

UNDERWRITER CERTIFICATION REGARDING PRICING OF STORM RECOVERY
BONDS

November 18, 2021

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

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

Dear Clerk Dunston,

Citigroup Global Market Inc. ("Citi" or "we") submits this letter at the request of the North Carolina Utilities Commission (the "Commission" or "you") pursuant to Ordering Paragraph 30 of the Commission's Financing Order issued on May 10, 2021, in Docket No. E-7, Sub 1243 (as amended and clarified by the Commission's Financing Order issued on July 13, 2021, the "Financing Order"). All capitalized terms not defined in this letter have the meanings ascribed to them in the Financing Order.

Duke Energy Carolinas, LLC (the "Company") has on this date filed with the Commission its Issuance Advice Letter (the "Issuance Advice Letter") for approval of the issuance of Storm Recovery Bonds (the "Storm Recovery Bonds") and the recovery of associated costs and the imposition of the Storm Recovery Charges to repay the Storm Recovery Bonds, all as further described in the Issuance Advice Letter. In the Issuance Advice Letter, the Applicant has set forth the following particulars of the structure and terms of the Storm Recovery Bonds. The Storm Recovery Bonds were priced at approximately 4:40 p.m., New York time, on November 17, 2021 (the "Pricing Time").

- Name of Storm Recovery Bonds: Series A Storm Recovery Bonds
- Name of SPE: Duke Energy Carolinas NC Storm Funding LLC
- Name of Storm Recovery Bond Trustee: The Bank of New York Mellon Trust Company, National Association
- Closing Date: November 24, 2021
- Preliminary Bond Ratings: Moody's Aaa(sf); Standard & Poor's AAA(sf); (final ratings to be received prior to closing)
- Total Principal Amount of Storm Recovery Bonds to be Issued: \$237,210,000
- Estimated up-front Financing Costs: \$4,344,980¹
- Interest Rates and Expected Sinking Fund Schedule:

<u>Tranche</u>	<u>Interest Rate</u>
A-1	1.679%
A-2	2.617%

¹ Estimated up-front Financing Costs included in bond structure.

Semi- Annual Payment Date	Tranche A-1 Principal	Tranche A-2 Principal
Closing Date	\$0	\$0
7/1/2022	\$4,538,012	\$0
1/1/2023	\$5,109,504	\$0
7/1/2023	\$5,150,151	\$0
1/1/2024	\$5,191,120	\$0
7/1/2024	\$5,232,416	\$0
1/1/2025	\$5,274,039	\$0
7/1/2025	\$5,315,995	\$0
1/1/2026	\$5,358,283	\$0
7/1/2026	\$5,400,908	\$0
1/1/2027	\$5,443,872	\$0
7/1/2027	\$5,487,179	\$0
1/1/2028	\$5,530,829	\$0
7/1/2028	\$5,574,827	\$0
1/1/2029	\$5,619,174	\$0
7/1/2029	\$5,663,875	\$0
1/1/2030	\$5,708,931	\$0
7/1/2030	\$5,754,346	\$0
1/1/2031	\$5,800,121	\$0
7/1/2031	\$2,846,418	\$2,999,844
1/1/2032	\$0	\$5,908,457
7/1/2032	\$0	\$5,986,361
1/1/2033	\$0	\$6,065,291
7/1/2033	\$0	\$6,145,262
1/1/2034	\$0	\$6,226,287
7/1/2034	\$0	\$6,308,380
1/1/2035	\$0	\$6,391,557
7/1/2035	\$0	\$6,475,829
1/1/2036	\$0	\$6,561,213
7/1/2036	\$0	\$6,647,723
1/1/2037	\$0	\$6,735,373
7/1/2037	\$0	\$6,824,178
1/1/2038	\$0	\$6,914,156
7/1/2038	\$0	\$7,005,319
1/1/2039	\$0	\$7,097,683
7/1/2039	\$0	\$7,191,267
1/1/2040	\$0	\$7,286,084
7/1/2040	\$0	\$7,382,150
1/1/2041	\$0	\$7,479,485
7/1/2041	\$0	\$7,578,101
Total Payments ⁽⁴⁾	\$100,000,000	\$137,210,000

- Distributions to Investors: Semi-annually
- Weighted Average Coupon Rate²: 2.407%
- Annualized Weighted Average Yield³: 2.438%
- Initial Balance of capital subaccount: \$1,186,050
- Estimated/Actual ongoing Financing Costs for first year of Storm Recovery Bonds: \$398,095⁴; \$1,702,750⁵

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

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

⁴ Assumes the Company is the Servicer (0.05%).

⁵ Assumes an alternative servicer fee (0.60%).

Section 62 of the North Carolina General Statutes provides that the Storm Recovery Bonds may be issued if the Commission determines, among other conditions, “that the structuring and pricing of the storm recovery bonds are reasonably expected to result in the lowest storm recovery charges consistent with market conditions at the time the storm recovery bonds are priced and the terms set forth in [the] financing order.” Section 62-172(b)(3)b.3. The Financing Order requires that Citi, as underwriter, file a certificate with the Commission confirming that the structuring, marketing and pricing of the Storm Recovery Bonds in fact resulted in the lowest Storm Recovery Charges consistent with market conditions at the time the Storm Recovery Bonds were priced and the terms set forth in the Financing Order. We refer to the standard set forth in this paragraph as the “Lowest Charge Standard.”

Described below are actions taken by Citi in order to address the Lowest Charge Standard:

- Provided preliminary prospectus by e-mail to prospective investors.
- Allowed sufficient time for investors to review the preliminary prospectus and to ask questions regarding the transaction.
- Reviewed the rating agency pre-sale reports for accuracy during the marketing period.



- Made presentations and recommendations to, and discussed various strategies with the Bond Advisory Team regarding the structuring, marketing and pricing of the Storm Recovery Bonds.
- Worked with Bond Advisory Team and the Company (and each of their respective counsels) to finalize documentation in accordance with established standards for transactions of this type and the terms of the Financing Order.

On the basis of the foregoing and subject to the assumptions and considerations set forth below, it is the view of Citi, in its best professional judgement as underwriter, that the structuring, marketing and pricing of the Storm Recovery Bonds in fact resulted in the lowest Storm Recovery

Charges consistent with market conditions at the time the Storm Recovery Bonds were priced and the terms set forth in the Financing Order.

The views set forth in the preceding paragraph are subject to the following assumptions and considerations:

- i. In expressing our views, we have assumed, without independent investigation, the accuracy and completeness of information from the Company, the docket, the Financing Order and customary industry sources upon which we have relied (except with respect to information provided by Citi for use in the structuring and pricing of the Storm Recovery Bonds) at or prior to the Pricing Time for the purposes of this letter.
- ii. The views expressed herein necessarily depend upon conditions as they exist as of the date hereof. Furthermore, this letter is based upon our knowledge of financial, economic, legal, regulatory, tax, political, market and other conditions as they exist and can be evaluated on the date hereof.
- iii. The views expressed herein are made as of the Pricing Time, and we assume no obligation to update them after the date hereof.
- iv. We have assumed the accuracy of the assumptions and statements of the Company contained in the Issuance Advice Letter and the calculations and other information contained therein, and in the Company Certification and based upon the information with respect to rates provided to it by the Company.
- v. We do not make any representation regarding any assumptions made by the Company in calculating the recovery charges including, but not limited to, any assumptions made regarding energy sales forecasts, ratepayer payment and charge-off patterns or defaults by third party suppliers. We have assumed that the Company will implement the transactions contemplated hereby in accordance with the terms of the Financing Order.
- vi. We do not make any representation regarding the efficacy of any true up adjustments or other actions the Commission is required to take under the Financing Order.
- vii. This certification does not constitute a bid for any Storm Recovery Bonds.
- viii. The pricing of the Storm Recovery Bonds does not reflect a level at which actual other transactions have occurred or may occur. Our views set forth in this certification may vary from the views expressed in certifications from other sources.
- ix. The pricing, marketing and structuring of the Storm Recovery Bonds was done substantially concurrently with the pricing, marketing and structuring of storm recovery bonds to be issued by Duke Energy Progress, LLC with substantially similar investors in substantially the same market.
- x. This certification does not address nor should it be construed to address the relative merits of alternative business strategies that may be available to the Company.

In setting forth the views above, please note that (i) in pricing securities such as the Storm Recovery Bonds, an issuer may price securities at a yield which is higher than investor bids received for a portion of such securities in order to sell the entire amount of such securities, and (ii) we have made subjective determinations regarding indications of interest from potential investors in accordance with our experience and standard industry practice related to the marketing

and pricing of securities offerings (which determination may, among other things, result in particular allocations to particular investors that are less than the indications of interest received from such investors).

Citi is delivering this letter to you solely to assist you in establishing its compliance with the Lowest Charge Standard and may not be disclosed to, or relied upon by, any other person without our prior written consent; *provided* that this letter may be disclosed (without reliance) (i) in response to a court order or other appropriate legal process, (ii) in order to comply with any subpoena, order, regulation, ruling or request of any judicial, administrative, governmental, supervisory or legislative body or committee or any self-regulatory body and (iii) as otherwise required by law. In addition, the information and views provided herein are being furnished to you for the limited purpose described herein and may not be used or relied upon (i) by you for any other purpose, or (ii) by any other person other than you, in each case without the prior written consent of Citi. Citi specifically disclaims any responsibility to any other person for the contents of this letter, whether such person claims rights directly or as a third-party beneficiary. Citi has not provided accounting, tax or legal advice, and we express no view as to the accounting, tax or legal treatment of any such matters. It is understood that the delivery of this certification by us to you does not establish a fiduciary relationship between us and you or the SPE.

Notwithstanding the prior paragraph, in the event that you are required to disclose the existence or content of this letter, we request that you provide Citi with prompt and prior written notice of any such requirement.

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CITIGROUP GLOBAL MARKETS INC.

By: 
Name: Steffen Lunde
Title: Director