolio strategies for procuring power supplies for standard offer service customers. Analyzed how the use of a fixed-price default service product without switching restrictions provides customers with a potentially valuable option that may significantly increase the cost of supplying default service customers with full-requirements power. Assessed how load uncertainty affects the cost and risk of providing default service.
- For a utility in Pennsylvania, submitted testimony that assessed methods of supplying default service customers and the relationship between various facets of default service policy and the development of increased shopping by retail residential and commercial customers. Testimony analyzed the impact on customer shopping rates (and the competitive retail electric market) arising from the imposition of an “adder” to the price-to-compare, as well as from holding a retail opt-in auction subsequent to the purchase of power supplies for default service customers. Testimony also analyzed the magnitude of the “risk premium” embedded in the prices of past auctions to acquire full-requirements power supplies for default service customers.
- For a utility in Ohio, assessed a proposed utility rate plan for self-providing generation service to standard service offer customers and compared its costs against the costs of procuring power from market sources under full-requirements contracts.

Procurement (Auction) Management, Design, and Bidding Strategy

- For three utilities in Pennsylvania, designed and managed the procurement of solar photovoltaic alternative energy credits (SPAECs) on multiple occasions and submitted testimony describing the procurement process and benchmarking the results against expected market prices. Responsibilities included: (i) designing the auction rules and bid forms; (ii) overseeing the provision of auction-related information on the procurement website; (iii) corresponding with interested bidders; (iv) interacting with company

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personnel regarding bidder credit issues; (v) hosting bidder information sessions; (vi) evaluating bid materials; (vii) building a financial model to determine the likely value of the solar energy credits; (viii) providing a benchmarking study to determine if the bids were reflective of market fundamentals; and (ix) drafting a report to the Pennsylvania Public Utility Commission to secure approval of the procurements.

- For utilities in Ohio, submitted testimony that described the design, management, and implementation of an auction process to serve standard service offer customers. Also participated in the development of software to implement the auction process and identify the winning bidders.
- For an owner of a merchant transmission line connecting PJM with NYISO, designed and managed an RFP process to sell transmission scheduling rights on multiple occasions. Responsibilities included: (i) designing the auction, its rules, and the bid forms; (ii) developing marketing materials and conducting various types of market analyses to assist bidders in understanding the value proposition offered by the transmission rights; (iii) assisting in the development of other auction materials including bidder participation agreements and purchase and sale contract provisions; (iv) hosting a website and overseeing the provision of auction-related information through the website; (v) communicating with potential bidders; (vi) responding to bidder questions and posting answers to those questions on the auction website; (vii) interacting with the client regarding a variety of bidder-related issues; (viii) selecting the winning bidders; and (ix) preparing a report describing the auction process for submission to the Federal Energy Regulatory Commission.
- For a municipal power provider that was a partial owner of a power plant in Illinois, designed and managed an RFP process to either sell the ownership stake in the plant or alternatively sell the output entitlement through a long-term PPA agreement. Responsibilities included: (i) developing target sale structures; (ii) formulating a schedule for completing the sale; (iii) developing the RFP documents and bid process tools; (iv) soliciting interest for the sale; (v) managing the RFP bid process; (vi) qualifying the bids; (vii) evaluating final bids and assisting in the negotiation of final terms; and (viii) preparing a report summarizing the RFP process.
- For an unregulated trading affiliate of a regulated utility, provided strategic bidding advice and financial analysis in a multi-round ascending clock auction to acquire PPAs for virtually divested generation assets. Assisted in the development of financial models

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to value the various PPAs, and in formulating between-round bidding strategies, including helping with algorithms to estimate the remaining amount of eligibility of competing bidders.

- Have been part of the Brattle team serving as the Independent Auction Monitor (IAM) for the Southern Company energy auction. Southern Company must supply its excess power resources under specified terms and conditions into a day-ahead and hour ahead energy auction that is overseen by an external monitor. Our role is to: (i) verify Southern's calculations of available capacity to offer into the auctions; (ii) confirm that any transmission service necessary to accommodate a purchase under the auction is not unreasonably withheld; (iii) verify that the auction has cleared properly; (iv) ensure that internal data control restrictions are maintained to protect bidder information; (v) report complaints to the FERC; and (vi) independently file reports with the FERC regarding the auction.
- For industrial customers and municipalities in Texas in a stranded cost proceeding, submitted testimony to the Public Utility Commission of Texas that analyzed auction design issues pertaining to the sale of generation assets, including the potential impact on sale prices of conducting an auction when an outside entity has a right-of-first-refusal (ROFR) to purchase the assets at the winning auction price.

Asset Valuation

- For the City of San Antonio, performed a valuation of a nuclear power plant, and compared its value against alternative technologies including gas-fired, wind, and solar powered generation. Our analysis included a risk assessment of how the plant's value could be affected by changes in natural gas prices, environmental policy, and construction costs. Historical volatilities and implied volatilities derived from options were used to derive a distribution of potential valuation outcomes. Our results were submitted in a public report and hearing, as well as in briefings to the Mayor, City Manager, City Council, and the public.
- For a major overseas utility and investor in generation assets, performed a valuation of a proposed nuclear power plant in ERCOT and estimated the values of different types of PPAs associated with the output of the power plant. Made recommendations as to various structures for potential PPA agreements, and performed valuations associated

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with changes in individual PPA features. Identified potentially interested counterparties for PPA agreements. Also, performed a valuation analysis for the power plant for the "residual" period beyond the expiration of the PPA agreements. This analysis required predicting the expected level and variance of future power prices under differing outcomes regarding the price of natural gas and greenhouse gas policy.

- For a group of municipal power providers and industrial customers, performed a valuation of various power plants for a stranded cost proceeding. Built a financial model to estimate the assets' values at the time as sale, as well as analyzed comparable transactions to form an alternative valuation estimate.
- Built financial model to perform valuation analysis of renewable energy credits. This model was used to evaluate the results of several procurements of solar renewable energy credits conducted by Pennsylvania utilities, and the results of the model were presented to the Pennsylvania Public Utility Commission.
- On several occasions for utilities in the Mid-Atlantic and Midwest regions, have used multi-factor risk models to estimate the expected cost and cost distribution associated with different portfolio strategies for procuring power supplies for default service customers.

Competition Analysis

- For a merger of two major utilities in the western United States, estimated the pricing impacts associated with alternative generation divestiture scenarios through the use of a Cournot oligopoly simulation model. Assisted in the drafting of testimony related to the merger's impact on competition and other issues.
- For an independent power producer, submitted testimony to FERC assessing the competitive impacts of a high-profile merger involving two major utilities and generation owners within PJM, as well as the competitive effects associated with specific proposed market power mitigation measures.
- For a group of municipal power companies, analyzed a proposed merger involving two major utilities with generation supplies in the mid-atlantic and midwest regions. Reviewed the Delivered Price Test (DPT) analysis conducted on behalf of the merger applicants, and analyzed the sensitivity of applicants' results to changes in assumptions

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regarding power prices, gas prices, and available suppliers of imported power into the geographic area of interest.

- For two merging utilities in New York, analyzed vertical market power issues related to the merged entities' ownership of both transmission and generation assets, including the strategic use of transmission outages and other forms of transmission withholding to effect increases in power prices. Examined potential pricing impacts with the aid of security-constrained, least-cost dispatch generation model.
- For PJM, served as the lead author of a Brattle study that analyzed PJM's protocols for mitigating market power, comparing those protocols to the ones used in other major RTO markets and internationally (e.g., the United Kingdom, Australia, and Nordpool). Made recommendations for potential changes to PJM's market power mitigation practices, and presented findings to various PJM member committees.
- For two merging electric and gas utilities with overlapping service territories in New England, analyzed the competitive impacts of their merger, specifically as it related to market power concerns arising from the supply of gas to dual-fuel industrial customers, interconnection policy with respect to industrial customers, and vertical market power issues related to supplying gas to competitive generation suppliers. Presented analysis to Federal Trade Commission attorneys and economists.
- For the U.S. government, analyzed the pricing impacts arising from an alleged cornering of a major commodity market for an oil and gas derivative product. Formulated and estimated an econometric model to identify whether an "artificial price" had resulted from the alleged behavior consistent with the exercise of significant market power. Also provided estimates of damages attributable to the price overcharges stemming from the alleged manipulation.

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"Genco Pricing & Genco Asset Values under Deregulation," presented to the Center for Business Intelligence Conference, Chicago, IL, September 18, 1998.

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"Profit-Maximizing Strategies and Gaming: Market Power and Power Markets," presented to the Center for Business Intelligence Conference on Pricing Power Products and Services, Chicago, IL, October 14, 1999.

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"Strategic Behavior and Power Market Prices," presented to the EPRI Asset & Risk Management Group, Washington, DC, June 23, 2000.

"Regional Interactions in Electricity Prices in the United States," presented to the CRRRI Research Seminar, Newark, NJ, May 3, 2002.

"Standard-Offer Service and Retail Restructuring of Electric Markets," presented to the CRRRI Eastern Conference, Newport, RI, May 23, 2002.

"The Economic Impact of an EU-US Open Aviation Area," presented to the U.S. Department of State, the European Commission (US office), and the Heritage Foundation, Washington, DC in 2002 and 2003, and the Association of European Airlines, Brussels, Belgium, 2003.

"Transactions Costs Across Electricity Markets: Does Restructuring Matter?" presented to the CRRRI Eastern Conference, Skytop, PA, May 22, 2003.

"Identifying the Relationship between Spot and Futures Prices for Electricity and Natural Gas," presented to the Center for Research in Regulated Industries (CRRRI) Research Seminar, Newark, NJ, May 7, 2004, and the CRRRI Eastern Conference, Skytop, PA, May 21, 2004.

"Geographic Integration, Transmission Constraints, and Electricity Restructuring," presented to the Federal Energy Regulatory Commission, Federal Trade Commission, Energy Information Administration, in Washington, DC, in 2004 and 2005, and the 10th Annual POWER Research Conference on Electricity Industry Restructuring of the University of California Energy Institute, Berkeley, CA, March 18, 2005.

TESTIMONY/EXPERT REPORTS

Testimony before the Advisory Commission on Conferences in Ocean Shipping, 1991, relating to an econometric analysis of the determinants of ocean freight rates, and the conclusions of that study with respect to the existence of market power in ocean shipping.

Expert Submission - Appendix J, Volume 1, Prehearing Brief on Behalf of Petitioner, Certain Flat Rolled Carbon Steel Products, June 21, 1993, U.S. International Trade Commission Investigation Nos. 701-TA-319-332, 334, 336-342, 344, and 347-353 (final); 731-TA-573-579, 581-592, 594-597, 599-609, and 612-619 (final). Analysis included a critique of methods used to evaluate domestic injury in trade cases. Also authored part of submission for post-hearing brief.

Expert Report Submitted to the European Court of First Instance on Behalf of the European Commission relating to the Petition of the Transatlantic Agreement to Annul the Commission's Decision of October 19, 1994, including a rebuttal of the expert economic analysis offered by the members of the Transatlantic Agreement in support of their collective restrictions on capacity utilization and their coordinated activity in setting certain types of freight rates.

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Testimony in the Matter of Henry H. Godfrey v. Benjamin F. Hofheimer, III, *et. al.*, 1995, on behalf of defendant relating to the appropriate calculation of damages in a breach-of-contract dispute.

Expert Report Submitted to the Environmental Protection Agency, 2000, on behalf of a trade group of aluminum smelters assessing the economic costs of revised land-disposal restriction standards for spent aluminum potliners (K088), 2000.

Two Expert Reports Submitted to the U.S. District Court for the District of Maryland, 2001, in the matter of Charles River Associates Inc. v. Hale Trans, Inc., assessing the quality and cost effectiveness of economic expertise provided in a predatory-pricing matter.

Expert Report Submitted to the U.S. District Court for the District of Columbia in the Matter of DAG Enterprises Inc. v. Exxon Mobil Corporation, 2003, regarding the suitability of a prospective purchaser as an acquirer of Mobil assets under the antitrust standards used by the Federal Trade Commission.

Expert Report Submitted to the Federal Energy Regulatory Commission (Docket No. EC05-43-000) 2005 on behalf of Midwest Generation, regarding the competitive impact of the proposed merger of Exelon Corporation and Public Service Enterprise Group and the mitigation measures offered by the parties.

Expert Reports submitted to the U.S. Department of Transportation (Docket No. OST-2004-19214), 2005, on behalf of American Airlines, regarding the competitive impact of the proposed application for antitrust immunity of an airline alliance consisting of Delta, Northwest, KLM, Air France, Alitalia, and Czech Airlines.

Expert Report and Testimony before the Public Utility Commission of Texas (Docket No. 31056), 2005, on behalf of the Cities served by AEP Texas Central Company, the Texas Industrial Energy Consumers, and the Alliance for Valley Healthcare, regarding the competitiveness of an auction held to sell an ownership share in a nuclear power plant and the commercial reasonableness of the actions taken by the seller.

Expert Reports submitted to the U.S. Department of Transportation (Docket No. OST-2005-22922), 2006, on behalf of American Airlines, regarding the competitive impact of the proposed Star alliance expansion to include LOT and Swiss airlines and expand antitrust immunity between Air Canada and United Airlines.

Expert Report and Testimony before the Public Service Commission of Maryland, (Case No. 9117, Phase 1), 2007 on behalf of Potomac Electric Power Company and Delmarva Power & Light Company, regarding the risks and costs associated with portfolio procurement of electric power supplies as opposed to relying on a full-requirements auction-based procurement method.

Expert Report submitted to the Pennsylvania Public Utility Commission (Docket No. P-0072305), 2008, on behalf of Pennsylvania Power Company, regarding the risks and costs associated with different procurement methods for obtaining electric power supplies to serve default-service customers.

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Expert Report and Testimony before the Public Utility Commission of Ohio (Case No. 08-936-EL-SSO), 2008, on behalf of Ohio Edison Company, The Cleveland Electric Illuminating Company, and The Toledo Edison Company, regarding the rationale for using an auction process to procure full-requirements electric power supplies for standard-service-offer customers, as well as a description of the responsibilities undertaken by myself and The Brattle Group as manager of that procurement.

Expert Report submitted to the Pennsylvania Public Utility Commission (Docket Nos. P-2009-2093053 and P-2009-2093054), 2009, on behalf of Metropolitan Edison Company and Pennsylvania Electric Company, describing the design of an RFP process for procuring solar photovoltaic alternative energy credits and the management of that process by myself and The Brattle Group, as well as an analysis of the desirability of meeting default service obligations through the auction-based procurement of full-requirements power supplies.

Various Expert Reports submitted between 2008 and 2010 to the U.S. Department of Transportation (Docket No. OST-2008-0252) and the European Commission describing the competitive impact of the proposal by the oneworld alliance to receive antitrust immunity, including various assessments of the impact on non-stop and connecting passengers that relied on econometric analysis of airline fare data and other empirical methods.

Reports submitted to the Pennsylvania Public Utility Commission, 2010, 2011, 2012, and 2013 as the Independent Procurement Manager for the procurement of Solar Photovoltaic Alternative Energy Credits by Metropolitan Edison Company, Pennsylvania Electric Company, and Pennsylvania Power Company including a description of the RFP process, a benchmarking of procurement prices against both current short-term prices and expected long-term prices for solar credits (based on a proprietary financial model), and the conformity of the procurement to the standards of least-cost procurement provided under Pennsylvania law.

Expert Reports (and Deposition) submitted to the U.S. District Court for the Middle District of Tennessee, 2012, in the matter of Watson Carpet & Floor Covering Inc. v. Mohawk Industries Inc., regarding the competitive effects of a carpet manufacturer's alleged refusal to sell its products to a carpet dealer serving production homebuilders in Nashville and surrounding counties.

Expert Reports and Testimony before the Pennsylvania Public Utility Commission (Docket Nos. P 2011-2273650, P-2011-2273668, P-2011-2273669, and P-2011-2273670), 2011 and 2012, on behalf of Metropolitan Edison Company, Pennsylvania Electric Company, Pennsylvania Power Company, and West Penn Power Company, analyzing the Companies' procurement strategies for supplying default service customers, describing the design of an RFP process for procuring solar photovoltaic alternative energy credits (and the management of that process by myself and The Brattle Group), proposing an auction process for outsourcing the provision of generation service for time-of-use customers, describing an "opt-in" auction process to promote the switching of default service customers to competitive retail supply, and describing a customer referral program that is also designed to promote retail competition.

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Expert Reports before the Pennsylvania Public Utility Commission (Docket Nos. P-2013-2391368, P-2013-2391372, P-2013-2391375, P-2013-2391378), 2013 and 2014, on behalf of Metropolitan Edison Company, Pennsylvania Electric Company, Pennsylvania Power Company, and West Penn Power Company, analyzing the Companies' procurement strategies for supplying default service customers.

PROFESSIONAL ACTIVITIES

Consultant to the *World Bank* on the formation of regional trading blocs, the *European Community* (DG IV) on antitrust and transportation issues, and the *Government of Canada* (Competition Bureau) on antitrust and transportation issues.

Advisory Board Member of the Center for Research in Regulated Industries

Member of the Atlantic Energy Group

Referee for the following journals: *American Economic Review*, *Canadian Journal of Economics*, *Contemporary Policy Issues*, *European Economic Review*, *International Economic Review*, *International Journal of the Economics of Business*, *Journal of Economics*, *Journal of Economics and Business*, *Journal of Economic Integration*, *Journal of Industrial Economics*, *Journal of International Economics*, *Journal of Regulatory Economics*, *Oxford Economic Papers*, and *Review of International Economics*.

Teaching Experience: Introductory Macroeconomics; Introductory Microeconomics

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July 14, 2014

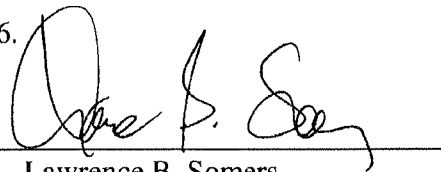
CERTIFICATE OF SERVICE

I certify that a copy of Duke Energy Corporation and Piedmont Natural Gas, Inc.'s Application for Authorization to Engage in a Business Combination Transaction, and Address Regulatory Conditions and Codes of Conduct, in Docket Nos. E-2, Sub 1095, E-7, Sub 1100 and G-9, Sub 682, has been served by electronic mail, hand delivery or by depositing a copy in the United States mail, postage prepaid to the following parties:

Antoinette R. Wike
Chief Counsel – Public Staff
North Carolina Utilities Commission
4326 Mail Service Center
Raleigh, NC 27699-4300
Antoinette.Wike@psncuc.nc.gov

This is the 15th day of January, 2016.

By: _____



Lawrence B. Somers
Deputy General Counsel
Duke Energy Corporation
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bo.somers@duke-energy.com

1 Q Mr. Reitzes, do you have a summary of your
2 testimony up there?

3 A Yes, I do.

4 Q Could you please provide that to the
5 Commission?

6 A Surely. The purpose of my testimony is to
7 address whether the merger of Duke Energy and Piedmont
8 has any potential adverse competitive impacts on
9 wholesale and retail electricity and natural gas markets
10 in North Carolina. I prepared a market power analysis
11 which was filed as Exhibit B to the application in this
12 proceeding.

13 My analysis focused on the limited areas of
14 overlap in the service territories of the three North
15 Carolina utilities, specifically on inter-fuel
16 competition between gas and electricity as alternative
17 sources of energy, ownership of gas transmission rights
18 by each of the merging parties and any potential effect
19 of the merger on the price of released gas transport
20 capacity and/or delivered gas in North Carolina, and the
21 -- and my analysis also looked at the potential effects
22 of the merger on third-party generation.

23 I found that the merger would not affect -- not
24 adversely affect competition and will not create an

1 increased ability to exercise market power. Current
2 regulations constrain retail electric and gas pricing so
3 that the merger will not adversely affect electric-gas
4 retail competition. Moreover, the merger will not
5 diminish the utilities' incentives to invest in or
6 develop gas or electric infrastructure. Further,
7 economic conditions in the electric and gas markets will
8 not increase the ability or the -- the incentive or the
9 ability of Duke Energy or Piedmont to raise delivered gas
10 prices or withhold gas transmission capacity or gas
11 transport services. Finally, I did not find any vertical
12 market power concerns raised by the merger or that it
13 will directly disadvantage independent power producers
14 who serve wholesale electric customers in competition
15 with Duke.

16 This concludes my summary.

17 MR. JEFFRIES: Thank you, Mr. Reitzes. Co-
18 counsel has just pointed out a mistake which is our
19 mistake, not yours, but in paragraph -- in the first
20 paragraph of your summary there's a reference to Exhibit
21 B, the market power analysis as being Exhibit B, and I'd
22 like just to point out for the record it's actually
23 Exhibit C to the application. And that's our fault, not
24 Mr. Reitzes'. Mr. Chairman, Mr. Reitzes is available for

1 cross examination questions by the Commission.

2 CHAIRMAN FINLEY: Cross examination? Mr.

3 Runkle.

4 CROSS EXAMINATION BY MR. RUNKLE:

5 Q Good morning, Mr. Reitzes. My name is John
6 Runkle representing NC WARN, The Climate Times and the
7 North Carolina Housing Coalition. So in the market power
8 analysis, you were looking at various costs and benefits
9 to the companies?

10 A I was looking at whether the merger would
11 provide any increase in sales or ability of the merged
12 parties to exercise market power.

13 MR. RUNKLE: I have no questions for the
14 witness.

15 CHAIRMAN FINLEY: Mr. West?

16 CROSS EXAMINATION BY MR. WEST:

17 Q Good morning, Dr. Reitzes. Am I pronouncing
18 your name correctly?

19 A Reitzes.

20 Q Reitzes. And you are a doctor. I heard you
21 referenced --

22 A Yes.

23 Q -- as a Mr., but you're a doctor, correct?

24 A Yes. That's correct.

1 Q I'd like to maybe get a little bit of
2 background about the scope of your analysis before we
3 start focusing on particular issues. So as I read your
4 explanation, you've addressed three issues, inter-fuel
5 competition, gas transportation rights and third-party
6 generation. Is it safe to say the first two of those are
7 an assessment of the potential horizontal anti-
8 competitive impacts of the merger?

9 A It's an assessment with respect to the first
10 two of the ability of the merger to create additional
11 market power or incentives to exercise market power.

12 Q Horizontally as opposed to vertically, correct?

13 A Yes.

14 Q And the third issue, the third-party
15 generation, that is a vertical integration issue,
16 correct?

17 A Yeah. You typically could consider that as a
18 vertical issue.

19 Q So there's a lot of -- of language in your
20 report about HHI analysis and things of that nature.
21 Those are restricted strictly to assessing the potential
22 horizontal -- or the potential impact of the horizontal
23 aspect of the merger as opposed to the vertical aspect of
24 the merger, correct?

1 A Well, typically, to exercise vertical market
2 power where you're concerned about maybe the price of an
3 input increasing to somebody who's using that input, that
4 would be a vertical issue. There has to be market power,
5 horizontal market power, in order for there to be an
6 ability to use that market power vertically. And what
7 we're finding is there's not horizontal market power
8 created by the merger with respect to either delivered
9 gas or gas transport.

10 Q Okay. Well, that would -- your comment about
11 the accumulation of a horizontal market power would be
12 true if we were not in a monopoly environment, correct,
13 but if we're in a monopoly environment, your assessment
14 of horizontal market power is really related strictly to
15 inter-fuel competition and gas transportation rights,
16 correct?

17 A I'm not sure I understand the question. Can
18 you ask it again?

19 Q Sure. So you said that you need horizontal
20 market power in order to exercise vertical market power,
21 correct?

22 A Correct.

23 Q All right. So when you're dealing with a
24 monopoly provider, like a natural -- a regulated local

1 distribution natural gas company, as to a particular
2 customer, that market power already exists. They have a
3 franchise monopoly, correct?

4 A They have a regulated franchise monopoly.

5 Q Okay. So in your analysis, when you're looking
6 at HHI, what you're doing in your HHI analysis is
7 assessing the potential impact on the horizontal market
8 for purposes of inter-fuel competition and gas
9 transportation, correct?

10 A Yeah. I'm looking at whether there's market
11 power with respect to the provision of gas transportation
12 into Transco Zone 5, which includes North Carolina, and
13 whether -- you know, whether that market itself is
14 concentrated for the -- with respect to supply of
15 released transport capacity.

16 Q Okay. So what I wanted to focus on in my
17 questions was the issue of third-party generation. And
18 what I'm trying to confirm is that I don't need to
19 address issues such as your HHI analysis to investigate
20 your assessment of third-party generation issues. Is
21 that -- is that a safe assumption?

22 A Well, the HHI analysis relates to whether
23 there's market power in the provision of gas transport
24 services and providing delivered gas to Zone 5, so it is

1 relevant to a vertical market power analysis if you're
2 concerned as a third-party generator about the gas-fired,
3 about the pricing of gas transport or the pricing of
4 delivered gas.

5 Q Is that true only for the independent power
6 producers that are not the retail franchise customers of
7 Piedmont?

8 A I think it would be relevant to the independent
9 power producers and potentially to those who are trying
10 to buy generation, that is trying to buy gas transport or
11 delivered gas into Zone 5.

12 Q So for a retail customer who is buying service
13 from Piedmont, what they are buying is, at least in a
14 general sense, the local distribution delivery service,
15 correct?

16 A They're buying a delivered gas product from the
17 natural gas utility at a regulated rate.

18 Q Okay. So -- and maybe just to be more general,
19 when a retail customer burns natural gas, there are three
20 things that they have to acquire: They have to acquire
21 commodity gas, they have to acquire interstate
22 transportation, they have to acquire local distribution,
23 correct?

24 A Correct.

1 Q Okay. The commodity gas is available in the
2 market as opposed to solely from a franchise provider,
3 correct?

4 A The franchise provider is delivering the gas to
5 them.

6 Q Right, but they can acquire the actual
7 commodity gas from the market, correct?

8 A Correct.

9 Q And they can acquire the interstate
10 transportation rights from the market, correct?

11 A Are you talking about a -- you're not talking
12 about a residential customer here; you're talking
13 about --

14 Q I'm talking about a retail franchise customer
15 that is somebody you would assess for purposes of
16 determining whether third-party generation is a -- an
17 issue for purposes of the vertical integration, meaning a
18 municipal provider or an electric co-op.

19 A Okay.

20 Q So they would also buy the interstate
21 transportation capacity in the market, correct?

22 A They could buy the transport capacity to
23 transport the gas to get delivered into the market.

24 Q Right. And when it comes to the third

1 component which is the local distribution, that's what
2 they have to buy from Piedmont, correct?

3 A Yeah. I presume that's typically at a
4 regulated rate.

5 Q Okay.

6 A Or a Commission-approved rate, correct?

7 Q So that's one of the first things I wanted to
8 talk about. When you refer to regulated rates, you're
9 referring to tariff rates?

10 A I'm referring to tariff rates and also, I
11 guess, more generally to a Commission-approved rate.

12 Q Can you explain what you mean by "a Commission-
13 approved rate"?

14 A Well, my understanding is that there are
15 certain rates that are basically under contract, but are
16 approved by the Commission.

17 Q Those are what we refer to as negotiated rates,
18 correct?

19 A Correct.

20 Q And that is Piedmont is trying to sell gas to
21 generally a customer with large throughput, and so they
22 negotiate a rate that's specific to that customer,
23 correct?

24 A Yes.

1 Q Have you -- do you know anything about that
2 process?

3 A My understanding -- my understanding is that
4 process typically involves Piedmont assessing its cost of
5 serving that customer and then trying to reach a
6 negotiated rate that's consistent with the cost model.

7 Q Right. And as a general rule, those rates are
8 confidential, correct?

9 A Yes. That's my understanding.

10 Q Because they're proprietary and it's, at least
11 to some extent, a competitive market, correct?

12 A Yeah. Well, if it's local -- if there are any
13 local distribution, then it's going to -- on Piedmont's
14 system, then that's going to have to be from Piedmont.

15 Q Prior to the merger was there any risk to a
16 municipal customer or an electric co-op of being
17 concerned that Piedmont might be discriminating against
18 them in relation to another electric generator like Duke
19 Energy Carolinas or Duke Energy Progress?

20 A I don't know. To my knowledge, no.

21 Q Okay. So let's turn to page 30 of your Brattle
22 Group report.

23 CHAIRMAN FINLEY: Mr. West, before you get into
24 that line of questioning, would it be appropriate for us

1 to take our morning break?

2 MR. WEST: I'm fine with taking a break right
3 now.

4 CHAIRMAN FINLEY: All right. We'll take a 15-
5 minute break and we'll come back at 10 after 11:00, 10
6 after 11:00.

7 (Recess taken from 10:55 a.m. to 11:10 a.m.)

8 CHAIRMAN FINLEY: Okay, folks. Let's have a
9 seat and we'll resume the hearing. Mr. West, you have
10 the witness.

11 CONTINUED CROSS EXAMINATION BY MR. WEST:

12 Q So before the break, what we were talking about
13 is the fact that prior to the merger there's been no risk
14 of Piedmont discriminating against -- between electric
15 generators that are burning natural gas, right?

16 A Yes.

17 Q And what I asked you to do is to turn to page
18 30 of The Brattle Group report.

19 A Yes. And I --

20 CHAIRMAN FINLEY: Mr. Reitzes, if you'll speak
21 up, please --

22 THE WITNESS: Okay.

23 CHAIRMAN FINLEY: -- so folks can hear you.

24 Q Have you had a chance to look at page 30?

1 A Yes. I think we got -- I apologize. I think
2 we may have the generation numbers incorrect for the
3 Butler Warner facility. I apologize. I think we may
4 have the generation numbers incorrect for the Butler
5 Warner facility, and we took it off of Energy Velocity
6 which is a pretty well-established industry database, but
7 I think we've got them reversed largely, that the
8 combined cycle capacity is more like 65, I guess it is,
9 65 megawatts, and the combustion turbine is more like
10 160.

11 Q And I appreciate the clarification. What I
12 really wanted to focus on was the first narrative
13 paragraph of the page.

14 A Uh-huh.

15 Q So what I'm going to try to do is try to
16 restate it and ask you to correct me, to the extent that
17 anything needs to be clarified and corrected.

18 It sounds like you're saying for municipals and
19 electric cooperatives that are retail customers of
20 Piedmont, that the risk of discrimination in the context
21 of negotiated rates is minimal or nonexistent because,
22 quote, "Duke already controls (or owns the output from)"
23 -- the muni/co-op capacity and their heat rates aren't
24 very good. Is that a fair summary?

1 A Well, I'm saying that the merger doesn't
2 produce significant incentive to disadvantage third-party
3 generation with respect to munis and co-ops. If Duke has
4 a tolling agreement, then my understanding would be if
5 it's a tolling agreement, that they would basically pay
6 for the gas, so they wouldn't want to see higher gas cost
7 as a result of that. And then --

8 Q Are we talking about Fayetteville PWC
9 specifically or are we talking about all the munis and
10 co-ops on the Piedmont system?

11 A We're talking -- the -- what's written here
12 sort of applies to muni co-op capacity in general. My
13 understanding is that Fayetteville does have a tolling
14 agreement with Duke.

15 Q Okay. So those -- those agreements, though,
16 have terms, correct, meaning that they exist for a
17 certain period of time?

18 A Yes.

19 Q And then after the term ends, whether it's
20 because the contract lasted for its entire contractual
21 term or because there was a breach by one party or the
22 other, the provisions by which Duke would be buying gas
23 from Piedmont for these facilities would stop, correct?

24 A Yes.

1 Q Okay. So did your -- when you assessed the
2 risk to co-ops and munis associated with the merger
3 between Duke and Piedmont, did you assess the risk post
4 contract, meaning whether the contract is seen through
5 its entire term or terminated early?

6 A We looked at -- in terms of the markets we
7 looked at, we looked at whether the merger was likely to
8 increase delivered gas or gas transport prices in looking
9 at sort of 2014, '15 scenario and a 2019 scenario, and we
10 found that the merger didn't create an ability to
11 increase those prices.

12 Q I'm sorry. Say the last part again. Looking
13 at the two scenarios you did what?

14 A We looked at 20--- basically a 2014, 2015
15 scenario and a 2019 scenario --

16 Q Right.

17 A -- after Atlantic Coast Pipeline goes into
18 effect, goes operational.

19 Q Right. But for purposes of this particular
20 analysis where you said, quote, "... third-party
21 generation is not at risk of higher gas costs related to
22 changes with respect to Piedmont's gas distribution
23 network," Atlantic Coast Pipeline is interstate pipe as
24 opposed to part of the distribution network, right?

1 A Well, you're referring to gas distribution cost
2 specifically?

3 Q I'm referring to your testimony.

4 A Yeah. The paragraph refers to -- as stated,
5 where we say -- I say, "In summary, no IPP is materially
6 dependent on Piedmont for gas distribution. Duke
7 already" -- owns or controls -- "the output from most of
8 the muni co-op capacity, and muni and co-op generation is
9 comprised of peaking facilities with low capacity
10 factors." So to the extent that Duke already has a
11 tolling agreement with -- for a lot of muni and co-op
12 capacity, then that wouldn't -- you know, there wouldn't
13 be a risk created by the merger of increased incentive to
14 -- of incentive to increase gas distribution prices or
15 cost.

16 Q I --

17 A The extent that the generation itself, the
18 characteristics of generation of munis and co-ops is
19 largely peaking power and it's not a lot of generation,
20 it wouldn't seem that the merger would create much
21 incentive to increase the cost faced by munis and co-ops
22 who I think the capacity factor for most of these units
23 is four or five percent. They're operating a very small
24 amount of time, so it doesn't seem like there would be a

1 material incentive to increase the cost of munis and co-
2 ops, other units, when it's not really going to have much
3 of an impact on Duke's generation at all. And then on
4 top of that, my understanding is that in terms of Duke
5 being able to profit from bulk sales, and I may have this
6 reversed, that I think with Duke Energy Carolinas, 90
7 percent of any of their bulk -- profits from bulk sales
8 are basically just an offset to the revenue requirements,
9 and I think it may be 100 percent for Duke Energy
10 Progress. So it just doesn't seem that there's much
11 incentive here to disadvantage generation, third-party
12 generation, to the benefit of Duke. There's just not
13 much benefit to be had.

14 Q With regard to your analysis, though, the
15 report -- when I say "your analysis," I'm referring to
16 your report. With regard to your report, there's no
17 assessment of the risk to munis and co-ops in a post
18 tolling agreement period, correct?

19 A There's -- are you talking with respect to
20 distribution or with respect to sort of transportation
21 and --

22 Q Again, I'm talking about these two sentences on
23 paragraph (sic) 30 where you identify the fact that
24 there's -- you know, third-party generation is not at

1 risk of higher gas costs related to changes with respect
2 to Piedmont's gas distribution network. And the basis
3 for that, as we talked about, is what you referred to as
4 tolling agreements, and I'm asking you if there's
5 anywhere in your report --

6 A Well --

7 Q -- that you address the risk to munis and co-
8 ops post the tolling agreements, regardless of why they
9 might be terminated?

10 A Well, if you're talking about with respect to
11 distribution rates, I think it still goes back to my
12 prior comment that the capacity factors of these units
13 are small, they're not producing a lot of electricity, so
14 it's -- I don't see a huge financial benefit to doing
15 something to disadvantage these -- the munis and the co-
16 op generation to advantage Duke, and as I mentioned
17 before, because Duke has little profit incentive that
18 they get from making third-party sales or making bulk
19 power sales.

20 Q Are you saying that there's just not enough
21 money in it for Duke to increase the local distribution
22 cost of a muni or co-op in terms of its ability to
23 compete in a -- in a wholesale market?

24 A I think that there's limited financial

1 incentive to do that, and I think that, you know, since
2 these -- a negotiated special contract rate would require
3 Commission approval, that there are regulatory safeguards
4 in place to, you know, prevent an abuse of market power.

5 Q If the munis and co-ops were subjected to
6 higher negotiated rates than they're currently paying,
7 for whatever reason, would that potentially give Duke a
8 competitive advantage either in its balancing area or
9 anywhere else?

10 A Duke is, to my understanding, it's sort of
11 regulated to basically charge -- they're charging
12 regulated rates and they don't have market-based rate
13 authority in their balancing area, so Duke would have to
14 charge cost-based rates to customers in its balancing
15 authority area, so I'm not sure what the advantage would
16 be so much.

17 Q Well, a competition is a contest between two or
18 more entities, correct, just at a basic level?

19 A Competition, well, you can have a monopoly
20 market where there's a single provider, depending on how
21 you define the market.

22 Q Right, but we're talking about competition --

23 A Okay.

24 Q -- so that's a contest between two or more

1 entities, correct?

2 A Okay. Yeah.

3 Q So part of your analysis is there's no risk to
4 competition because Duke's price is essentially fixed,
5 they have to sell at cost-based rates, correct?

6 A Duke has to sell in its balancing authority
7 area at cost-based rates.

8 Q Right, but since there are two parties, at
9 least two parties to a competition, by raising the cost
10 to the other party participating in the competition, even
11 if Duke's costs are fixed or their rates are fixed at
12 cost-based rates, by raising the rates of the other
13 party, Duke could succeed in the competition where they
14 previously might have failed if the other party had lower
15 rates, correct, just as a very basic principle?

16 A Now, what do you mean by succeed in a
17 competition?

18 Q So let me try asking the question a different
19 way. So the competition is to sell wholesale power
20 within, we'll start here, within the balancing area to a
21 third-party purchaser, right? I mean, isn't that what
22 normally wholesale electric competition is?

23 A Yes.

24 Q Okay. So what your analysis seems to suggest

1 is there's no risk to competition because Duke's sales
2 rate is essentially fixed at whatever their cost-based
3 rate is. Am I paraphrasing that relatively correctly?

4 A Duke's pricing in its balancing area is, yeah,
5 cost based.

6 Q Okay. So if somebody, let's say an electric
7 co-op is attempting to compete with Duke, if Duke raises
8 the cost of the local distribution of gas, or excuse me,
9 if Piedmont raises the cost of the local distribution of
10 gas to that co-op such that the co-op can only sell at a
11 cost that is above Duke's cost-based rate, Duke would
12 generally be expected to win the competition for that
13 customer, just as a basic principle, correct?

14 A Duke could potentially sell more power if its
15 competitors were charging a higher price.

16 Q I'm sorry?

17 A Duke could potentially sell more power if its
18 competitors were charging a higher price.

19 Q Okay. And conversely, if the competitor had a
20 more favorable negotiated rate, the customers -- I mean,
21 the competitor, the co-op, could potentially sell to the
22 third-party customer in the wholesale electric market at
23 a rate that's lower than Duke, correct?

24 A Not sure about that.

1 Q Are you saying it's not possible or you don't
2 understand the process?

3 A I'm not sure I understand the question exactly.

4 Q Okay. So if a co-op is trying to sell
5 electricity in the wholesale market and it has gas-fired
6 generation, which is what your examples in Table 10 on
7 page 30 identify, the cost of that gas-fired generation
8 is influenced significantly by the cost of the local
9 distribution, correct?

10 A It's influenced by the cost of local
11 distribution.

12 Q Right. And Piedmont controls the cost of the
13 local distribution through its negotiated rates, correct?

14 A Is that controlled or is that a rate that
15 basically is negotiated and then approved by the
16 Commission?

17 Q Right. But a negotiated rate is something that
18 two parties have control over, correct?

19 A It's an agreement reached between two parties.

20 Q Okay. So if Piedmont didn't want to offer a
21 more favorable negotiated rate, the parties would have to
22 negotiate a different rate, right?

23 A Well, it's a negotiation. Presumably, parties
24 have other alternatives.

1 Q Okay. So if the negotiated rate after the
2 merger was higher or less favorable than the negotiated
3 rate before the merger, such that the co-op was no longer
4 able to beat Duke's cost-based price, the co-op is going
5 to lose the sale, correct?

6 A Or sell less --

7 Q Okay.

8 A -- possibly.

9 Q And conversely, if the rate remained low, it
10 was whatever it was prior to the merger, and the co-op
11 was able to offer to sell electricity in the wholesale
12 market to a third-party customer at a rate that is lower
13 than Duke's cost-based rate, the co-op would conceivably
14 win that competition, correct?

15 A In other words, win the competition or possibly
16 sell more than it would if the rate was higher.

17 Q Okay. So returning to the language on page 30,
18 to make sure that I understand, if the tolling agreement
19 terminates and the co-op is now purchasing its own gas
20 and trying to sell electricity in the competitive market,
21 is it your testimony or your position that at that point
22 the only relevant factor is that the co-op is a
23 relatively small player?

24 A It's that and that Duke has a limited profit

1 incentive to -- Duke is not really profiting from
2 increased bulk power sales.

3 Q Does Duke get to keep some of the profit from
4 its increased bulk power sales?

5 A Like I said, I'm not sure I have this
6 completely accurate, but I think that maybe in the
7 Carolinas area that Duke has to return 90 percent of its
8 bulk power profits. It's an offset to revenue
9 requirement. And I think it's 100 percent in DEC's
10 territory. It's either that or I have it reversed, is my
11 understanding.

12 MR. WEST: I don't have any further questions.

13 CHAIRMAN FINLEY: Redirect?

14 MR. JEFFRIES: A couple questions, Mr.
15 Chairman.

16 REDIRECT EXAMINATION BY MR. JEFFRIES:

17 Q Dr. Reitzes, is it your understanding that
18 rates charged to electric generators by Piedmont are
19 Commission approved?

20 A Yes.

21 Q Okay. And are you aware that undue
22 discrimination in the provision of utility services is
23 prohibited by North Carolina law?

24 A Yes.

1 Q And would you expect that this Commission would
2 have jurisdiction over any claim of undue discrimination
3 in the provision of utility services?

4 A Yes.

5 Q Are you familiar with the nature of the service
6 provided by Piedmont -- well, first of all -- I'm sorry.
7 Let me restate that, and this is just to clean up the
8 record as much as anything else.

9 Do you recall Mr. West was asking you some
10 questions about Piedmont providing service to municipals
11 or co-ops at negotiated rates?

12 A Yes.

13 Q Okay. And my recollection is Mr. West asked
14 about Piedmont selling gas to municipals or co-ops at
15 negotiated rates. What's your understanding about
16 whether Piedmont sells gas or provides transportation
17 service?

18 A They're providing transportation, a little
19 distribution. Is that what you're referring to?

20 Q Yeah.

21 A Yeah.

22 Q And finally, are you aware whether the nature
23 of the service that Piedmont -- the transportation
24 service that Piedmont provides to most of the Duke

1 facilities in terms of whether it's interruptible or
2 firm?

3 A My understanding is that they -- that Piedmont
4 is providing firm transportation service to the Duke
5 facilities.

6 Q Okay. And are you aware whether the contract
7 between Piedmont and Mr. West's client, Fayetteville
8 Public Works Commission, is firm or interruptible?

9 A My understanding is that contract is on an
10 interruptible basis, yeah.

11 MR. JEFFRIES: Thank you. No further
12 questions.

13 CHAIRMAN FINLEY: All right. A couple of
14 questions, Mr. Reitzes, from the Commission.

15 EXAMINATION BY CHAIRMAN FINLEY:

16 Q On page 10 of The Brattle Group's market power
17 analysis, it states, quote, "Both Piedmont and Duke North
18 Carolina utilities have similar allowed rates of return
19 on equity that is 10 percent for Piedmont and 10.2
20 percent for DEC, DEP, such that there is no post
21 transaction incentive to favor investment in the electric
22 over gas or vice versa," end quote. If a 20 percent
23 basis point difference would produce no incentive to
24 favor investment in electric over gas or vice versa, how

1 big a difference would produce such an incentive?

2 A I haven't done a detailed analysis of that
3 question, but I think the presumption is that these rates
4 are pretty close to one another, so, therefore, the
5 statement as it stands is there wouldn't be a materially
6 -- I think a materially increased incentive to favor one
7 over the other with that small a difference in returns.

8 Q Well, if it were 50 basis points, 75 basis
9 points, 100 basis points?

10 A I haven't analyzed it in that context as to --
11 as to what would be the right rate to cause you to favor
12 one over the other, but I think it's also stated
13 elsewhere in my report that we don't -- I don't think
14 that there's incentive to favor, you know, electric over
15 gas or vice versa because demand peaks at different time
16 of the year, so you can serve gas customers where demand
17 is peaking in the winter at the same time that you can
18 also provide electric service to those customers that
19 will peak in the summer, and so that there's incentive to
20 build out infrastructure for both gas and electric.

21 Q All right. That sort of leads into our second
22 question. The market power analysis opines that Duke's
23 need for infrastructure is, and likely will be, driven by
24 the need to meet the summer peak. In 2013 and 2014, all

1 three of North Carolina's investor-owned electric
2 utilities experienced their annual peak demands in the
3 winter. In addition, Duke Energy Progress' 2016 winter
4 peak exceeded its 2015 summer peak. If winter peaks sort
5 of become the norm, would the incentives around
6 competition change?

7 A I guess theoretically, but once again, if the
8 rates of return are pretty similar between the two, I'm
9 not sure it would change very much.

10 Q And --

11 A And my understanding is that currently, even
12 though there has been, I guess, winter peak a couple
13 years ago, that in terms of the electric system, the
14 reserve margin is lower in the summer than in the winter
15 which means the build-out -- any build-out in the future
16 capacity would be likely to accommodate increased demand
17 in the summer.

18 CHAIRMAN FINLEY: Commissioner Brown-Bland?

19 EXAMINATION BY COMMISSIONER BROWN-BLAND:

20 Q Dr. Reitzes, did I just understand you
21 correctly, rather than, as the report states, there would
22 be no incentive between a 20-point, basis point
23 difference, there wouldn't be a material difference? In
24 other words, there would be some incentive, but you don't

1 find it to be material?

2 A I think in my judgment it would be -- this is
3 pretty immaterial at that level, that difference.

4 Q But there is some incentive? I mean, the
5 statement from the report on page 10 indicated there
6 would be no incentive. Are you now saying it would be
7 just an immaterial incentive?

8 A I'm not sure there's a big difference between
9 immaterial and no, so if the more appropriate wording was
10 immaterial, I don't find much of a difference.

11 COMMISSIONER BROWN-BLAND: All right. Thank
12 you.

13 CHAIRMAN FINLEY: Anyone else? Questions on
14 the Commission's questions?

15 (No response.)

16 CHAIRMAN FINLEY: Thank you, Dr. Reitzes.

17 MR. JEFFRIES: Mr. Chairman, Dr. Reitzes, I
18 believe, has a flight back home this afternoon, and I
19 just wanted to clarify that he's excused.

20 CHAIRMAN FINLEY: Without objection he is
21 excused.

22 (Witness excused.)

23 MR. JEFFRIES: The Applicant would call Mr.
24 Barkley to the stand.

1 MR. RUNKLE: Mr. Chairman, we'll also pass out
2 the cross examination exhibits.

3 BRUCE P. BARKLEY; Being first duly sworn,
4 testified as follows:

5 DIRECT EXAMINATION BY MR. JEFFRIES:

6 Q Mr. Barkley, could you state your name and
7 business address for the record, please.

8 A Bruce Barkley, 4720 Piedmont Road Drive,
9 Charlotte, North Carolina.

10 Q Now, Mr. Barkley, it's my understanding that
11 you have trouble maintaining a job; is that correct?

12 (Laughter.)

13 Q But could you tell us where you work now?

14 A My current employer is Piedmont Natural Gas.

15 Q Thank you. And what's your position at
16 Piedmont Natural Gas?

17 A Vice President - Regulatory Affairs, Rates and
18 Gas Cost Accounting.

19 Q Okay. And what are your respons--- or what are
20 your responsibilities over those areas?

21 A Regulatory strategy and filings with the North
22 Carolina Commission, also in South Carolina, Tennessee,
23 and then as concerns gas cost, the accurate recording of
24 Piedmont's gas cost.

1 Q Okay. And you're the same Bruce Barkley that
2 prefiled supplemental and rebuttal testimony consisting
3 of eight pages and supplemental settlement testimony
4 consisting of three pages?

5 A Yes, sir.

6 Q Okay. And was that testimony prepared by you
7 or under your direction?

8 A Yes, sir.

9 Q And do you have any corrections?

10 A No, I do not.

11 Q If I asked you the same questions that were set
12 forth in your prefiled testimonies while you were on the
13 stand today, would your questions be the same -- would
14 your answers be the same? I'm sorry.

15 A Yes.

16 MR. JEFFRIES: Okay. Thank you. Mr. Chairman,
17 we would request that Mr. Barkley's prefiled supplemental
18 and rebuttal testimony and supplemental settlement
19 testimony be entered into the record as if given orally
20 from the stand.

21 CHAIRMAN FINLEY: Mr. Barkley's supplemental
22 rebuttal testimony consisting of eight pages, filed on
23 July 1, 2016, and his supplemental settlement testimony
24 consisting of three pages, filed on July 15, 2016, are

1 copied into the record as if given orally from the stand.

2 MR. JEFFRIES: Thank you, Mr. Chairman.

3 (Whereupon, the prefiled supplemental
4 and rebuttal testimony and the
5 supplemental settlement testimony of
6 Bruce P. Barkley was copied into the
7 record as if given orally from the
8 stand.)

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BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

DOCKET NO. E-2, SUB 1095
DOCKET NO. E-7, SUB 1100
DOCKET NO. G-9, SUB 682

In the Matter of)
)
Application of Duke Energy Corporation and)
Piedmont Natural Gas Company, Inc. to)
Engage in a Business Combination)
Transaction and Address Regulatory)
Conditions and Code of Conduct)
)

**SUPPLEMENTAL
AND REBUTTAL
TESTIMONY OF
BRUCE P. BARKLEY**

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Jul 01 2016
Jul 26 2016

1 Q. PLEASE STATE YOUR NAME AND YOUR BUSINESS ADDRESS.

2 A. My name is Bruce P. Barkley. My business address is 4720 Piedmont Row
3 Drive, Charlotte, North Carolina.

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

5 A. I am currently employed by Piedmont Natural Gas Company, Inc.,
6 ("Piedmont") as Vice-President – Regulatory Affairs, Rates and Gas Cost
7 Accounting.

8 Q. PLEASE DESCRIBE YOUR EDUCATIONAL AND PROFESSIONAL
9 BACKGROUND.

10 A. I obtained a Bachelor of Science Degree in Business Administration with a
11 concentration in Accounting from the University of North Carolina at
12 Chapel Hill in 1984 and an MBA Degree from Wake Forest University in
13 1999. I obtained my CPA license in 1987. From 1988 through 2001, I was
14 employed by Public Service Company of North Carolina, Inc., where I was
15 responsible for regulatory filings and reports submitted to the North
16 Carolina Utilities Commission ("NCUC" or "Commission"). Prior to
17 joining Piedmont, I held various positions with Progress Energy, Inc. and
18 subsequently Duke Energy Corporation ("Duke Energy") in Regulatory
19 Affairs, Fuels, and Regulatory Accounting. I joined Piedmont in my current
20 position in 2015.

21 Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THIS
22 COMMISSION OR ANY OTHER REGULATORY AUTHORITY?

1 A. Yes, I have testified on numerous occasions before this Commission.

2 **Q. HAVE YOU PREVIOUSLY TESTIFIED IN THIS PROCEEDING?**

3 A. No, I have not.

4 **Q. WHAT IS THE PURPOSE OF YOUR SUPPLEMENTAL AND**
5 **REBUTTAL TESTIMONY IN THIS PROCEEDING?**

6 A. The purpose of my Supplemental and Rebuttal testimony in this proceeding
7 is to provide the position of Duke Energy and Piedmont on the Agreement
8 and Stipulation of Settlement (“Stipulation”) filed by Piedmont, Duke
9 Energy and the Public Staff – North Carolina Utilities Commission (“Public
10 Staff”) in this Docket on June 10, 2016, as supported in the direct prefiled
11 testimony of Public Staff witness James G. Hoard in this proceeding which
12 was also filed on June 10, 2016. I also will address the Settlement
13 Agreement between Duke Energy, Piedmont and Carolina Utility Customers
14 Association, Inc. (“CUCA”) filed in this proceeding on June 14, 2016 and
15 the Settlement Agreement among Duke Energy, Piedmont and the
16 Environmental Defense Fund (“EDF”) filed in this proceeding on June 21,
17 2016. I will also respond to the direct prefiled testimony of Samuel Gunter
18 filed on behalf of NC WARN, The Climate Times and the NC Housing
19 Coalition (“NC WARN”).

20 **Q. HOW DID THE STIPULATION WITH THE PUBLIC STAFF COME**
21 **ABOUT?**

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1 A. Following the filing of the Application by Piedmont and Duke Energy on
2 January 15, 2016 in this docket,¹ the Public Staff engaged in an extensive
3 audit and discovery process directed at investigating the public convenience
4 and necessity implications of the proposed acquisition of Piedmont by Duke
5 Energy. This discovery process involved the issuance of more than one
6 hundred data and document requests to Duke Energy and Piedmont which
7 were set forth in fourteen distinct sets of discovery. This process also
8 involved multiple and varied informal follow-up requests and discussions
9 between the Public Staff and employees of Duke Energy and Piedmont
10 designed to clarify and expand upon the information provided in response to
11 the Public Staff's formal discovery requests. Following this process,
12 beginning in early May, the Public Staff, Duke Energy and Piedmont began
13 discussions regarding the possible parameters of a settlement of this matter.
14 Those discussions continued for approximately five weeks and involved the
15 examination and ultimate resolution of a large number of issues related to
16 the terms upon which the Public Staff would support approval of the
17 proposed business transaction, including what changes to existing
18 Regulatory Conditions and Codes of Conduct for Duke Energy would be
19 appropriate as a result of the proposed transaction. The process involved
20 multiple face-to-face meetings with the Public Staff and extensive

¹ Application of Duke Energy Corporation and Piedmont Natural Gas Company, Inc. to Engage in a Business Combination Transaction and Address Regulatory Conditions and Code of Conduct, Docket Nos. E-2, Sub 1095, E-7, Sub 1100, and G-9, Sub 682 (January 15, 2016) ("Application").

1 negotiation regarding those terms. It also involved substantial compromise
2 by both parties on a large number of issues. This process ultimately
3 culminated in the Stipulation that was filed with the Commission on June
4 10, 2016.

5 **Q. WHAT ARE THE TERMS OF THE SETTLEMENT REACHED**
6 **WITH THE PUBLIC STAFF?**

7 A. Mr. Hoard has described the primary terms of the Stipulation, in detail, in
8 his testimony and Duke Energy and Piedmont agree with his descriptions.

9 **Q. DO DUKE ENERGY AND PIEDMONT SUPPORT THE**
10 **STIPULATION AS FILED WITH THE COMMISSION AND AS**
11 **DESCRIBED BY MR. HOARD?**

12 A. Yes. Duke Energy and Piedmont both support the settlement reached with
13 the Public Staff as reflected in the Stipulation and described in Mr. Hoard's
14 direct testimony. And although I believe the benefits identified in our
15 Application and the testimony of Duke Energy and Piedmont witnesses
16 supporting that Application established that the proposed transaction will
17 serve the public convenience and necessity, the timing of customer receipt
18 of those benefits was admittedly somewhat uncertain. The Stipulation
19 provides both additional economic benefits and certainty around when those
20 benefits will be received by customers and also provides non-economic
21 benefits in the form of additional Code of Conduct and Regulatory
22 Condition provisions applicable to Duke Energy and its public utility

1 subsidiaries. The Stipulation also provides that Duke Energy, Piedmont and
2 the Public Staff will continue their discussion of additional changes to the
3 Regulatory Conditions and Code of Conduct proposed by Duke Energy and
4 Piedmont, and that the parties will submit the results of those discussions for
5 approval or resolution, as appropriate, in a separate proceeding.

6 **Q. HAVE DUKE ENERGY AND PIEDMONT REACHED A**
7 **SETTLEMENT WITH ANY OTHER PARTIES TO THIS**
8 **PROCEEDING?**

9 A. Yes. Duke Energy and Piedmont have reached an accord with CUCA which
10 is reflected in the Settlement Agreement filed in this proceeding by Duke
11 Energy, Piedmont and CUCA on June 14, 2016 and with EDF which is
12 reflected in the Settlement Agreement filed in this proceeding by Duke
13 Energy, Piedmont and EDF on June 21, 2016.

14 **Q. CAN YOU BRIEFLY DESCRIBE THE CONTENTS OF THE**
15 **SETTLEMENT WITH CUCA?**

16 A. Yes. The settlement with CUCA provides a guarantee by Duke Energy
17 Carolinas, LLC ("DEC") and Duke Energy Progress, LLC ("DEP") that
18 North Carolina retail customers of those public utilities will receive their
19 allocable share of an additional \$35 million in fuel savings to be achieved by
20 December 31, 2017 (with some provisions for an extension of that date).
21 These fuel savings are above and beyond what DEC and DEP agreed to and
22 were ordered to provide in Docket Nos. E-2, Sub 998, E-7, Sub 986, and E-

1 7, Sub 1017. In the settlement, CUCA agreed that this guarantee resolved
2 all issues between CUCA, Duke Energy and Piedmont in this proceeding.

3 **Q. DO DUKE ENERGY AND PIEDMONT SUPPORT THIS**
4 **SETTLEMENT WITH CUCA?**

5 A. Yes.

6 **Q. CAN YOU BRIEFLY DESCRIBE THE CONTENTS OF THE**
7 **SETTLEMENT WITH EDF?**

8 A. Yes. In the EDF settlement, Duke Energy has agreed (i) to conduct a cost-
9 benefit analysis for a broad deployment of Integrated Volt-Var Control
10 within DEC's territory, and (ii) to perform a cost-benefit analysis for DEP's
11 Distribution System Demand Response program to evaluate the expansion
12 of Integrated Volt-Var Control beyond current peak demand reductions.
13 Duke Energy will file the results of these analyses in the 2018 Smart Grid
14 Technology Plans.

15 **Q. DO DUKE ENERGY AND PIEDMONT SUPPORT THIS**
16 **SETTLEMENT WITH EDF?**

17 A. Yes.

18 **Q. HAVE YOU REVIEWED THE DIRECT PREFILED TESTIMONY**
19 **OF MR. SAMUEL GUNTER ON BEHALF OF NC WARN, THE**
20 **CLIMATE TIMES AND THE NC HOUSING COALITION?**

21 A. Yes, I have.

22 **Q. HOW DO YOU RESPOND TO HIS TESTIMONY THAT THE**

1 CHARITABLE CONTRIBUTIONS AND LOW-INCOME CUSTOMER
2 ASSISTANCE CONTRIBUTION COMMITMENTS MADE BY DUKE
3 ENERGY AND PIEDMONT IN THE STIPULATION WITH THE
4 PUBLIC STAFF “ARE NOT NEARLY SUFFICIENT TO MEET THE
5 NEEDS OF FAMILIES WHO MIGHT BE HARMED BY THE
6 MERGER?”

7 A. As an initial matter, I do not agree with Mr. Gunter that any families might be
8 harmed by the merger. As I discussed previously, I believe that the merger is in
9 the public interest and meets the Commission’s test of having no adverse impact
10 on any of Duke Energy’s or Piedmont’s customers, even more so when the
11 economic and non-economic benefits of the settlement terms I have discussed
12 are considered. There is no proposal to pass along increased rates in this
13 proceeding, which Mr. Gunter appears mistakenly to assume is the case. While
14 I appreciate that Mr. Gunter’s testimony acknowledges the charitable and low-
15 income commitments made by Duke Energy and Piedmont in the Stipulation
16 with the Public Staff are a “step in the right direction,” those commitments were
17 negotiated with the Public Staff and the parties to the Stipulation believe they
18 are sufficient for purposes of this merger proceeding.

19 Q. IS THE IMPLEMENTATION OF MR. GUNTER’S
20 RECOMMENDATION OF A FULLY FUNDED ENERGY EFFICIENCY
21 AND WEATHERIZATION PROGRAM APPROPRIATE IN THIS
22 DOCKET?

1 A. No, on several grounds. The cost of such a program as envisioned by Mr.
2 Gunter is unknown and therefore cannot reasonably be placed upon Duke
3 Energy and Piedmont. Second, there are separate dockets routinely conducted
4 before this Commission in which energy efficiency measures are examined.
5 Finally, and as stated previously, the original Application and subsequent
6 settlements filed in this docket provide ample consumer benefits and
7 protections.

8 **Q. WHAT ARE YOU ASKING THE COMMISSION TO DO IN THIS**
9 **PROCEEDING?**

10 A. We are asking the Commission to find that the settlements entered into
11 between Duke Energy and Piedmont with the Public Staff, CUCA, and EDF
12 are a reasonable resolution of these dockets and to find, on the basis of this
13 conclusion, that the proposed business transaction between Duke Energy
14 and Piedmont is in the public interest and consistent with the public
15 convenience and necessity. In sum, we are asking the Commission to
16 approve the business combination between Duke Energy and Piedmont.

17 **Q. DOES THIS CONCLUDE YOUR PREFILED SUPPLEMENTAL AND**
18 **REBUTTAL TESTIMONY?**

19 A. Yes, it does.
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CERTIFICATE OF SERVICE

The undersigned hereby certifies that a copy of the attached is being served this date upon all of the parties to this docket electronically or by depositing a copy of the same in the United States Mail, First Class Postage Prepaid, at the addresses contained in the official service list in this proceeding.

This the 1st day of July, 2016.

/s/ James H. Jeffries IV
James H. Jeffries IV

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BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

DOCKET NO. E-2, SUB 1095
DOCKET NO. E-7, SUB 1100
DOCKET NO. G-9, SUB 682

In the Matter of)
)
Application of Duke Energy Corporation and)
Piedmont Natural Gas Company, Inc. to)
Engage in a Business Combination)
Transaction and Address Regulatory)
Conditions and Code of Conduct)
)

**SUPPLEMENTAL
SETTLEMENT
TESTIMONY OF
BRUCE P. BARKLEY**

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Jul 15 2016
Jul 26 2016

1 Q. PLEASE STATE YOUR NAME, YOUR BUSINESS ADDRESS AND
2 OCCUPATION.

3 A. My name is Bruce P. Barkley. My business address is 4720 Piedmont Row
4 Drive, Charlotte, North Carolina. I am currently employed by Piedmont
5 Natural Gas Company, Inc., ("Piedmont") as Vice-President – Regulatory
6 Affairs, Rates and Gas Cost Accounting.

7 Q. ARE YOU THE SAME BRUCE P. BARKLEY WHO PREFILED
8 SUPPLEMENTAL AND REBUTTAL TESTIMONY IN THIS DOCKET
9 ON JULY 1, 2016?

10 A. Yes, I am.

11 Q. WHAT IS THE PURPOSE OF YOUR SUPPLEMENTAL
12 SETTLEMENT TESTIMONY IN THIS PROCEEDING?

13 A. The purpose of my supplemental settlement testimony in this proceeding is
14 to support a minor amendment ("Amendment") to the Stipulation and
15 Settlement ("Stipulation") between Duke Energy Corporation ("Duke
16 Energy"), Piedmont and the Public Staff – North Carolina Utilities
17 Commission ("Public Staff") that was filed in this docket on July 15, 2016.

18 Q. WHAT CHANGES TO THE STIPULATION WERE MADE IN THE
19 AMENDMENT?

20 A. In the Stipulation, Piedmont, Duke Energy and the Public Staff agreed that
21 Piedmont would credit its Integrity Management Rider ("IMR") deferred
22 account in the amount of \$5 million in each of the first two years following

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1 the close of the merger in order to accelerate the sharing of projected merger
2 related savings with Piedmont's customers. These credits would amount to
3 a total credit to Piedmont's customers of \$10 spread out over a two year
4 period. In the Amendment, the parties agree that Piedmont will make a one-
5 time \$10 million payment to its customers, through a direct bill credit issued
6 no later than December 31, 2016. The bill credit will be allocated based
7 upon the allocation factors utilized under Piedmont's IMR deferred account.
8 The net impact of this change is to accelerate the receipt by Piedmont's
9 customers of the \$10 million in projected merger savings.

10 **Q. WHY WAS THIS CHANGE TO THE STIPULATION MADE?**

11 A. After submission of the Stipulation to the Commission, Piedmont's external
12 auditors determined that this approach better facilitates the goal of recording
13 the expense for these credits during the same calendar year in which the
14 commitment to its customers was made. If the merger is approved by the
15 Commission, Piedmont's fiscal year will prospectively be based upon a
16 calendar period. Therefore, as adjusted in the Amendment, Piedmont's
17 commitment to provide a \$10 million benefit to customers and the
18 completion of the associated bill reduction will both occur during 2016. It is
19 preferable from Piedmont's perspective that this be the accounting treatment
20 for these payments.

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1 Q. Are customers in any way harmed by this change in the manner in
2 which the \$10 million in accelerated merger savings will be shared with
3 customers?

4 A. No. The allocation of the \$10 million between Piedmont's various customer
5 classes will be identical to the mechanism originally proposed but customers
6 will receive these accelerated savings on a more expedited basis under the
7 Amendment than they would have under the Stipulation.

8 Q. DOES THIS CONCLUDE YOUR PREFILED SUPPLEMENTAL
9 SETTLEMENT TESTIMONY?

10 A. Yes, it does.

11

1 Q Mr. Barkley, do you have a summary of your
2 testimony?

3 A Yes.

4 Q Could you provide that for the Commission,
5 please?

6 A I will. My name is Bruce Barkley, Vice
7 President - Regulatory Affairs, Rates and Gas Cost
8 Accounting of Piedmont Natural Gas Company.

9 The purpose of my testimony in this proceeding
10 is to provide the position of Duke Energy and Piedmont on
11 the various settlement agreements reached between Duke
12 Energy and Piedmont on one hand, and the Public Staff,
13 Carolina Utility Customers Association and the
14 Environmental Defense Fund on the other. My testimony
15 also responds to the prefiled testimony of Samuel Gunter
16 filed on behalf of NC WARN, The Climate Times and the NC
17 Housing Coalition.

18 The settlement agreement with the Public Staff,
19 which was filed in this docket on June 10, 2016, was the
20 culmination of intensive and extensive discovery efforts
21 by the Public Staff and protracted negotiations between
22 Duke Energy and Piedmont and the Public Staff which
23 lasted for approximately five weeks. It sets forth a
24 number of conditions and assurances designed to ensure

1 that the proposed merger between Duke Energy and Piedmont
2 will be in the public interest and will not harm
3 customers. The precise terms of the settlement are set
4 forth in the Stipulation filed with the Commission on
5 June 10, 2016, and are accurately described in Public
6 Staff witness Hoard's testimony. The Stipulation with
7 the Public Staff provides for substantially enhanced
8 benefits to customers, both monetary and non-monetary.
9 The Public Staff Stipulation provides significant
10 protective measures for customers in the form of revised
11 Regulatory Conditions and Code of Conduct provisions
12 applicable to the post-closing business practices of Duke
13 Energy and Piedmont. On July 15, 2016, we filed an
14 amendment to the Public Staff settlement and my
15 supporting testimony. The amendment provided for an
16 acceleration of the payment of 10 million in merger
17 savings reflected in the original Stipulation from a two-
18 year period to no later than December 31st, 2016, and a
19 change in the mechanism of such payment from a deposit
20 into Piedmont's Integrity Management Rider deferred
21 account to a direct bill credit. As reflected in my
22 testimony supporting this amendment, this acceleration
23 was agreed to in order to facilitate the accounting for
24 the contribution to customers and will be beneficial to

1 them.

2 The settlement with CUCA in this proceeding
3 provides additional customer benefits in the form of a
4 guarantee of the North Carolina allocable portion of an
5 additional 35 million in fuel savings under the mechanism
6 previously established for Duke Energy Carolinas and Duke
7 Energy Progress in their merger proceeding.

8 Finally, the settlement with the Environmental
9 Defense Fund provides for the conduct of two cost-benefit
10 studies by Duke Energy related to the potential for
11 broader development of Volt-VAR Control technology within
12 the service territories of Duke Energy Carolinas and Duke
13 Energy Progress.

14 Duke Energy and Piedmont support each of the
15 above settlements and urge the Commission to approve them
16 as a reasonable resolution of this docket.

17 In response to the settlement testimony of NC
18 Housing Coalition witness Gunter, I would offer two
19 points. First, I do not agree with his apparent
20 assumption that the merger proposed in this proceeding
21 will be harmful to customers. It will not. Second, I do
22 not agree with this recommendation that the Commission
23 should order a fully funded energy efficiency and
24 weatherization program for low income individuals because

1 the costs of such a program are indeterminate and because
2 the size and scope of such programs by Duke Energy
3 Carolinas, Duke Energy Progress and Piedmont are the
4 subject of regular examination by the Commission in other
5 dockets.

6 Q Thank you, Mr. Barkley. Before I turn you over
7 for cross examination, I've got one additional question
8 for you. Do you have a copy of your supplemental
9 settlement testimony up there with you?

10 A Yes.

11 Q Could you turn to page 2, line 3 of that
12 testimony?

13 A Yes, sir.

14 Q Okay. And the sentence begins actually on line
15 2 that says, "These credits would amount to a total
16 credit to Piedmont's customers of \$10 spread out over a
17 two-year period."

18 A I think we had some version control because
19 there certainly was a version where it was -- it
20 reflected \$10 million, but regardless, apparently the
21 official version says \$10, but clearly the intent was for
22 \$10 million to be included in that sentence.

23 MR. JEFFRIES: We just wanted to make that
24 clear on the record. Mr. Barkley is available for cross

1 examination and questions from the Commission.

2 CHAIRMAN FINLEY: Cross examinations?

3 CROSS EXAMINATION BY MR. RUNKLE:

4 Q Good morning, Mr. Barkley. You seem to have
5 worked for all the companies here today, have you not?

6 A I am working my way around the room, Mr.
7 Runkle.

8 Q Well, we'd be glad to have you.

9 A We'll talk afterwards, see what the terms and
10 conditions would be.

11 Q And a couple questions were referred from Mr.
12 -- Ms. Good and Mr. Skains' testimony yesterday. One was
13 about the forecasted growth of natural gas generation in
14 North Carolina. Are you prepared to answer that
15 question?

16 A Yes.

17 Q In the IRP it's approximately 10,000 megawatts
18 of new generation over the next 15 years?

19 A I'll accept that. I do not have the IRP here
20 with me, but I know that the IRP -- and I think as was
21 stated yesterday, the IRP would call for additional
22 construction of natural gas facilities.

23 Q So what's the average size of a natural gas
24 plant?

1 A Well, they certainly range. I mean, you could
2 have a small CT that would be 100 megawatts or 150, and
3 some of these large combined cycle plants have quite
4 large capacities, maybe 500 or above.

5 Q So there could be at least 20 new natural gas
6 plants constructed in the North Carolina -- in the
7 Carolinas over the next 15 years?

8 A The exact number I'm not sure. We could look
9 at that in the IRP. Twenty plants sounds high. What's
10 your time horizon again? Twenty years?

11 Q Fifteen years.

12 A Fifteen years. That's a CC a year. I mean, as
13 I think was said yesterday, the IRP certainly is a filed
14 document and it would indicate the number of plants. And
15 maybe some of these plants are larger capacity. I
16 wouldn't take the 500. I mean, some combined cycle
17 facilities are -- have the same capacity as a nuclear
18 plant, would be up around 1,000 megawatts. So I think
19 that the specific number of plants, I don't know if I can
20 sit here and do that, but I think we can certainly agree
21 that the -- there will be a significant addition of
22 natural gas added to the portfolio over the next 20
23 years, as is planned now. I don't think those IRPs, Mr.
24 Runkle, are ever intended to be set in concrete and not

1 cognizant of changing conditions, and that's why they are
2 updated periodically, at least every two years, I
3 believe, with a look even annually at that process. So
4 the IRP is a document that certainly is and should be
5 refreshed over time.

6 Q Yeah. We would stipulate that it changes over
7 time as conditions change, as new generation is required
8 and different regulatory concerns are addressed. Now, if
9 there is 10,000 megawatts of new natural gas over the
10 next 15 years, where will Duke Energy get that natural
11 gas from?

12 A Well, there's various facets. To answer that
13 question, there's interstate capacity, there is actually
14 the gas itself, the commodity. They will need to make
15 arrangement for that and they will need to make
16 arrangement for local distribution. So there would
17 really be at least three answers to that, and on the
18 commodity side there may be multiple entities that Duke
19 would contract with for that supply.

20 Q And what role do you see Piedmont Natural Gas
21 playing in that?

22 A Depending on the location of the facilities,
23 certainly Piedmont could supply the local distribution
24 for those plants. PSNC is another LDC within the state

1 of North Carolina that may also provide service to either
2 DEC or DEP plants.

3 Q And what role do you see the Atlantic Coast
4 Pipeline, if it is made operational, in that?

5 A The Atlantic Coast Pipeline would be a source
6 for Duke Energy and other parties to arrange for capacity
7 to be brought from the Northeast down to North Carolina,
8 as opposed to the traditional direction of moving natural
9 gas from south to north.

10 MR. RUNKLE: Your Honor, I put -- presented the
11 witness an exhibit that we'll designate as NC WARN
12 Barkley Cross Exhibit 1.

13 CHAIRMAN FINLEY: It shall be so marked.

14 (Whereupon, NC WARN Barkley Cross
15 Examination Exhibit Number 1 was
16 marked for identification.)

17 Q It's in -- pardon me, sir. Can you just take a
18 minute to review that?

19 A I will, and I'll just let you know when I'm
20 finished. Thank you. (Reviewing document.) Okay.

21 Q Sir, I will present to you that this is a press
22 release that's taken off the Duke Energy website, a press
23 release from July 15, 1999, "CP&L Completes Acquisition
24 of NCNG," and then the second one is October 16, 2002,

1 "Progress Energy to sell NCNG to Piedmont Natural Gas for
2 \$425 million." Is that your understanding what this is?

3 A Yes.

4 Q Were you working for any of these companies
5 back then, NCNG, CP&L?

6 A I was working for neither of these companies in
7 1999. In 2003, I did work for Progress Energy.

8 Q Who were you working for in 1999?

9 A Public Service Company of North Carolina.

10 Q Okay. Are you familiar with the CP&L
11 acquisition of North Carolina Natural Gas?

12 A Yes.

13 Q Is the press release from July 15, 1999 an
14 adequate description of that acquisition?

15 A To my knowledge, the press release is accurate.

16 Q And then again in the October 16, 2002 press
17 release, when Progress Energy -- Carolina Power & Light
18 became Progress Energy, sold NCNG to Piedmont Natural
19 Gas, is this -- to the best of your understanding, this
20 describes that sale?

21 A Yes.

22 Q So when you were working with Piedmont Natural
23 Gas, the Company had already acquired North Carolina
24 Natural Gas?

1 A Progress. I think you maybe meant to say
2 Progress. I'm not sure.

3 Q Okay. You were working with Progress in 2003.

4 A Yes. That is certainly what I intended to say
5 a minute ago.

6 Q And so when you were -- began working at
7 Progress, it had already divested itself of North
8 Carolina Natural Gas?

9 A Well, no, sir. I think -- let me see if I can
10 set the stage. So when the acquisition was made, I was
11 an employee of PSNC, so neither of these companies, CP&L
12 nor NCNG, I was not employed by. In 2003, I had moved
13 from PSNC to Progress Energy, and so I was an employee of
14 Progress Energy in -- well, I guess it was actually 2002.
15 So 2002, when Progress sold NCNG to Piedmont, I was a
16 Progress employee.

17 Q Do these -- regardless of when you were
18 working, who you were working for, to the best of your
19 recollection these press releases describe that process,
20 the purchase by CP&L and the sale by Progress?

21 A Yes, sir.

22 Q Okay.

23 MR. RUNKLE: Chairman, if you could -- if the
24 Commission could take judicial notice of the dockets

1 where these sales happened, and it would be G-9, Sub 470;
2 G-21, Sub 439; and E-2, Sub 825. And it also seems that
3 if the Commission could take judicial notice of similar
4 dockets for Duke Energy and the West Coast Pipeline that
5 was one of your questions yesterday.

6 MR. JEFFRIES: Mr. Chairman, we don't have any
7 objections to taking notice of the official records of
8 the Commission in these dockets, to the extent they
9 exist. We're not completely convinced that all of these
10 dockets were the subject of Commission action, but no
11 objection.

12 CHAIRMAN FINLEY: Well, I know one of them was
13 because I can remember it pretty well. Mr. Runkle, G-9,
14 Sub 470; G-21, Sub 479; and E-2, Sub 825?

15 MR. RUNKLE: G-21, Sub 439.

16 CHAIRMAN FINLEY: 439. Okay.

17 MR. RUNKLE: And I think they were consolidated
18 dockets, but I'm sure that there were -- I was not able
19 to look up the Duke West Coast Pipeline dockets.

20 CHAIRMAN FINLEY: Well, I tell you what, we
21 will accept judicial notice of the ones that are before
22 this Commission. If you can give us some reference that
23 we can look at and put in the record, we'll reserve
24 action on the other ones outside of this jurisdiction.

1 MR. JEFFRIES: And for clarity sake, it was
2 specifically the last one that we were not sure was --
3 existed as a docket before this Commission.

4 CHAIRMAN FINLEY: Right.

5 MR. RUNKLE: We would be glad to, and for
6 proposed orders, if there are -- if there are matters
7 that the Commission should take judicial notice of, it
8 will be these kinds of dockets.

9 CHAIRMAN FINLEY: Right.

10 Q Mr. Barkley, can we turn now to the Agreement
11 and Stipulation of Settlement between the Applicants and
12 the Public Staff?

13 A Yes, sir.

14 MR. RUNKLE: Give everybody an opportunity to
15 get there.

16 Q And in your supplemental and rebuttal testimony
17 that -- you demonstrate both Duke Energy and Piedmont's
18 support for these -- this agreement; is that correct?

19 A Yes.

20 Q Were you one of the members of the negotiating
21 team over the five-week period?

22 A Yes.

23 Q All right. So you're very familiar with these
24 -- the different stipulations within the agreement?

1 A Yes.

2 Q Now, let's look at -- we'll just go down in
3 order just so we have them in front of us. Regulatory
4 Conditions, it says that there were Regulatory Conditions
5 that the parties disagreed upon. What are those
6 Regulatory Conditions?

7 CHAIRMAN FINLEY: Mr. Runkle, pull that
8 microphone up a little bit, please, and speak up so we
9 can all hear what you're saying.

10 Q And in the first Stipulation, it states that
11 there were certain Regulatory Conditions that the parties
12 were not able to agree on and would come back to seek
13 approval in a separate proceeding.

14 MR. JEFFRIES: I'm going to object, Your Honor.
15 Rule 602 prohibits a disclosure of discussions in
16 settlement, and I believe he's asking for the substance
17 of matters that are not reflected in the settlement, as
18 opposed to matters that are.

19 MR. RUNKLE: It's one of the Stipulations that
20 there's -- that there's things that are not being agreed
21 upon and will have a separate proceeding. The next
22 question is when are the parties expected to come back
23 for the next -- the separate proceeding?

24 MR. JEFFRIES: We have no objection to that

1 question.

2 CHAIRMAN FINLEY: Right. Objection withdrawn.

3 Go ahead.

4 Q So the question, then, is when are -- when are
5 Duke Energy, Piedmont and the Public Staff expecting to
6 come back to the Commission for approval or resolution of
7 the currently disagreed upon conditions?

8 A There is no specific timetable to bring those
9 items back to the Commission. And I think an important
10 point here is that they would be before the Commission.
11 We would be bringing this in a very public fashion for
12 the Commission's approval, so there is not a specific
13 time that's been established by the parties to take that
14 action.

15 Q Now, in paragraph 2, Merger-related Cost
16 Savings, who are these -- what parties are going to have
17 these cost savings? Who's going to benefit from that?

18 A All of Piedmont's customers, with a few
19 exceptions. We are still going to use -- and I'll
20 elaborate on the exceptions. We are still going to use
21 the methodology that would be consistent with our
22 Integrity Management Rider in allocating cost. If you're
23 going to give a credit to customers, you still have to
24 allocate to the various rate schedules, and so we will

1 use a mentality that follows that which has been approved
2 for Piedmont in its Tariff Rider E. So that will not
3 affect some of the special contract customers, but big
4 picture perspective, Mr. Runkle, it would be all of --
5 all of the North Carolina customers of Piedmont.

6 Q And will the -- will there be any benefits to
7 the customers of Duke Energy under this par---

8 A Not if they're not -- some Duke Energy
9 customers are also Piedmont customers, but as pertains to
10 their electric bill, this will not affect that. This is
11 a Piedmont rate credit to Piedmont's customers.

12 Q Are there any rate credits to Duke Energy's
13 customers within the agreement?

14 A No.

15 Q Now, looking at paragraph 3, Annual Community
16 Support and Charitable Contributions, my understanding,
17 after questions from Ms. Good, is that Duke Energy
18 Carolinas Foundation, Duke Energy Progress Foundation and
19 Piedmont Foundation will each give various amounts over
20 the next four years; is that your understanding?

21 A Yes.

22 Q And so the foundations are annual levels of no
23 less than 9.65 million for DEC, and that's 9.65 million a
24 year for the next four years?

1 A Yes.

2 Q How much is DEC's foundation now giving to
3 community support and charitable contributions?

4 A What the -- the premise for these amounts, Mr.
5 Runkle, was really to continue a going level, so for
6 these types of purposes, these types of charitable
7 contributions that are listed here, the approximately 10
8 million and then -- for DEC, and then another 6 million
9 for DEP, to be roughly 16 million there, and also
10 Piedmont at a million and a half. It represents a going
11 level that has been provided over the recent few years,
12 so it's a guarantee that that which has been done will
13 continue to be done.

14 Q And, sir, this is not new money; it's just a
15 continuation of existing charitable support by the
16 foundations?

17 A It is a continuation, but it also is a
18 guarantee of that continuation, and certainly outside of
19 this document, such guarantee did not exist.

20 Q Now, there is Other Contributions in paragraph
21 4. Can you describe what those additional contributions
22 are?

23 A Okay. In paragraph 4 there is reference there
24 to seven and a half million dollars that will be provided

1 by DEP, DEC and Piedmont, and it is in advance of
2 workforce development and low income energy assistance.

3 Q And that's fairly similar to an agreement
4 reached in the Duke/Progress merger. I think it was \$10
5 million a year at that time. But several of the
6 stipulated agreements have this kind of additional
7 contribution?

8 A I think there have been, Mr. Runkle, in prior
9 merger proceedings and in prior general rate case
10 proceedings, contributions along the lines of what you're
11 referencing here in this section have been done
12 previously.

13 Q Okay. All right. What direct expenses are not
14 excluded from cost -- or what merger-related direct
15 expenses are excluded from cost recovery?

16 A The -- you're looking at paragraph 5 --

17 Q Yes.

18 A -- and the direct expenses associated with the
19 merger will be excluded, so anything that's deemed a
20 direct expense will be excluded.

21 Q And it will be excluded from cost recovery by
22 either Piedmont or Duke Energy?

23 A That's correct.

24 Q And so to your knowledge, when do either DEC,

1 DEP or Piedmont have plans to come for rate cases before
2 this Commission?

3 A I think that the Companies are always
4 evaluating the appropriate timing for general rate
5 relief. A lot of things go into that calculation. So in
6 my duties at Piedmont now, I can certainly say that
7 Piedmont does not have a specific time that is slated to
8 come before this Commission for its next general rate
9 relief, and I'm not aware that there is anything set --
10 firmly established for either DEC or DEP. It would be
11 something that would continually be evaluated based on
12 economic conditions.

13 Q And do you have an estimate of what the direct
14 -- approximation for what the direct merger cost will be?

15 A The direct merger costs I think were given
16 somewhere in the -- hang on, Mr. Runkle. I think if you
17 consider -- I think financing was in there as well. It
18 was a number in excess of \$100 million. It's quite a
19 large number to bring the two companies together. That
20 includes the fees that are listed here and some financing
21 fees as well. But, again, I think regardless of the
22 specific number, that number is not going to be recovered
23 in cost of service from DEP, DEC or Piedmont's customers.

24 Q So in paragraph 6 it is my understanding that

1 severance is not included? It will be excluded from
2 recovery?

3 A Yes.

4 Q And severance of merger-related severance or
5 all severance?

6 A I think this would be as regards -- and I'll
7 just read directly from the agreement. It says merger-
8 related severance.

9 Q Okay. Again, like the other merger-related
10 direct expenses of, you know, the next rate cases, these
11 will not be recovered?

12 A That's right.

13 Q Looking at paragraph number 11, Affiliate
14 Agreements, how are Piedmont and Duke planning to modify
15 their present Affiliate Agreements based on the merger?

16 A Well, currently they're not affiliates. Duke
17 and Piedmont are not affiliates as we sit today, so the
18 modification would, from a big-picture perspective,
19 involve the inclusion of Piedmont in these agreements.

20 Q So DEC and DEP have existing Affiliate
21 Agreements and Piedmont will be rolled into that?

22 A Yes.

23 Q Now, let's look at Attachment A to the
24 agreement which is the Regulatory Conditions, and I'll

1 direct you to page 5.

2 A One, minute, please. All right. I'm there.

3 Thank you.

4 Q So at that top paragraph, the purpose of the
5 Regulatory Conditions is to hold ratepayers harmless; is
6 that correct?

7 A Yes. I think it -- you know, the paragraph,
8 again, is a little broader than that. It lists some of
9 the specific items that have been talked about here as
10 far as protecting customers from cost and risk and
11 sufficient benefits to cover those risks, but I think
12 from a big-picture paraphrase perspective, protection of
13 customers is at the heart of why these Regulatory
14 Conditions have been established.

15 Q I thought you testified earlier this morning or
16 earlier today, in response to Mr. Gunter's testimony for
17 the Housing Coalition, that you disagree with him and
18 that there -- that the merger proposed in this proceeding
19 will be harmful to the customers; is that correct? Was
20 that your testimony?

21 A I did testify that it appeared to me from his
22 testimony that he perceived harm to customers from this
23 merger, and I see no such -- such harm from the merger.

24 Q Will the customers receive any benefits from

1 the merger?

2 A Absolutely.

3 Q And what are the benefits that the customer
4 will receive from the merger?

5 A Well, I'll just go over a couple things. There
6 are numerous benefits that customers will receive from
7 this merger. You and I have discussed the \$10 million
8 credit, the communities will be bolstered by these
9 charitable contributions, the contribution to low income,
10 workforce development. Another important aspect of the
11 settlement was Piedmont agreed to withdraw a filing that
12 it had made for a deferral of cost that would have been
13 in excess of \$18 million. That's a benefit to customers.
14 You know, other witnesses have gone through benefits of
15 this merger. You and I discussed a minute ago that there
16 are no direct rate credits for the electric customers
17 here, but this is going to be more efficient. Several of
18 our witnesses have said that, so that will flow into cost
19 of service as efficiencies are achieved. There's a
20 benefit from a continued North Carolina footprint. Mr.
21 Young laid out some benefits associated with regional
22 diversity, diversity of different kinds of industries
23 between gas and electric, about access to Piedmont for
24 capital that can potentially enable Piedmont to borrow

1 less expensively. So I think there will be many benefits
2 that will flow to customers as a result of this merger
3 and no harm whatsoever.

4 CHAIRMAN FINLEY: Plus, the Duke umbrella gets
5 Mr. Barkley back under them.

6 (Laughter.)

7 MR. RUNKLE: Pardon, sir? I missed that
8 whole...

9 CHAIRMAN FINLEY: What I said was that Duke
10 gets Mr. Barkley back under the corporate umbrella. That
11 was another benefit.

12 (Laughter.)

13 MR. RUNKLE: All right. For a while.

14 (Laughter.)

15 MR. RUNKLE: He said he was going to talk to me
16 over lunch, so -- all right. Let's get serious, then.

17 Q But for the various provisions in the
18 agreement, the various costs that weren't going to be
19 recovered, the contributions from the different
20 foundations and everything that's in the agreement
21 itself, would -- do the ratepayers -- will the ratepayers
22 -- are there any benefits to the -- I mean, are there any
23 liability -- let me be real clear about this. Will the
24 ratepayers have any harm from this merger? Now, we're

1 looking at the agreement, and if you didn't have an
2 agreement, would the ratepayers have harm?

3 A And let's be -- again, to be clear, when you
4 say "we're looking at the agreement," you're talking
5 about the settlement filed with the Public Staff on June
6 10th, 2016?

7 Q Yes, sir.

8 A The answer to your question is no.

9 Q So the additional contributions and changes,
10 these would benefit ratepayers as opposed to there's no
11 harm. You say at the bottom line there's no harm from
12 this merger.

13 A That's correct. That's my opinion now. It
14 would have been my opinion on January 15th, immediately
15 after Duke and Piedmont filed the Application with the
16 Commission. I think that it is all the more evident now,
17 with the additional protections and additional benefits
18 that were included in the settlement filed on June 10th,
19 2016.

20 Q All right. Same document, if we can turn to
21 page 9. And paragraph 3.4 seems to prohibit gas and
22 electricity transactions between the affiliate companies
23 unless the exchange is at fair market value?

24 A Give me just a second, if you will, Mr. Runkle,

1 please. (Reviewing document.) And this section, for
2 broader context, deals with federal preemption, and it
3 does talk about a concept of doing business at fair
4 market value.

5 Q So how is fair market value going to be
6 determined?

7 A And I think -- and can you maybe give me an
8 example of the type of transaction that you're talking
9 about? If it's a tariff transaction, it's going to be
10 according to the tariffs established by the Commission.
11 Otherwise, the concept of fair market value, I think this
12 would be what the market bears for a particular service,
13 what the going rate is, what a non-affiliate would pay
14 for that same item. You know, Duke's common stock right
15 now, for example, has a market value.

16 Q So who is going to make the determination of
17 what fair market value is?

18 A Fair market value will be determined in this
19 context. It will be determined by the Companies, and it
20 would certainly be subject to review by other parties.

21 Q And would be approved or not approved by this
22 Commission?

23 A I think that, you know, there's a -- there's a
24 whole process here, Mr. Runkle, that can't be condensed

1 just to this one condition. For affiliates to transact
2 business, they do have to receive permission from the
3 Commission. And I think in certain situations, and
4 they're spelled out within the Reg Conditions, certain
5 transactions have to be done at lower of cost of market.
6 There are other transactions that the Companies would
7 bring before the Commission where precedent has been
8 established and these conditions would call for that
9 transaction to be valued at fully distributed cost. So
10 it depends on the counterparties in these transactions
11 and the nature of the service being provided.

12 Q And similarly, if you'll look at page 19, in
13 looking at (a), "DEC, DEP and Piedmont each shall seek
14 out and buy all goods and services from the lowest cost
15 qualified provider of comparable goods and services, and"
16 -- "have the burden of proving that any and all goods and
17 services procured from their Utility-Affiliates," et
18 cetera. Now, how is the Commission expected to assess
19 whether this condition is met?

20 A Well, I think maybe we should just continue
21 reading --

22 Q Okay.

23 A -- that section, and I guess would you like --
24 I guess in response to your question, there is something

1 right within that section that talks about every four
2 years there will be a comprehensive non-solicitation
3 based assessment at a functional level of the market
4 competitiveness of these items.

5 Q And will this assessment be completed by an
6 independent party or within Duke Energy?

7 A Excuse me one second, please. (Reviewing
8 document.) I believe, Mr. Runkle, that this would be
9 conducted by the Company, but there are -- within other
10 areas of the conditions and the Code of Conduct there is
11 a requirement for an external evaluation on a periodic
12 basis of all affiliate transactions between the
13 Companies, so -- and that has been done and filed with
14 this Commission previously, not as regards Piedmont, but
15 there is the -- within this document there is a
16 requirement that outsiders be involved in this process.

17 Q So that would be on page 22, number 5.8(a),
18 independent audits of affiliate transactions every two
19 years?

20 A I'm glad you referenced 5.8(a). Yes, sir.
21 That was what I was referencing.

22 Q Okay.

23 A Yeah.

24 Q Might as well just be clear here, then.

1 A Yes.

2 Q And looking at page 26, number 5.18, it says
3 that the Utilities can seek to include cost savings in
4 future rate proceedings.

5 A It says that neither the Utilities nor its
6 Affiliates "shall assert that any interested party is
7 prohibited from seeking the inclusion in future rate
8 proceedings of cost savings that may be realized as a
9 result of any business combination transaction involving
10 DEC, DEP and Piedmont," so we will have the right to
11 argue for those cost savings.

12 Q Okay. And that would be -- include
13 intervenors, Public Staff and other parties?

14 A I believe that "interested party" would include
15 all of what you just described. I believe "interested
16 party" is a very broad term in this context.

17 Q Now, looking at page 38, number 11.1, it's a
18 commitment for -- to continue the quality of service, is
19 it not?

20 A Yes, it is.

21 Q So what metrics are used to determine -- to
22 evaluate the compliance with this condition?

23 A There -- the metrics for Piedmont have not been
24 developed. Some of the metrics that DEC and DEP have

1 used, Mr. Runkle, involve responsiveness of the call
2 center and, I believe, involve things around outages, the
3 number of outages and the duration of outages on the
4 system that would be proof that customers were continuing
5 to get a high level of customer service.

6 Q And then 11.2 is Best Practices. How are DEC,
7 DEP and Piedmont going to make a reasonable effort to
8 incorporate utilities' best practices into its own
9 practices, to the extent practicable? How is that going
10 to play out?

11 A Well, it's part of the integration process that
12 we're in now. Groups will look at -- in places where
13 there is commonality between the activities of DEC, DEP
14 and Piedmont, groups will look at -- I believe there
15 would be different approaches that these different
16 entities would take, and so they will look at those and
17 try to adopt the best practice, regardless of where that
18 practice is currently being carried out. It may be that
19 it's not a Duke practice or a Piedmont practice
20 necessarily that gets carried forward; it may be the best
21 of both. It may be a combination or it could be one or
22 the other. And I think there are areas -- people talked
23 about right-of-way a little while ago, customer call
24 center. There are things that these companies share in

1 common, and they will look to exact efficiencies as they
2 can.

3 Q And looking at page 39, number 11.11 refers to
4 customer surveys regarding satisfaction with public
5 utility service. How often are those surveys going to be
6 performed?

7 A Certainly, at least annually.

8 Q Okay. And then who is going to conduct the
9 survey?

10 A I think that some of those surveys are done
11 internally, and I believe that we also are willing to
12 share with the Public Staff and others the result of more
13 external-based survey approaches from J.D. Power and
14 others that may look into that -- that area of customer
15 satisfaction. So it's a combination of internal and
16 external that the Companies would share at least annually
17 with the Public Staff under this reg condition.

18 Q Looking at page 43, number 15.1 requires a
19 cost-benefit analysis of the interstate pipeline capacity
20 and supply for the electric customers; is that correct?

21 A It does, yes, sir.

22 Q Will this analysis, cost-benefit analysis, be
23 conducted by the Companies or an independent party?

24 A Company.

1 Q Will this document be filed with the
2 Commission?

3 A Not to my knowledge. This is a new reg
4 condition, and the Company will file with the Commission
5 what the Commission asks for, so if they were to say to
6 us that we would like to see that, then we will provide
7 it. I believe the intent, as written here, is that it
8 would be done, and that anybody could ask for that
9 support that wanted to see that. And we do have various
10 proceedings before this Commission where the prudence of
11 our procurement, especially as regards fuel on the Duke
12 side and just the purchase of natural gas and capacity on
13 the Piedmont side, so they are reviewed at least annually
14 by this Commission. So there are plenty of opportunities
15 for people to look at the appropriateness and prudence of
16 those purchases.

17 MR. RUNKLE: Chairman, I have several questions
18 on the Code of Conduct, maybe 10 minutes. Do them now
19 before lunch or after lunch, at your convenience?

20 CHAIRMAN FINLEY: We'll take a lunch break and
21 come back at two o'clock.

22 MR. RUNKLE: Okay. And Chairman, one other
23 thing before we go off the record --

24 CHAIRMAN FINLEY: Two o'clock.

1 MR. RUNKLE: Mr. Gunter was testifying for the
2 North Carolina Housing Coalition. The only party with
3 cross examination, Duke Energy, said they would stipulate
4 his testimony into the record as if read. His summary is
5 fairly close to his testimony. If there are questions
6 from the Commissioners or any of the other parties, we'd
7 be glad to have them. If not, we'd stipulate.

8 CHAIRMAN FINLEY: Does any other party have
9 questions of Mr. Gunter?

10 MR. SOMERS: We do not, Mr. Chairman. We're
11 willing to waive cross.

12 CHAIRMAN FINLEY: All right. We will -- does
13 any Commissioner have questions of that witness?

14 (No response.)

15 CHAIRMAN FINLEY: All right. He may be
16 excused.

17 (Whereupon, the direct testimony of
18 Samuel Gunter was copied into the
19 record as if given orally from the
20 stand.)

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STATE OF NORTH CAROLINA
UTILITIES COMMISSION
RALEIGH

DOCKET NO. E-2, SUB 1095
DOCKET NO. E-7, SUB 1100
DOCKET NO. G-9, SUB 682

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

In the Matter of)	
Application of Duke Energy Corporation and)	DIRECT TESTIMONY OF
Piedmont Natural Gas Company Inc., to)	SAMUEL GUNTER
Engage in Business Combination Transaction)	ON BEHALF OF NC WARN,
and Address Regulatory Conditions and)	THE CLIMATE TIMES, AND
Codes of Conduct)	NC HOUSING COALITION

Q. WOULD YOU PLEASE STATE YOUR FULL NAME, OCCUPATION AND
BUSINESS ADDRESS?

A. My name is Samuel Gunter. I am the Director of Policy and Advocacy for the
NC Housing Coalition, 5800 Faringdon Place, Raleigh, NC 27609.

Q. IN WHAT CAPACITY ARE YOU APPEARING BEFORE THIS
COMMISSION?

A. I am appearing as a witness on behalf of the North Carolina Waste
Awareness and Reduction Network ("NC WARN"), The Climate Times, and the
NC Housing Coalition.

Q. PLEASE SUMMARIZE YOUR PAST WORK EXPERIENCE AND
EDUCATIONAL BACKGROUND.

A. I have a Bachelor's degree in Government from the University of Texas at Austin and a Master of Divinity from Duke Divinity School. I have served churches in North Carolina and Texas as both a minister and as a lay person serving on committees that deal with missions and the social work of the church. I have also done legislative work in Texas on juvenile justice issues with the Texas Criminal Justice Coalition, and immigration issues with the Christian Life Commission of the Baptist General Convention of Texas. Most recently I have worked for Habitat for Humanity of Wake County as the Faith and Advocacy Coordinator.

Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY IN THIS PROCEEDING?

A. My testimony is directed at Paragraphs 3 and 4 of the settlement, the provisions in the agreement and stipulation of settlement between the Public Staff, Duke Energy, and Piedmont Natural Gas that purport to compensate families who might be harmed by the proposed merger.

Q. WHY IS THE NC HOUSING COALITION INTERESTED IN THE MERGER?

A. The NC Housing Coalition is primarily concerned about rising utility costs, which disproportionately affect low-income families. As of 2014, more than 1.2 million families in North Carolina are housing cost-burdened and more than 500,000 families are severely housing cost-burdened. A family is cost-burdened when they spend more than 30% of their income on housing and utilities, while a

family is *severely* cost-burdened when they spend more than 50% of their income on housing and utilities.

Those numbers have been growing as North Carolina continues to grow. Housing is the first rung on the ladder of opportunity. When housing is unaffordable, families are less likely to be able to access opportunity and build for the future. Rising utility costs – from either electricity or natural gas -- can be catastrophic for a family whose budget already has no margin for error.

Q. DO THE AMOUNTS OF CONTRIBUTIONS AND COMMITMENTS IN THE SETTLEMENT MEET THE NEEDS OF FAMILIES WHO MIGHT BE HARMED BY THE PROPOSED MERGER?

A. No, the proposed charitable contributions and commitments to low-income customer assistance and energy efficiency programs are a step in the right direction, but are not nearly sufficient to meet the needs of families who might be harmed by the proposed merger.

It is likely the two utility foundations would contribute the amounts in paragraph 3 designated for community charities regardless of the settlement agreement so this provision does little to compensate for higher utility costs.

The \$7.5 million for both workplace development and low-income energy assistance in paragraph 4 is inadequate. Rather than just providing a limited amount of assistance, a fully funded energy efficiency and weatherization program would extend much further toward lowering energy bills for consumers. All households can benefit from reduced utility bills from energy efficiency and

weatherization, but for low-income households, the cost savings can have a very significant impact on their overall budget and the local economy. In addition to economic benefits, reduced bills would help to stabilize housing tenure -- keeping families in homes or apartments. A successful program to compensate low-income households for potentially increased bills would improve housing and that would increase economic, health, and comfort benefits.

Q. WHAT ARE YOUR RECOMMENDATIONS TO THE COMMISSION?

A. I recommend an increased financial commitment to families that would be most vulnerable to cost increases, and that the money be distributed with the advice of an outside non-profit that works directly with low-income families in North Carolina. The amount of the contribution should be established with the goal of providing lower bills for the most vulnerable households.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes.

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CERTIFICATE OF SERVICE

I hereby certify that I have this day served a copy of the foregoing TESTIMONY OF SAMUEL GUNTER ON BEHALF OF NC WARN, THE CLIMATE TIMES, AND THE NC HOUSING COALITION upon each of the parties of record in this proceeding or their attorneys of record by deposit in the U.S. Mail, postage prepaid, or by email transmission.

This is the 27th day of June 2016.

/s/ John D. Runkle

OFFICIAL COPY
OFFICIAL COPY
Jun 28 2016
Jul 26 2016

1 MR. RUNKLE: Thank you, sir. Back at 2:00.

2 CHAIRMAN FINLEY: Come back at 2:00.

3 (The hearing was adjourned, to be
4 reconvened at 2:00 p.m.)

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STATE OF NORTH CAROLINA

COUNTY OF WAKE

C E R T I F I C A T E

I, Linda S. Garrett, Notary Public/Court Reporter,
do hereby certify that the foregoing hearing before the
North Carolina Utilities Commission in Docket No. E-2,
Sub 1095, E-7, Sub 1100, and G-9, Sub 682, was taken and
transcribed under my supervision; and that the foregoing
pages constitute a true and accurate transcript of said
Hearing.

I do further certify that I am not of counsel for,
or in the employment of either of the parties to this
action, nor am I interested in the results of this
action.

IN WITNESS WHEREOF, I have hereunto subscribed my
name this 25th day of July, 2016.



Linda S. Garrett

Notary Public No. 19971700150