

**Duke Energy Carolinas
and
Duke Energy Progress
Response to
NC Public Staff Data Request
Data Request No. NCPS 1**

Docket Nos. E-7, Sub 1243 and E-2, 1262

**Date of Request: October 23, 2020
Date of Response: October 30, 2020**

☐ **CONFIDENTIAL**
☒ **NOT CONFIDENTIAL**

Confidential Responses are provided pursuant to Confidentiality Agreement

The attached response to NC Public Staff Data Request No. 1-1, was provided to me by the following individual(s): MoNiqueka L. Smith, Legal Regulatory Analyst, and was provided to NC Public Staff under my supervision.

Camal O. Robinson
Associate General Counsel
Duke Energy Carolinas

OFFICIAL COPY

Jan 11 2021

North Carolina Public Staff
Data Request No. 1
DEC Docket No. E-7, Sub 1243
DEP Docket No. E-2, Sub 1262
Item No. 1-1
Page 1 of 3

Request:

In this proceeding, the Public Staff will be serving Data Requests on Duke Energy Carolinas, LLC and Duke Energy Progress, LLC (DEC, DEP, each a Company, and together, the Companies), to investigate their securitization petitions. For all Data Requests, the following instructions and definitions apply:

A. Instructions

(1) In responding to any of the questions in the Data Requests, please answer each question on a separate sheet of paper, restating the question in full. Please provide the name and title of the individual who has the responsibility for the subject matter addressed therein.

Include with each response or group of contemporaneous responses the identity of the person making the response by name, occupation, and job title.

(2) The Data Requests should be regarded by you as continuing and requiring further and supplemental responses as any additional information within their scope is generated or becomes available to you.

(3) With respect to any document related to any matter addressed in the Data Requests, if the document is not in your possession, but you know or believe that it exists, you are requested to identify and indicate to the best of your ability the present or last known location of the document and its custodian.

(4) To your knowledge, if no documents containing the exact information exist, but documents exist that contain portions thereof or that contain substantially similar information, then the definition of "documents" to be identified shall include the documents that do exist.

(5) For any information that you claim is unavailable, state the reason why it is unavailable, and provide any information that is available which is similar to the requested information.

(6) If any document or other information called for is withheld on a claim of privilege, identify the document or other information withheld, including its date and a description of the subject matter, and the full name, job title, and capacity of each and every person listed as an addressor, addressee, or indicated on blind copies; identify all persons to whom the document or other information was distributed, shown, or explained; and identify the nature and legal basis of the privilege asserted. Set forth the factual and legal predicates to any claim of privilege or other immunity from discovery in sufficient detail for the Public Staff to ascertain the Companies' right to such treatment, and provide redacted copies of requested materials or information. Any redactions should be clearly identified on each page redacted. If any document or other information called for is to be produced with a claim of confidentiality, please identify such document or information and provide it pursuant to the terms of the Comprehensive Confidentiality Agreement executed between the Companies and Public Staff.

(7) If you intend to withhold documents or other information on the basis that such documents or other information are "voluminous," or object on the basis that the request is "overly broad," "unduly burdensome," or on a similar basis, provide information sufficient to enable the Commission, the Public Staff, and other parties to assess the true nature of the objection. Without limiting the foregoing, this information should include a description of the documents, the approximate number of pages, number and thickness of volumes, and

North Carolina Public Staff
Data Request No. 1-1
DEC Docket No. E-7, Sub 1243
DEP Docket No. E-2, Sub 1262
Item No.
Page 2 of 3

other such identifying information. If you do provide certain information subject to and notwithstanding such objections, you should describe any information you have withheld sufficiently to enable the Commission, the Public Staff, and other parties to assess the true nature of the objection.

(8) If you assert that any document related to any matter addressed in any question in the Data Requests has been destroyed or transferred beyond your control, please state the following: (a) identify by full name, official title and address(es), any person who destroyed the document and any person involved in ordering the destruction of the document; (b) state the time, place and method of, and reasons for, the document's destruction, including any and all documents relating to the order or act of such destruction; (c) if destroyed or disposed of by operation of a document destruction program or retention policy, identify and produce a copy of the guideline, policy, or manual describing the document destruction program or retention policy; (d) if transferred, identify the person authorizing transfer, and state the time, place, and method of, and reason for, its transfer, and identify and produce any and all documents relating to the transfer; (e) identify each and every person listed as an addressor or addressee or indicated on blind copies, or to whom it was distributed, shown or explained; and (f) state or identify the date, subject matter, number of pages, attachments and appendices of the document.

(9) In responding to each question in the Data Requests, please provide all information available to you or in your possession, including information possessed by any agent, consultant, or employee.

(10) If a response to any of the Data Requests requires any calculations, analyses, assumptions or studies, please identify and provide copies of such calculations, analyses, assumptions or studies, and include all workpapers relating thereto.

(11) Whenever specific information, such as a date or figure, is requested and you are unable to provide the exact information, provide your best estimate thereof and indicate that it is an estimate.

(12) To the extent the Companies assert that any requested information is not relevant or not material to any issue in the above-captioned matter (such as an assertion that the Companies are only providing information pertinent to North Carolina), the Companies, in their written response(s), should indicate a specific basis for said assertion in the context of any issues arising in this proceeding, and provide information sufficient to enable the Commission, the Public Staff, and other parties to assess the true nature of the objection. Without limiting the foregoing, this information should include a description of the documents deemed not relevant or not material.

(13) Please provide notification via electronic mail to the following when each response to a Data Request has been uploaded by the Companies to the Companies' FTP site (such as DataSite):

Dianna Downey
dianna.downey@psncuc.nc.gov

William Grantmyre
william.grantmyre@psncuc.nc.gov

North Carolina Public Staff
Data Request No. 1-1
DEC Docket No. E-7, Sub 1243
DEP Docket No. E-2, Sub 1262
Item No.
Page 3 of 3

Zeke Creech
zeke.creech@psncuc.nc.gov

B. Definitions

- (1) "You" and "your" refers to the Companies or any of its affiliates, employees, agents, consultants, or experts.
- (2) "Companies" refer to Duke Energy Carolinas, LLC and Duke Energy Progress, LLC.
- (3) When capitalized, "Commission" refers to the North Carolina Utilities Commission.
- (4) "Document" includes any written, recorded or graphic matter, however produced or reproduced, including, but not limited to, correspondence, telegrams, contracts, agreements, notes in any form, memoranda, charts, diaries, reports, books, ledgers, diaries, voice recording tapes, microfilms, microfiche, pictures, data processing cards or discs, computer tapes and other computer-generated and stored information or data base, workpapers, calendars, minutes of meetings or any other writings or graphic matter, including copies containing marginal notes or variations of any of the foregoing, now or previously in your possession.
- (5) "Identify," "identity," or "identification," when used in reference to an individual person, means to state that person's full name, business position, and business address, including zip code and phone number, if known, and, the last known business position, duties and business address, if known.
- (6) "Identify," "identity," or "identification," when used in reference to a business organization, means to state the corporate name or other names under which said organization does business, and the location of its principal place of business.
- (7) "Identify," "identity," or "identification," when used in reference to a document, means to state the type of document (e.g., computer-stored information, microfilm, letter, memorandum, policy circular, minute book, telegram, chart, etc.), or some other means of identifying it, and its present location and custodian. If any document was, but is no longer, in your possession or subject to your control, state what disposition was made of it, and, if destroyed or disposed of by operation of a retention policy, state the retention policy. For any Data Requests that request identification of documents, you may, in lieu of identification, provide copies of the requested documents. Each document so produced shall be identified by the number of the data request to which it is purportedly responsive.
- (8) The terms "describe," "describe in detail," "explain," and "explain in detail" mean describe and explain in detail each and every basis for the position taken or statement made and identify each and every statement, study, and document relied on by you and provide a copy of all such identified studies and documents.

Response:

The Companies acknowledge the Public Staff's instructions and commits to taking all reasonable actions to comply, provided the instructions do not purport to add requirements or obligations inconsistent with the North Carolina Utilities Commission (the "Commission") rules and regulations, or the instructions in the Commission's Scheduling Order once issued.

**Duke Energy Carolinas
and
Duke Energy Progress
Response to
NC Public Staff Data Request
Data Request No. NCPS 1**

Docket Nos. E-7, Sub 1243 and E-2, 1262

**Date of Request: October 23, 2020
Date of Response: October 30, 2020**

☐ **CONFIDENTIAL**
☒ **NOT CONFIDENTIAL**

Confidential Responses are provided pursuant to Confidentiality Agreement

The attached response to NC Public Staff Data Request No. 1-2, was provided to me by the following individual(s): Camal O. Robinson, Associate General Counsel, and was provided to NC Public Staff under my supervision.

Camal O. Robinson
Associate General Counsel
Duke Energy Carolinas

North Carolina Public Staff
Data Request No. 1
DEC Docket No. E-7, Sub 1243
DEP Docket No. E-2, Sub 1262
Item No. 1-2
Page 1 of 1

Request:

The Public Staff adopts as its own all of the Data Requests (individually or collectively) of all other parties, whether written or oral, formal or informal, propounded to the Companies in this proceeding. All such requests should be treated by the Companies as being independently asked by the Public Staff as of the date such requests are received by the Companies, and the Companies' initial and revised responses to such formal or informal Data Requests should be provided accordingly. This request applies to any Data Requests that have been propounded to the Companies since the commencement of this proceeding as well as going forward.

Response:

The Companies acknowledge the Public Staff's request and will proceed accordingly.

**Duke Energy Carolinas
and
Duke Energy Progress
Response to
NC Public Staff Data Request
Data Request No. NCPS 1**

Docket Nos. E-7, Sub 1243 and E-2, 1262

**Date of Request: October 23, 2020
Date of Response: October 30, 2020**

☐ **CONFIDENTIAL**
☒ **NOT CONFIDENTIAL**

Confidential Responses are provided pursuant to Confidentiality Agreement

The attached response to NC Public Staff Data Request No. 1-3, was provided to me by the following individual(s): Camal O. Robinson, Associate General Counsel, and was provided to NC Public Staff under my supervision.

Camal O. Robinson
Associate General Counsel
Duke Energy Carolinas

North Carolina Public Staff
Data Request No. 1
DEC Docket No. E-7, Sub 1243
DEP Docket No. E-2, Sub 1262
Item No. 1-3
Page 1 of 1

Request:

Please provide copies of all Data Requests from other parties in this proceeding when they are received by the Companies.

Response:

The Companies will provide copies to the Public Staff of all data requests received from other intervenors in this proceeding.

**Duke Energy Carolinas
and
Duke Energy Progress
Response to
NC Public Staff Data Request
Data Request No. NCPS 1**

Docket Nos. E-7, Sub 1243 and E-2, 1262

**Date of Request: October 23, 2020
Date of Response: October 30, 2020**

☐ **CONFIDENTIAL**
☒ **NOT CONFIDENTIAL**

Confidential Responses are provided pursuant to Confidentiality Agreement

The attached response to NC Public Staff Data Request No. 1-4, was provided to me by the following individual(s): Camal O. Robinson, Associate General Counsel, and was provided to NC Public Staff under my supervision.

Camal O. Robinson
Associate General Counsel
Duke Energy Carolinas

North Carolina Public Staff
Data Request No. 1
DEC Docket No. E-7, Sub 1243
DEP Docket No. E-2, Sub 1262
Item No. 1-4
Page 1 of 1

Request:

Please provide copies of all the Companies' responses to Data Requests from other parties in this proceeding as soon as they are transmitted by the Company to the party making the request.

Response:

The Companies will provide copies to the Public Staff of all responses to data requests received from other intervenors in this proceeding.

**Duke Energy Carolinas
and
Duke Energy Progress
Response to
NC Public Staff Data Request
Data Request No. NCPS 1**

Docket Nos. E-7, Sub 1243 and E-2, 1262

**Date of Request: October 23, 2020
Date of Response: October 30, 2020**

☐ **CONFIDENTIAL**
☒ **NOT CONFIDENTIAL**

Confidential Responses are provided pursuant to Confidentiality Agreement

The attached response to NC Public Staff Data Request No. 1-5, was provided to me by the following individual(s): Camal O. Robinson, Associate General Counsel, and was provided to NC Public Staff under my supervision.

Camal O. Robinson
Associate General Counsel
Duke Energy Carolinas

North Carolina Public Staff
Data Request No. 1
DEC Docket No. E-7, Sub 1243
DEP Docket No. E-2, Sub 1262
Item No. 1-5
Page 1 of 1

Request:

Please provide all Data Requests issued by the Companies to other parties in this proceeding as soon as they are submitted to the party.

Response:

The Companies will provide copies of all Data Requests issued by the Companies to other parties.

**Duke Energy Carolinas
and
Duke Energy Progress
Response to
NC Public Staff Data Request
Data Request No. NCPS 1**

Docket Nos. E-7, Sub 1243 and E-2, 1262

**Date of Request: October 23, 2020
Date of Response: October 30, 2020**

☐ **CONFIDENTIAL**
☒ **NOT CONFIDENTIAL**

Confidential Responses are provided pursuant to Confidentiality Agreement

The attached response to NC Public Staff Data Request No. 1-6, was provided to me by the following individual(s): Camal O. Robinson, Associate General Counsel, and was provided to NC Public Staff under my supervision.

Camal O. Robinson
Associate General Counsel
Duke Energy Carolinas

North Carolina Public Staff
Data Request No. 1
DEC Docket No. E-7, Sub 1243
DEP Docket No. E-2, Sub 1262
Item No. 1-6
Page 1 of 1

Request:

Please provide all responses received by the Companies to Data Requests issued by it to other parties as soon as the responses are received.

Response:

The Companies will provide a copy of all responses received to Data Requests issued by it to other parties as soon as the responses are received.

**Duke Energy Carolinas
and
Duke Energy Progress
Response to
Confidential NC Public Staff Data Request No. 1-7
Filed Under Seal**

**Duke Energy Carolinas
and
Duke Energy Progress
Response to
Confidential NC Public Staff Data Request No. 1-8
Filed Under Seal**

**Duke Energy Carolinas
and
Duke Energy Progress
Response to
NC Public Staff Data Request
Data Request No. NCPS 2**

Docket Nos. E-7, Sub 1243 and E-2, 1262

**Date of Request: November 9, 2020
Date of Corrected Response: December 17, 2020**

☐

CONFIDENTIAL

☒

NOT CONFIDENTIAL

Confidential Responses are provided pursuant to Confidentiality Agreement

The attached corrected response to NC Public Staff Data Request No. 2-1, was provided to me by the following individual(s): Charles Atkins, CEO, Atkins Capital Strategies LLC, and was provided to NC Public Staff under my supervision.

Camal O. Robinson
Associate General Counsel
Duke Energy Carolinas

North Carolina Public Staff
Data Request No. 2
DEC Docket No. E-7, Sub 1243
DEP Docket No. E-2, Sub 1262
Item No. 2-1
Page 1 of 3

Request:

1. STRUCTURE - WITNESS ATKINS

- a. Please provide a list of the 24 securitized utility bond transactions on which Witness Atkins has participated, totaling \$22.6 billion, as stated on Atkins Exhibit 1, page 2. Please include the amount of the offering, the party that employed Witness Atkins, and the party Witness Atkins represented.
- b. Please provide copies of all previous testimony (including, but not limited to, Direct, Rebuttal, Depositions, Answers provided in Discovery/Interrogatories, transcripts of open hearings) provided by Witness Atkins in state regulatory proceedings in connection with those securitized utility bond transactions. Please include the regulatory proceeding Docket Number and a weblink to the case where all other documents filed in the Docket are available.
- c. Did any of the transactions in which Witness Atkins participated have a financial advisor to the state regulatory commission? If so, please identify the state and the advisor.
- d. What specific role did Witness Atkins play in each transaction? With respect to each transaction:
 - i. Did Witness Atkins manage or supervise other securities professionals in substantive matters relating to the transaction structure?
 - ii. Did Witness Atkins manage or supervise other securities professionals in substantive matters relating to marketing of the securitized utility bonds?
 - iii. Did Witness Atkins manage or supervise other securities professionals in substantive matters relating to pricing of the securitized utility bonds?
 - iv. Did Witness Atkins participate in a support role in the structuring of the securities? If so, please describe.
 - v. Did, Witness Atkins participate in a support role in the marketing of the securities? If so, please describe.
 - vi. Did Witness Atkins participate in a support role in the pricing of the securities? If so please describe.
- e. For each transaction, please provide the date of pricing of the transaction, the dollar amount of all tranches, the weighted average life of each such tranche and the credit spread against the benchmark security of each tranche used in pricing.

Response:

Corrected Response 12/17/20:

- b. Please see the file titled "Corrected Atkins RBR Experience 2-1.xlsx" in response to this request as opposed to the original file provided in response to PS DR 2-1b.



Corrected Atkins RBR
Experience 2-1 (2).xls

North Carolina Public Staff
Data Request No. 2
DEC Docket No. E-7, Sub 1243
DEP Docket No. E-2, Sub 1262
Item No. 2-1
Page 2 of 3

The information requested refers to the section of Mr. Atkins' professional resume that refers only to his years at Morgan Stanley. Thus, the numbers listed exclude advisory assignments he completed as an independent consultant, and also during his time at Guggenheim Securities. The numbers listed, as stated in his resume, include the Deal of the Year award-winning \$800M ring-fencing transaction for PPL Electric Utilities, as well as the Constellation/Baltimore Gas and Electric ring-fencing transaction that was an integral component of the \$4.5B Constellation joint venture with Electricite de France. In an attachment that responds to items 1. a., c., d., and also items 4.b.,c. and d., the utility securitization transactions (excluding the ring-fencing transactions) are included where Mr. Atkins served in an advisory capacity and/or a lead or joint lead underwriter banker role during his years at Morgan Stanley, Mr. Atkins Capital Strategies and Guggenheim Securities. In each case where Mr. Atkins served in an advisory capacity and/or as an expert witness, Mr. Atkins was retained by the sponsoring utility. The attached table also includes annotations to specify Mr. Atkins' roles as requested in item 1.d. Where Mr. Atkins indicates a supporting role in the marketing of a transaction, he reviewed and assisted in the preparation of marketing materials, educated the sales force and sometimes answered investor questions. Where he indicates a supporting role in the pricing of the transaction, he coordinated with the Issuer and the Commission Advisor (if engaged), assisted the underwriting syndicate and advocated for tight market-clearing pricing. The attached table also indicates the transactions where the commission engaged an advisor, lists the advisor, the state, and whether Mr. Atkins recalls a commission staff member or commission member being involved, as requested.

b. The Companies object to Data Request 2-1(b) as administratively burdensome. Notwithstanding, please refer to Attachment "PS DR 2-1b Atkins RRB Experience" for information needed to identify the regulatory proceedings in which Mr. Atkins sponsored testimony, including the regulator, docket no., and date of testimony.

c. Yes, certain state regulatory commissions engaged a financial advisor. See the Companies' attachments included with the response to question 1. To Mr. Atkins' recollection, in these transactions, no other party separately engaged a financial advisor to be involved in the financing process after a financing order had been issued.

d. See the documents attached to this Data Request 2-1.



14258891_3_1b - Charles N. Atkins
Atkins RRB Experience



Charles N. Atkins



1e_v2.pdf

Deal Experience 11-15

North Carolina Public Staff
Data Request No. 2
DEC Docket No. E-7, Sub 1243
DEP Docket No. E-2, Sub 1262
Item No. 2-1
Page 3 of 3

e. See the documents attached to this Data Request 2-1.

**Duke Energy Carolinas
and
Duke Energy Progress
Response to
NC Public Staff Data Request
Data Request No. NCPS 2**

Docket Nos. E-7, Sub 1243 and E-2, 1262

**Date of Request: November 9, 2020
Date of Response: November 17, 2020**

☐ **CONFIDENTIAL**
☒ **NOT CONFIDENTIAL**

Confidential Responses are provided pursuant to Confidentiality Agreement

The attached response to NC Public Staff Data Request No. 2-2, was provided to me by the following individual(s): Tom Heath, Corporate Finance Director, and was provided to NC Public Staff under my supervision.

Camal O. Robinson
Associate General Counsel
Duke Energy Carolinas

North Carolina Public Staff
Data Request No. 2
DEC Docket No. E-7, Sub 1243
DEP Docket No. E-2, Sub 1262
Item No. 2-2
Page 1 of 2

Request:

2. STRUCTURING AND FINANCIAL MODELING OF PROPOSED STORM RECOVERY BONDS (SRB) SECURITIES AND QUALIFICATIONS

- a. Which firm will perform financial modeling for the proposed SRB Securities transaction as structuring advisor to achieve a rating on the SRB Securities and determine the initial charge on customers?
- b. Did DEP/DEC have a competitive process to select the structuring advisor?
- c. Did DEP/DEC use a form of “request for proposal” or “request for qualifications”? If so, please provide a copy of such document and the responses of all recipients.
- d. How did DEP/DEC decide which firms to invite to present proposals to serve as structuring advisor?
- e. Was the firm that modeled the 2016 DEP/DEC affiliate (Duke Energy Florida, LLC (DEF)) transaction invited to present a proposal to serve as structuring advisor for the DEP/DEC SRB Securities transaction?
- f. Please provide a copy of the final engagement letter terms and conditions including, but not limited to, any disclaimers by the structuring advisor firm and indemnifications provided to the structuring advisor firm by Duke Energy Corporation or any of its affiliates.
- g. What fiduciary duty does the structuring advisory firm have? (Such as, duty to act in the best interests of DEP, DEC, DEP/DEC customers, or the issuer of the SRB Securities.) Please explain.
- h. Can the financial advisor to the utility/issuer or structuring advisor to the issuer or utility sponsor of securitized utility bonds also be an underwriter of those bonds? If so, how does that impact their respective fiduciary duties?
- i. Has the structuring advisory firm developed another financial model for a prior utility securitization, and did that prior utility securitization achieve a top rating from all rating agencies?
- j. What fees, sums, or other amounts is the structuring advisory firm charging to provide the financial model for use in this SRB Securities transaction?
- k. In Florida, if any financial advisor provided DEF a financial model in the securitization process, did the financial advisor put restrictions on the use of the model that required them to be a bookrunning manager in the underwriting and sale of the bonds? Are there any restrictions on use of the model in this SRB Securities transaction?

North Carolina Public Staff
Data Request No. 2
DEC Docket No. E-7, Sub 1243
DEP Docket No. E-2, Sub 1262
Item No. 2-2
Page 2 of 4

l. Which firm provided the financial model used in the 2016 DEF utility securitization transaction? In the DEF transaction, what fees, sums, or other amounts were paid for this financial model, excluding any costs paid to the financial advisor?

m. Has Witness Atkins or anyone in Atkins Capital Strategies created and used a securitization bond pricing model for prior utility securitizations? If so, please list which transactions.

n. Has Witness Atkins ever created or audited a utility securitization model? If so, please indicate which transactions and describe Witness Atkins' efforts.

Response:

a. All financial modeling to date for the proposed transaction has been performed by Guggenheim Securities with input and supervision by Witness Atkins. Computation of the initial customer charges were performed by DEC and DEP's rate design team under Witness Byrd's supervision and review using outputs from the financial model. As stated in Witness Heath's testimony (beginning on page 25 line 3 through page 26 line 12) the role of the structuring advisor will cease at an appropriate time in the future and some portion of the modeling will then be performed by DEC and DEP's book-running lead underwriter. DEC and DEP expect Guggenheim and Witness Atkins to continue to perform services under their respective engagement letters at least through the ratings process of the SRB Securities transaction.

b. Yes. As stated in Witness Heath's testimony (page 25 lines 5-8), DEC and DEP did conduct a request for proposal process related to the selection of their structuring advisor for the proposed transaction.

c. Yes. See documents attached to this Data Request 2-2.

d. DEC and DEP solicited proposals from the institutions it understands to generally be viewed as leading financial institutions in the utility securitization bond sector and/or those that Duke Energy had previously favorable experience with on prior securitization transactions.

e. DEC and DEP did include the initial structuring advisor on the DEF transaction, Morgan Stanley, in their RFP process. Morgan Stanley performed initial structuring and modeling for the DEF transaction. However, Morgan Stanley did not participate in underwriting the DEF transaction. DEF ultimately hired another firm, Analytic Aid, to solely perform modeling for the DEF transaction after the end of Morgan Stanley's engagement. DEC and DEP did not solicit a proposal from Analytic Aid as the structuring advisory engagement consists of significantly more than modeling services. In addition, Guggenheim participated as a joint book-running manager in the DEF transaction, and is generally familiar with the model used in that transaction.

North Carolina Public Staff
Data Request No. 2
DEC Docket No. E-7, Sub 1243
DEP Docket No. E-2, Sub 1262
Item No. 2-2
Page 3 of 4

f. See documents attached to this Data Request 2-2.

g. The engagement letters between DEC and DEP and Guggenheim Securities and Atkins Capital do not create any fiduciary relationships between the parties. This is common practice for advisory services engagements.

h. As noted in the response above, the structuring advisor does not have a fiduciary responsibility to the issuer of the securitization bonds. DEC and DEP believe a structuring advisor to the issuer can, and due to their familiarity with the reasons for the transaction structure, and their experience participating in the regulatory testimony and interrogatory process, are often in the best position to, serve as a lead underwriter of securitization bonds. There are certain rules specific to the municipal bond market that preclude a structuring advisor from serving as an underwriter on a related issuance, however, those rules are not applicable outside of the municipal market. For the vast majority of utility securitizations not issued by municipal entities, with only a very few exceptions, it is the market practice for the structuring advisor to also serve as a lead underwriter. For larger transactions, there is typically more than one lead underwriter, so additional competition and views concerning structure and marketing are present. The transaction pricing is a transparent process with the investor order book fully open to the Companies, which adds further protections.

i. See response to Data Request 2-2.m.

j. Fees for financial modeling are part of the overall engagement fees to Guggenheim and Atkins and are not separately stated or estimated.

k. In its role as structuring advisor for the DEF transaction, Morgan Stanley prepared an initial financial model for the transaction. When Morgan Stanley's role as structuring advisor was terminated, and they were removed from consideration as an underwriter, they would not permit the continued use of their financial model. While the engagement letters with Guggenheim and Atkins Capital do not specifically address use of the financial model in the event they are not a party to the transaction, it is DEC and DEP's experience that financial institutions do not permit the continued use of their proprietary financial models after cessation of their engagement.

l. The financial model for the DEF transaction was ultimately prepared by Steven Heller at Analytic Aid. Fees paid to Analytic Aid totaled \$90,000.

m. Dating back to the first stranded cost securitization, the 1997 \$2.9 billion transaction for PG&E, Witness Atkins played a significant role supervising the creation of the Morgan Stanley utility securitization model. Through each of the 24 other transactions where Atkins indicates, in the attachment in response to PS Data Request 2-1, a financial advisor role, he was heavily involved in supervising the creation, updating and use of deal-specific securitization models for initial structuring analysis and testimony. In cases where Morgan

North Carolina Public Staff
Data Request No. 2
DEC Docket No. E-7, Sub 1243
DEP Docket No. E-2, Sub 1262
Item No. 2-2
Page 4 of 4

Stanley was structuring lead underwriter, he also supervised the updating and use of securitization models for rating agency stress scenario analysis, pricing and post-pricing closing cash flows.

n. See response to PS Data Request 2-2.m.

**Duke Energy Carolinas
and
Duke Energy Progress
Response to
NC Public Staff Data Request
Data Request No. NCPS 2**

Docket Nos. E-7, Sub 1243 and E-2, 1262

**Date of Request: November 9, 2020
Date of Response: November 17, 2020**

☐ **CONFIDENTIAL**
☒ **NOT CONFIDENTIAL**

Confidential Responses are provided pursuant to Confidentiality Agreement

The attached response to NC Public Staff Data Request No. 2-3, was provided to me by the following individual(s): Charles Atkins, CEO, Atkins Capital Strategies LLC, and was provided to NC Public Staff under my supervision.

Camal O. Robinson
Associate General Counsel
Duke Energy Carolinas

North Carolina Public Staff
Data Request No. 2
DEC Docket No. E-7, Sub 1243
DEP Docket No. E-2, Sub 1262
Item No. 2-3
Page 1 of 6

Request:

3. PROPOSED STRUCTURE

- a. Without reference to any partial settlements with Public Staff, what was the economic justification for choosing only a 15-year scheduled final maturity and principal amortization schedule for the DEP bonds, the DEC bonds and the SRB Securities to provide maximum customer benefits?
- b. Why is there a 2-year legal final maturity after the scheduled final maturity on class A-5? Is there any benefit to customers for this rather than a 1-year legal final maturity after the scheduled final maturity on class A-5??
- c. Have other utility securitization bonds on your list with Aaa/AAA/AAA/ ratings with similar or longer scheduled final maturities had a legal final maturity of just one year past the last scheduled final maturity? If yes, please explain any disadvantage to customers from that.
- d. Please provide all data that supports the implied contention on p. 25 of Witness Atkins' testimony that larger size securitized utility bond transactions achieve tighter credit spreads and lower costs to customers compared to smaller ones. Please provide specific examples in the utility securitization market of Aaa /AAA/AAA-rated tranches and the quantifiable penalty paid for the smaller versus larger issues.
- e. Witness Atkins testifies that the DEC must be combined with the larger DEP issuance to avoid any credit spread or rate penalty in the market. Please explain the basis for Witness Atkins' testimony in light of the following:
 - i. In West Virginia in 2007, Monongahela Power Company and The Potomac Edison Company caused to be sold Aaa/AAA/AAA-rated utility securitization bonds of \$344.5 million and \$114.8 million, respectively. In that instance, did the smaller issuance pay a higher credit spread, compared to the larger issuance? ‘
 - ii. In West Virginia in 2009, however, Monongahela Power Company and The Potomac Edison Company sold Aaa/AAA/AAA-rated utility securitization bonds of \$64.4 million and \$21.5 million one month after Texas CenterPoint Energy sold \$666.5 million of Aaa/AAA/AAA-rated utility securitization bonds. In that instance, did the smaller West Virginia issuance pay a higher credit spread, when adjusted for its longer maturity, compared to the larger Texas issuance?
- f.
- g. Please provide a list of all utility securitization transactions that have used the combined SRB Securities structure recommended by Witness Atkins and any data that shows how well such transactions and each tranche priced relative to all other utility securitizations in the same general time frame.
- h. On page 29 of his testimony, Witness Atkins states: “Rating agency ‘AAA’ or equivalent stress tests would tend to penalize transactions that use a different structuring approach, particularly one that significantly back-loads debt service.” Please explain the basis for Witness Atkins' testimony in light of the following: In 2009, Aaa/AAA/AAA-rated securitized bonds were issued for Monongahela Power Company and for The Potomac

North Carolina Public Staff

Data Request No. 2
DEC Docket No. E-7, Sub 1243
DEP Docket No. E-2, Sub 1262
Item No. 2-3
Page 2 of 6

Edison Company with all principal deferred until 2028, 2029 and 2030. Please be specific as to what the rating agencies did to penalize these West Virginia Aaa/AAA/AAA-rated securitized bonds?

i. On page 9, line 16 and page 10 line 18 of his testimony, Witness Atkins states that utility securitizations have “a debt service coverage targeted to be 1.0 times.” And yet, on page 8 line 5 and page 22 lines 6 through 9, Witness Atkins testifies that the SPE issuers will have 0.5% equity. (See also §5.04(2) of Revenue Procedure 2005-62, which requires the SPE issuers to have at least 0.5% equity.) Please explain why this does not result in debt service coverage of at least 1.05%.

j. Are “spreads” to benchmark securities for a given weighted life tranche tighter (lower) for “asset-backed securities” or for comparable weighted life corporate debt instruments that are not “asset-backed securities”?

k. Were the 2016 nuclear asset-recovery bonds issued for DEF marketed to investors as “asset-backed securities”?

l. Subject to satisfying a Rating Agency Condition, Section 1.07 of the proposed form of LLC Agreement set forth as Exhibit 2e to the testimony of Witness Heath authorizes each of the SPE issuers to issue more than one series of storm recovery bonds, each secured by separate storm recovery property. Will this cause (a) the SPE issuers not to be “asset-backed issuers” under Item 1101 of SEC Regulation AB and the September 19, 2007 letter from the SEC Office of Chief Counsel, Division of Corporate Finance to MP Environmental Funding LLC and to PE Environmental Funding LLC (<https://www.sec.gov/divisions/corpfin/cf-noaction/2007/mpef091907-1101.htm>), and (b) the storm recovery bonds and the SRB Securities not be “asset-backed securities” under Item 1101 of SEC Regulation AB?

m. We understand that securitized utility bonds are marketed to both corporate bond investors and to asset-backed securities investors. Will SRB Securities issued pursuant to the Joint Petition be marketed to these investors as “asset-backed securities” or “corporate securities”?

n. Will the proposed storm recovery bonds be included as debt on the consolidated balance sheets of DEC and DEP, respectively, for generally accepted accounting principles (GAAP) purposes?

o. Apart from securitized utility bonds, are asset-backed securities that use a wholly-owned special purpose entity (SPE) issuer that buys property in a true sale from the parent company consolidated on the balance sheet of the parent company for GAAP purposes?

Response:

a. As stated in Witness Heath’s testimony (page 8 lines 16-20), DEC and DEP considered a structure of storm recovery bonds with a scheduled final payment date of approximately 20 years in addition to the 15 years. After consideration, the Companies determined that the 15-year proposal strikes an appropriate balance between the length of the recovery period and the length and level of the recovery charges as well as achieves the Statutory Cost Objectives as that term is defined in the Financing Orders.

b. The expected 2-year maturity cushion between the DEC/DEP scheduled final payment date and legal maturity is driven by expected AAA rating agency stress scenarios which increase the stress assumptions as the final maturities become longer. Depending on company historical and recent data taking into account the recent COVID-19-related impacts on customers and the planned maturity structure, the rating agency stress scenarios may result in maturity cushions shorter or longer than 2 years. The legal maturity dates referenced are subject to change based on rating agency considerations and market conditions and are therefore not final. Regarding the issue of customer impact, please also see Companies' response to PS Data Request 2-3c. below.

c. A list of certain transactions with a 1-year final maturity cushion is attached to this response. As discussed, the maturity cushions are driven by the company data, the structure and the rating agency stress scenarios in effect at the time of the issue. There are some prior transactions with only a 1-year maturity cushion. In any event, whether the maturity cushion is 1 year or 2 years, the offering materials typically include a sensitivity analysis which demonstrates the significant degree of hypothetical consumption declines required for the bonds to extend beyond the scheduled payment date. Due to the principal amortization on a semiannual basis, investors typically consider the weighted average life of each tranche. When the investor market indicates interest at different credit spreads, they typically assume that the bonds pay in full by the scheduled final payment date, and the bonds are priced assuming full payment by the scheduled payment date, without regard to whether the maturity cushion is 1, 2, or 3 years. Consequently, it is not expected that any maturity cushion of 1, 2, or 3 years would disadvantage customers from a bond pricing perspective. Indeed, from a stress scenario/customer impact standpoint, a shorter maturity cushion would tend to result in higher customer charges in a stress scenario, due to the shorter extension period allowed to pay the bonds. A longer maturity cushion would tend to allow more time to pay the bonds, with comparatively lower increases in customer charges required. Longer maturity cushions may also tend to preserve more AAA rating capacity for future securitizations, which could be important in jurisdictions that may suffer from significant damage from frequent storms.



PS DR 2-3c Utility
Securitization Bonds v

d. The Companies object to PS Data Request 2-3(d) on the following grounds: the request is overly broad, not limited to a reasonable timeframe, and potentially unduly burdensome (depending on what information the question may actually seek). Without waiving this objection, the Companies provide the following response: While it is quite possible that two AAA utility securitizations marketed and priced on the same day, one larger and one smaller, may have the same interest coupons (the Public Staff has provided such an

North Carolina Public Staff
Data Request No. 2
DEC Docket No. E-7, Sub 1243
DEP Docket No. E-2, Sub 1262
Item No. 2-3
Page 4 of 6

example in PS Data Request 2-3(e) below), it is also possible on any given pricing day that the smaller issue may have less demand from investors and may price with higher interest coupons, particularly since larger issues tend to attract more investors. Witness Atkins served as an advisor to Entergy on 2 sets of transactions, involving two Entergy subsidiaries, that were marketed and priced by Citi as lead underwriter on the same day in July of 2010, and again in July of 2014-- the LCDA/ELL and LCDA/EGSL transactions of those years. In both of those instances, the smaller EGSL transactions priced wider than the larger ELL transactions. Please see the attachment with pricing information for these four transactions included with this response. Provided the Commission grants the Companies the flexibility it requested in its Joint Petition to pursue various options, the possibility of one issuance pricing wider than the other, even if marketed at the same time under a common marketing plan, is a possibility that can be avoided if the Companies pursue the optional SRB Securities issuance strategy discussed in Witness Atkins' testimony. In sum, while the Companies have requested the flexibility needed to retain the option of marketing the DEC and DEP issues as separate bond issues pursuant to a common marketing plan, one advantage of a single issuance SRB Securities approach is that the risk of different pricing and interest costs for the two customer bases is eliminated. Regardless, the Companies have an obligation to structure and market the bonds for their two customer bases in a manner that is reasonably expected to achieve the lowest storm recovery charges consistent with market conditions. The SRB Securities option eliminates the risk of disparate pricing and may become one component of achieving this important statutory objective for the DEC and DEP customers.

e. See response to PS Data Request 2-3.d.

g. DEC and DEP are aware of two transactions that have used a similar trust structure with underlying bonds, the FirstEnergy Ohio PIRB Special Purpose Trust 2013 issue, and the Massachusetts RRB Special Purpose Trust 2005-1. These two transactions utilized trust certificates, representing fractional undivided beneficial interests in the underlying bonds. The SRB Securities structure recommended as an option for the Companies issues notes backed by the underlying bonds, rather than certificates. There were no other utility securitizations priced during the same day or the same week as those transactions, that would be suitable for spread comparisons.

h. While certain utility securitization bonds with back-loaded principal structures may receive AAA equivalent ratings, Witness Atkins' testimony reflects the general rating agency approach for rating these bonds that increases stress the longer the bonds are outstanding. For example, Fitch assumes that the energy consumption forecast variance stress assumption is 5 times the worst historical forecast variance, for the first year of the transaction. Then each year for the first 10 years that stress is increased 1%. For the next 5 years, that stress is increased 1.5% each year, and thereafter the stress is increased 2% each year. Such a rating approach may tend to disadvantage a bond with a back-loaded debt-service. The DEC and DEP securities are proposed to have an amortizing level annual debt service structure, with weighted average lives significantly shorter than the cited 2009 West

North Carolina Public Staff
Data Request No. 2
DEC Docket No. E-7, Sub 1243
DEP Docket No. E-2, Sub 1262
Item No. 2-3
Page 5 of 6

Virginia transactions. As a result, the impact of rating agency stress assumptions should be less than an alternative structure with back-loaded debt service resulting in a comparatively longer weighted average life. The Companies have not performed a detailed review of the 2009 Monongahela Power and Potomac Edison Series B transactions cited by the Public Staff, but note that these transactions were structured to begin principal amortization after the prior Series A bonds for those companies were retired. It is the Companies' understanding based on review of the Fitch Ratings reports for the two cited transactions that the prior Series A financings required withdrawals of funds from their respective .5% capital accounts in order to meet timely debt service. As a result, each Series B transaction required additional credit enhancement, in addition to the .5% capital contributions, in the form of interest reserves funded from bond proceeds. DEC and DEP's advisors recommend that DEC and DEP utilize a flexible optional true-up approach that may avoid reducing protection for the bonds through such withdrawals from the capital accounts. Accordingly, DEC and DEP's proposed transaction will differentiate from the specific 10+ year old examples cited above.



PS DR 2-3h Linear PS DR 2-3h Fitch MP PS DR 3h Fitch PE
Regression-c.pdf Environmental FundinEnvironmental Fundin



i. The statutorily mandated true-up methodology for these transactions adjusts customer charges to target the amount of collections to cover debt service and ongoing financing costs in a manner to avoid over-collection as well as under-collection. The customer charge adjustments are not made assuming that the 0.5% equity capital account is drawn upon. Therefore, the coverage of debt service and ongoing financing costs is targeted to be 1.0 times, not taking into account the equity capital account. Customers benefit greatly from this low debt service coverage requirement, which is not typically available for other investment grade structured securities.

j. Spreads for ABS bonds and traditional corporate bonds are different and not directly comparable, in addition to the fact that multiple variables affect pricing spreads for ABS and corporate debt instruments. Corporate bonds may typically have a bullet maturity structure, rather than an amortizing structure. Traditional corporate bonds represent a general obligation of the sponsoring corporate issuer, while ABS bonds are generally nonrecourse to the sponsoring company. ABS bonds are generally secured by contractual rights, dedicated property or other assets, rather than the general corporate obligation. For these and other reasons, a traditional bullet maturity corporate bond spread may be tighter than the spread for an amortizing ABS bond of a similar weighted average life, if issued at the same time. The spreads for traditional corporate bonds would not be comparable for nonrecourse structured amortizing debt securities such as the storm recovery bonds or SRB Securities, whether or not they are "asset-backed securities" within the meaning of SEC Regulation AB.

North Carolina Public Staff
Data Request No. 2
DEC Docket No. E-7, Sub 1243
DEP Docket No. E-2, Sub 1262
Item No. 2-3
Page 6 of 6

k. The offering materials for that transaction stated that the bonds were not “asset-backed securities” within the meaning of Item 1101 of SEC Regulation AB.

l. DEC and DEP have recommended provisions of the proposed Trust agreements that are designed to have the SEC determine that the storm recovery bonds and the SRB Securities are not “asset-backed securities” under Item 1101 of SEC Regulation AB. The SEC is an independent agency of the US government, and receiving such a determination for this transaction is not assured.

m. DEC and DEP expect that the storm recovery bonds and the SRB Securities will be considered and marketed as nonrecourse structured securities issued by affiliates of DEC, DEP and Duke. Unlike many asset-backed securities, the SRB Securities will not be secured by pools of assets. These AAA-rated securities will have uniquely attractive credit characteristics, which will be emphasized during the marketing process to asset-backed and corporate investors. If the SEC determines the securities to not be “asset-backed securities” within the scope of SEC Regulation AB, that fact will be disclosed in the offering materials, and Witness Atkins recommends that the Companies and their selected lead underwriter seek inclusion of the SRB Securities in the Bloomberg Barclays Corporate Utility Index. The 2016 DEF transaction was included in that Corporate Utility Index, and the Companies intend to structure the securities to be eligible for inclusion in the Corporate Utility Index.

n. Yes, the storm recovery bonds will be included on the consolidated balance sheets of DEC and DEP for GAAP purposes.

o. Yes.

**Duke Energy Carolinas
and
Duke Energy Progress
Response to
NC Public Staff Data Request
Data Request No. NCPS 2**

Docket Nos. E-7, Sub 1243 and E-2, 1262

**Date of Request: November 9, 2020
Date of Response: November 17, 2020**

☐ **CONFIDENTIAL**
☒ **NOT CONFIDENTIAL**

Confidential Responses are provided pursuant to Confidentiality Agreement

The attached response to NC Public Staff Data Request No. 2-4, was provided to me by the following individual(s): Tom Heath, Corporate Finance Director, and was provided to NC Public Staff under my supervision.

Camal O. Robinson
Associate General Counsel
Duke Energy Carolinas

North Carolina Public Staff
Data Request No. 2
DEC Docket No. E-7, Sub 1243
DEP Docket No. E-2, Sub 1262
Item No. 2-4
Page 1 of 2

Request:

**4. PROPOSED “DESIGNATED MEMBER” PARTICIPATION IN PRE-BOND
ISSUANCE REVIEW PROCESS**

- a. What was the role of the applicable utilities commission and/or the commission’s financial advisor in previous securitized utility bond transactions listed in Witness Atkins’ Exhibit 3?
- b. Was there a designated member or representative of the commission proposed in some or all of those transactions? If so, please identify each such transaction.
- c. Please identify all securitized utility bond transactions in which Witness Atkins participated with a designated member of the applicable regulatory commission or with the financial advisor to the commission.
- d. If there was a designated member or representative of the commission, when the first securitized utility bond transaction was approved by a particular regulatory commission, was that designated member or representative of the commission supported by an independent financial advisor and/or counsel?
- e. DEP/DEC proposes that the North Carolina Utilities Commission (acting either through a designated Commissioner or member of Commission Staff) to participate in the structuring and pricing process. In the 2016 nuclear asset-recovery bond transaction for DEF, however, Florida PSC’s financing order established a Bond Team consisting of DEF and its designated advisors, the Florida PSC and its designated advisors, legal counsel, and representatives to oversee and approve post-financing order decisions concerning the structuring, marketing and pricing of those securitized bonds. The commission’s ratepayer advocate (Office of Public Counsel) also was invited to participate in or comment on post-financing order decisions concerning the structuring, marketing and pricing of those securitized bonds. Please explain why DEC and DEP propose that a designated representative of the Commission rather than such a Bond Team oversee and approve post-financing order decisions concerning the proposed SRB Securities.

Response:

- a. The table provided in response to PS Data Request 2-1 lists Witness Atkins’ utility securitization advisory and lead underwriting banking experience and includes transactions where the commission retained a financial advisor, provides the name of the advisor, and specifies when the advisor’s role was limited to participation in the pricing process. The table also reflects those transactions where Witness Atkins recalls a commission staff member or a commission member being involved in the financing process. Apart from the instances where the role of the advisor was limited to the pricing process, the advisor and the commission representative periodically were involved in working group discussions during the structuring, marketing and pricing process. If the advisor or commission representative participated in a rating agency meeting, that participation was limited to conveying the commitment of the commission to implement the true-up process as required, without political interference or delay, consistent with the State and commission non-impairment pledges.

North Carolina Public Staff
Data Request No. 2
DEC Docket No. E-7, Sub 1243
DEP Docket No. E-2, Sub 1262
Item No. 2-4
Page 2 of 2

b. See response to PS Data Request 2-4.a.

c. See response to PS Data Request 2-4.a.

d. In certain cases, the commission's designated member or representative were assisted by an independent financial advisor and/or counsel. Pursuant to Section 62-172(n), any designated member of the NCUC would be permitted to engage an outside consultant or counsel.

e. Although N.C. Gen. Stat. § 62-172 does not mandate that a public utility propose, or the Commission establish, a bond team or designated member, the Joint Petition proposes a process to provide a Commissioner or Commission Staff member (the "Designated Member") with timely information to allow for the Designated Member's participation in the actual structuring, pricing, and issuance of the storm recovery bonds so that the Commission, upon receipt of the issuance advice letter, may determine whether or not the transactions meet the statutory cost objectives identified in the financing orders and consistent with N.C. Gen. Stat. § 62-172. In addition, membership on the DEF Bond Team was limited to DEF and designees of the Florida Public Service Commission, including their financial advisor. Bond Team membership was not extended to any intervening party to the financing proceeding. While it is true that representatives of the customer advocate (Office of Public Counsel) were invited to and joined certain of the Bond Team calls as a courtesy, they were not part of the Bond Team and did not have a formal role in the post-financing order stage of the DEF transaction.

**Duke Energy Carolinas
and
Duke Energy Progress
Response to
NC Public Staff Data Request
Data Request No. NCPS 2**

Docket Nos. E-7, Sub 1243 and E-2, 1262

**Date of Request: November 9, 2020
Date of Response: November 17, 2020**

☐ **CONFIDENTIAL**
☒ **NOT CONFIDENTIAL**

Confidential Responses are provided pursuant to Confidentiality Agreement

The attached response to NC Public Staff Data Request No. 2-5, was provided to me by the following individual(s): Charles Atkins, , CEO, Atkins Capital Strategies LLC, and was provided to NC Public Staff under my supervision.

Camal O. Robinson
Associate General Counsel
Duke Energy Carolinas

North Carolina Public Staff
Data Request No. 2
DEC Docket No. E-7, Sub 1243
DEP Docket No. E-2, Sub 1262
Item No. 2-5
Page 1 of 1

Request:

5. PROPOSED MARKETING SRB SECURITIES

- a. Witness Atkins' testimony includes details on the standard process for marketing and sale of the storm recovery bonds. The Florida PSC's financing order in the 2016 nuclear asset-recovery bond transaction for DEF included the following provisions to ensure that the "marketing" of those securitized bonds would result in the lowest securitized charges consistent with market conditions and the terms of the financing order: Findings of Fact 43, 44, 45, 48, 51, 55, 84, 95, 89, 91, 97, 99 and 100; and Ordering Paragraphs 39, 40, 41, 51, 58, 69, 74, 78 and 79. Please explain why DEC and DEP depart from these aspects of the Florida PSC's financing order in the 2016 nuclear asset-recovery bond transaction for DEF by proposing that a designated representative of the Commission be involved only with post-financing order decisions concerning the "structuring and pricing" of the proposed SRB Securities, but not with post-financing order decisions concerning the "marketing" of those SRB Securities.
- b. Apart from publications by rating agencies, what marketing materials have been published by investment banks or other capital market participants promoting securitized utility bonds as attractive investments in the last 10 years?

Response:

- a. N.C. Gen. Stat. § 62-172 is specific to North Carolina. In accordance with North Carolina law, the Companies adhered to the terms and requirements of N.C. Gen. Stat. § 62-172 in creating and requesting approval of their proposed Financing Orders. Accordingly, the Companies did not "depart" from the Florida PSC's financing order in the 2016 nuclear asset-recovery bond transaction for DEF and instead created Company-specific Financing Orders pursuant to North Carolina law. See also the Companies' response to PS Data Request 2-4.e.
- b. DEC and DEP do not have access to the marketing materials used in connection with other issuances of securitized utility bonds, but do have general knowledge of their affiliate's, DEF's, transaction. In the Florida transaction, DEF and the underwriters met with investors at the annual ABS conference in Las Vegas, conducted an electronic roadshow which included a slide presentation and a Primer and Transaction Summary (the "Primer"). The Primer was filed with the SEC as a free writing prospectus and is available at https://www.sec.gov/Archives/edgar/data/1669374/000110465916125033/a16-2779_8fwf.htm. Other presentations are attached to this response.

**Duke Energy Carolinas
and
Duke Energy Progress
Response to
NC Public Staff Data Request
Data Request No. NCPS 2**

Docket Nos. E-7, Sub 1243 and E-2, 1262

**Date of Request: November 9, 2020
Date of Response: November 17, 2020**

☐ **CONFIDENTIAL**
☒ **NOT CONFIDENTIAL**

Confidential Responses are provided pursuant to Confidentiality Agreement

The attached response to NC Public Staff Data Request No. 2-6, was provided to me by the following individual(s): Tom Heath, Corporate Finance Director, and was provided to NC Public Staff under my supervision.

Camal O. Robinson
Associate General Counsel
Duke Energy Carolinas

North Carolina Public Staff
Data Request No. 2
DEC Docket No. E-7, Sub 1243
DEP Docket No. E-2, Sub 1262
Item No. 2-6
Page 1 of 1

Request:

6. HISTORICAL INVESTOR PARTICIPATION

- a. For each of the 24 transactions that Witness Atkins lists in his experience, how many distinct unaffiliated investors purchased bonds in each tranche?
- b. How many distinct unaffiliated investors typically purchase DEP/DEC traditional utility bonds of similar maturity /weighted average life as the proposed issuance of SRB Securities? If there is a difference, please explain the difference.

Response:

- a. The investor lists from these prior transactions are not available to Witness Atkins.
- b. Since the beginning of 2019, DEC and DEP have issued a combined total of \$3.6 billion in debt in the public debt market. Due to the low interest rate environment during this period DEC and DEP has issued \$1.35 billion of that amount in 30-year fixed rate bonds. An additional \$0.7 billion was issued as 1.5-year floating rate bond which attracts a different type of investor than fixed rate bonds. The remaining \$1.55 billion was issued in 10-year fixed rate bonds. As result of the nature of these issuances, none have directly comparable maturities to the proposed securitization structure. Of the 10-year fixed rate bonds issued, \$600 million of that amount was issued as a Green Bond which attracts unique investors with environmental, sustainability, and governance (ESG) goals. Considering the above, there are two issues, both for DEC, while not directly comparable, they are discussed for the purposes of this question. One of these issuances was allocated to 71 unique accounts and the other was allocated to 57 unique accounts. By comparison, DEC and DEP affiliate DEF's 2016 securitization issuance allocated \$1.294 billion across five tranches to 56 unique accounts.

**Duke Energy Carolinas
and
Duke Energy Progress
Response to
NC Public Staff Data Request
Data Request No. NCPS 2**

Docket Nos. E-7, Sub 1243 and E-2, 1262

**Date of Request: November 9, 2020
Date of Response: November 17, 2020**

☐ **CONFIDENTIAL**
☒ **NOT CONFIDENTIAL**

Confidential Responses are provided pursuant to Confidentiality Agreement

The attached response to NC Public Staff Data Request No. 2-7, was provided to me by the following individual(s): Charles Atkins, CEO, Atkins Capital Strategies LLC, and was provided to NC Public Staff under my supervision.

Camal O. Robinson
Associate General Counsel
Duke Energy Carolinas

North Carolina Public Staff
Data Request No. 2
DEC Docket No. E-7, Sub 1243
DEP Docket No. E-2, Sub 1262
Item No. 2-7
Page 2 of 5

Request:

7. INCLUSION IN AGGREGATE INDEX AND AFFECT ON PRICING AS JUSTIFICATION TO STRUCTURE BONDS AS PROPOSED

- a. Please indicate which previous utility securitizations were included in the Bloomberg Barclays Aggregate Bond Index referenced in Witness Atkins' testimony, and in which of those transactions Witness Atkins participated.
- b. Are there other Bloomberg Barclays bond indices important to utility securitization bond investors that could affect pricing of the bonds?
- c. Please provide all data, analyses, workbooks and other financial analysis that supports the contention of Witness Atkins that bonds included in the Bloomberg Barclays Aggregate Bond Index price materially more favorably to the issuer than bonds not included in that index.
- d. Please provide a list of all utility securitizations that are or have been included in the Bloomberg Barclays Aggregate Bond Index and the source of this information.
- e. What are the requirements for inclusion in the Bloomberg Barclays Aggregate Bond Index (issue size, cusip size, bond rating, duration, etc.)?
- f. How will investors be informed prior to pricing whether the SRB Securities will be included in the Bloomberg Barclays Aggregate Bond Index? If so, who will inform investors and on what basis will this be done?
- g. At the time of pricing the SRB Securities, will inclusion in the index be confirmed by an official notification from Bloomberg Barclays or be unconfirmed?
- h. If there will be a notification or confirmation from Bloomberg Barclays of inclusion in any index, please provide an example of such notification to investors for any previous utility securitization and in particular for any securitization in which Witness Atkins has been involved.
- i. Will eligibility and inclusion in the Bloomberg Barclays Aggregate Bond Index be described in the prospectus or a free writing prospectus for the SRB Securities? If not, why not? If not, please explain how unconfirmed potential inclusion in the Bloomberg Barclays Aggregate Bond Index will result in improved pricing.
- j. Will underwriters, their sales personnel, or others involved in the marketing of the SRB Securities tell potential investors that the SRB Securities will be included in the Bloomberg Barclays Aggregate Bond Index? If so, on what basis will they make that representation?
- k. Given the importance placed by Witness Atkins on this index in driving the structuring of the transaction, has inclusion in the Bloomberg Barclays Aggregate Bond Index been used in any marketing materials, roadshow, sales point memorandum, or prospectus of any other utility securitization (including, but not limited to, the 24 prior utility securitizations in which Witness Atkins has been involved)? If yes, please identify which transactions and provide any such materials.
- l. On pages 24 and 25 of his testimony, Witness Atkins states "The DEC bonds and the DEP bonds are to be issued to a third SPE, a grantor-trust that is wholly-owned by Duke Energy ('SRB Issuer'). SRB Issuer issues to the market pass-through securities ('SRB Securities') that are backed by separate storm recovery bonds issued by DEC and

North Carolina Public Staff
Data Request No. 2
DEC Docket No. E-7, Sub 1243
DEP Docket No. E-2, Sub 1262
Item No. 2-7
Page 3 of 5

DEP.” On page 26 of his testimony, Witness Atkins states this is done in part to qualify the SRB Securities for inclusion in the Bloomberg Barclays Aggregate Bond Index. However according to a description sheet of the Aggregate Index provided by Bloomberg Barclays, the Bloomberg Barclays Aggregate Bond securities that are excluded from the index are “structured notes” or “pass-through certificates.” Please explain why the SRB Securities will not be treated as “structured notes” or “pass-through certificates” for purposes of the Bloomberg Barclays Aggregate Bond Index.

m. Have Witness Atkins or any representative of DEC or DEP discussed this proposed complex structure with rating agencies?

n. Compared to selling separate issues under a common marketing plan, will the proposed SRB Securities structure require higher fees payable to the rating agencies?

o. Will the SRB Securities combined structure affect the level of the storm recovery charges required upon offering and then to be adjusted through the true-up?

p. If, on an SRB Securities semiannual payment date, there is a financial default by reason of a failure to pay accrued interest on the SRB Notes issued for DEC, but not on the SRB Notes issued for DEP, will payments of scheduled principal on the SRB Notes issued for DEP be available to pay accrued interest on the SRB Securities?

q. If, on an SRB Securities semiannual payment date, there is a financial extension by reason of a failure to pay scheduled principal on the SRB Notes issued for DEC, but not on the SRB Notes issued for DEP, will payments of scheduled principal on the SRB Notes issued for DEP be available to pay scheduled principal on the SRB Securities?

Response:

a. DEC and DEP are unaware whether the current Index eligibility criteria were in effect for each of the listed transactions since 1997. The current ABS Index criteria require a minimum issue size of \$500 million and a minimum tranche size of \$25 million. Thus, transactions meeting that criteria are likely to have been eligible for the ABS Index, although Witness Atkins cannot confirm such prior eligibility. Witness Atkins is aware of 7 transactions since 2008 that were included in the Aggregate Bond Index, and a list of those transactions is attached to this submission.



PS DR 2-7ad utility
securitizations aggreg

b. The Corporate Utility Index could also positively affect the perceived liquidity of the SRB Securities, as investors may make their own conclusions regarding potential inclusion in the Utility Index, based upon disclosure that the SRB Securities are not “asset-backed securities” pursuant to SEC Regulation AB.

c. There are always several factors affecting the pricing of any bond offering that are difficult to isolate definitively, therefore, Witness Atkins does not have specific data

North Carolina Public Staff
Data Request No. 2
DEC Docket No. E-7, Sub 1243
DEP Docket No. E-2, Sub 1262
Item No. 2-7
Page 3 of 5

demonstrating the positive impact of larger bond issues that are eligible for one of the listed Indices. However, based upon Witness Atkins' historical experience and expertise, he opines that larger issues are considered by investors to be more liquid than smaller issues.

d. See response to PS Data Request 2-7.a.

e. The current rules for inclusion in the Bloomberg Barclays US Aggregate Bond Index for ABS require a minimum deal size of \$500 million, and a \$25 million minimum tranche size. For corporate securities, as of April 1, 2017, a minimum par amount of \$300 million outstanding is required (see page 2 of the attached guidelines provided with this response).



PS DR 2-7e Barclays
Aggregate Indices.pdf

f. Confirmation of Index inclusion does not occur until after bond issuance. However, Witness Atkins expects that investors are generally aware of the minimum deal size requirements for Index inclusion and will factor into their investment decisions the anticipated greater liquidity of the issues due to potential Index inclusion, and notes that the rules for Index inclusion are publicly available. Since confirmation of Index inclusion does not occur until after issuance, representations would not be made by the underwriters to investors assuring such potential inclusion. The SRB Securities will be structured to satisfy the Index inclusion rules, and investors may be informed of such structural features. Any investor questions regarding the published rules for inclusion may be answered by the sales force without representing that the securities will definitively be included in the Index. Investors may note the issuance size, the minimum size requirements as published and reach their own conclusions.

g. No, the Index does not confirm inclusion of a bond until after the bond is issued.

h. Attached to this response please find the published notification regarding the inclusion of the 2016 DEF transaction in the Barclays Corporate Utility Index.



PS DR 2-7h DEF
index notification.pdf

i. See response to PS Data Request 2-7.f.

North Carolina Public Staff
Data Request No. 2
DEC Docket No. E-7, Sub 1243
DEP Docket No. E-2, Sub 1262
Item No. 2-7
Page 4 of 5

j. While the underwriters will notify investors that the SRB Securities have been structured such that they meet the eligibility requirements of the Index, the investors will have to make their own determination whether they believe this is so before they receive any confirmation letters from the Index itself (which would not occur until after closing).

k. See response to PS Data Request 2-7.f.

l. Structured notes are debt securities issued by banks or financial institutions that have an embedded derivative product. The derivative product is used to provide exposure to an asset, such as an equity index, basket of equities, or foreign currency, and the performance of the note is linked to the return on that asset. The SRB Securities are not issued by a financial institution and do not have this embedded derivative, so the SRB Securities are not structured notes. Pass-through certificates pass through to the holders of the certificates principal and interest payments on assets that are held by the issuer of the certificates. Pass-through certificates do not have an interest rate that is set independently of the interest rate on the underlying assets. The SRB Securities' interest rate and pricing terms will all be accomplished at the SRB Securities level and not at the underlying bond level. This distinguishes these securities from pass-through certificates.

m. DEC and DEP object to the description of their proposed structure as complex. While it does add an additional entity to the typical structure of utility securitizations, the additional entity is simply a trust entity that enables aggregation of two issuances into a combined larger issuance amount. Witness Heath has had some preliminary discussions with commercial representatives from both Moody's and S&P. These discussions were primarily related to obtaining fee estimates for the purposes of developing estimates of upfront and ongoing financing expense as reflected in Heath Exhibit 1. Both agencies previously rated the 2013 First Energy transaction which utilized a similar although not identical structure as that being proposed by DEC and DEP.

n. It is possible that the proposed combined structure will result in incremental rating agency fees above those that would be charged if the securities were sold in separate DEC and DEP issuances. A range of rating agency fees is reflected in Heath Exhibit 1 for this possibility. Moody's and S&P indicated they did charge additional fees in the 2013 First Energy transaction referred to in the response to PS Data Request 2-7.m. The rating agency fee estimates included in Heath Exhibit 1 includes a low-end estimate of \$0 to a high end estimate of 7.5 basis points charged on the full anticipated issuance of \$978.8 million. Witness Heath stated in his testimony that neither DEC or DEP nor the Commission have any effective control over the fees charged by the rating agencies, but that DEC and DEP would use commercially reasonable means to negotiate the lowest possible rating agency fees for the transaction. DEC and DEP believe the substantive portion of the ratings work for its proposed transaction is related to the bonds to be issued by the DEC and DEP SPEs and the servicing function to be performed by DEC and DEP.

North Carolina Public Staff
Data Request No. 2
DEC Docket No. E-7, Sub 1243
DEP Docket No. E-2, Sub 1262
Item No. 2-7
Page 5 of 5

As such DEC and DEP plan to make a case to the rating agencies that little, if any, incremental fees are necessary for the proposed transaction above what would be required for separate issuances by DEC and DEP. Again, as stated in response to PS Data Request 2-3(d), the Companies have an obligation to structure and market the bonds for their two customer bases in a manner that is reasonably expected to achieve the lowest storm recovery charges consistent with market conditions. Provided the Commission grants the Companies the flexibility it requested in its Joint Petition to explore various options, the Companies will be able to evaluate pricing impacts under different scenarios, including fees, to meet its statutory objectives.

o. Yes, as reflected in Witness Heath Exhibit 1, there will be some incremental ongoing expenses related to the combined structuring including accounting and auditing fees, trustee fees, independent manager fees, etc.

p. Yes, but there is ultimately no cross-collateralization among the SRB Notes issued for DEP and DEC. In the event of a shortfall for SRB Notes issued for one utility, the difference will be factored into the true-up of the storm recovery charges associated with that utility experiencing the shortfall for the next payment period. Customers of DEP are only obligated to pay storm recovery charges sufficient to pay debt service and financing costs related to the SRB Notes issued for DEP and customers of DEC are only obligated to pay storm recovery charges sufficient to pay debt service and financing costs related to the SRB Notes issued for DEC. Regarding the risk of financial defaults by the SRB Notes, both sets of SRB Notes will be structured to obtain AAA equivalent ratings.

q. Yes.

**Duke Energy Carolinas
and
Duke Energy Progress
Response to
NC Public Staff Data Request
Data Request No. NCPS 2**

Docket Nos. E-7, Sub 1243 and E-2, 1262

**Date of Request: November 9, 2020
Date of Response: November 17, 2020**

☐ **CONFIDENTIAL**
☒ **NOT CONFIDENTIAL**

Confidential Responses are provided pursuant to Confidentiality Agreement

The attached response to NC Public Staff Data Request No. 2-8, was provided to me by the following individual(s): Charles Atkins, CEO, Atkins Capital Strategies LLC, and was provided to NC Public Staff under my supervision.

Camal O. Robinson
Associate General Counsel
Duke Energy Carolinas

North Carolina Public Staff
Data Request No. 2
DEC Docket No. E-7, Sub 1243
DEP Docket No. E-2, Sub 1262
Item No. 2-8
Page 1 of 1

Request:

- a. Have any other utility securitizations of two affiliated companies been structured, marketed and priced under a common marketing plan versus the proposed SRB Securities combined structure? If so, which of these two approaches resulted in the tighter spreads to comparable benchmark securities priced close in time to these securitized utility bonds?
- b. For the proposed structure in Atkins Exhibit 4, who provided these indicative rates?
- c. Page 34 of Witness Atkins' testimony recommends that the underwriters provide price guidance to investors based on both U.S. Treasury benchmarks and interest rate swap benchmarks. Atkins Exhibit 4 presents the "spread" for each class / tranche of DEC bonds and DEP bonds as of October 9, 2020 against benchmark U.S. Treasury obligations. Please also provide the "spread" for each class / tranche of DEC bonds and DEP bonds as of October 9, 2020 against benchmark interest rate swaps. Please also provide the equivalent U.S. Treasury g-spreads for each of the benchmarks used in Atkins Exhibit 4.
- d. Has DEP or DEC examined the alternative of developing one set of documents for the offering to investors of one series of Notes for DEP and then using the identical documents conformed for a separate series of Notes for DEC as has been done efficiently by other utilities?

Response:

a. DEC and DEP are familiar with two instances of utility securitizations sponsored by Entergy subsidiaries, marketed as separate issuances under common marketing plans and priced on the same day -- the LCDA/ELL and LCDA/EGSL transactions priced in July 2010, and the LCDA/ELL and LCDA/EGSL transactions priced in July of 2014. In both instances, the smaller transaction priced wider than the larger transaction. Please see the attached spread and coupon information for those transactions included as an attachment to PS Data Request 2-8.

b. The indicative rates for Atkins Exhibit 4 were provided by co-financial advisor Guggenheim Securities, and reviewed by Witness Atkins and Witness Heath.

c. See document provided as an attachment to PS Data Request 2-8.



PS DR 2-8c indicative
spreads.pdf

d. Yes, DEC and DEP have and will continue to evaluate different options. The proposed financing orders were drafted to permit the Companies flexibility to issue two series using similar documents or to combine the issuance and use SRB Securities. Ultimately, it will depend on the Companies' consultations with the bookrunning underwriters regarding the preferred issuance strategy given market conditions, with the goal of achieving the statutory cost objectives set forth in the Financing Orders.

**Duke Energy Carolinas
and
Duke Energy Progress
Response to
NC Public Staff Data Request
Data Request No. NCPS 2**

Docket Nos. E-7, Sub 1243 and E-2, 1262

**Date of Request: November 9, 2020
Date of Response: December 1, 2020**

☐ **CONFIDENTIAL**
☒ **NOT CONFIDENTIAL**

Confidential Responses are provided pursuant to Confidentiality Agreement

The attached supplemental response to NC Public Staff Data Request No. 2-8, was provided to me by the following individual(s): Charles Atkins, CEO, Atkins Capital Strategies LLC, and was provided to NC Public Staff under my supervision.

Camal O. Robinson
Associate General Counsel
Duke Energy Carolinas

North Carolina Public Staff
Data Request No. 2
DEC Docket No. E-7, Sub 1243
DEP Docket No. E-2, Sub 1262
Item No. 2-8
Page 1 of 1

Request:

- a. Have any other utility securitizations of two affiliated companies been structured, marketed and priced under a common marketing plan versus the proposed SRB Securities combined structure? If so, which of these two approaches resulted in the tighter spreads to comparable benchmark securities priced close in time to these securitized utility bonds?
- b. For the proposed structure in Atkins Exhibit 4, who provided these indicative rates?
- c. Page 34 of Witness Atkins' testimony recommends that the underwriters provide price guidance to investors based on both U.S. Treasury benchmarks and interest rate swap benchmarks. Atkins Exhibit 4 presents the "spread" for each class / tranche of DEC bonds and DEP bonds as of October 9, 2020 against benchmark U.S. Treasury obligations. Please also provide the "spread" for each class / tranche of DEC bonds and DEP bonds as of October 9, 2020 against benchmark interest rate swaps. Please also provide the equivalent U.S. Treasury g-spreads for each of the benchmarks used in Atkins Exhibit 4.
- d. Has DEP or DEC examined the alternative of developing one set of documents for the offering to investors of one series of Notes for DEP and then using the identical documents conformed for a separate series of Notes for DEC as has been done efficiently by other utilities?

Supplemental Response Dec. 1, 2020:

- a. Please see the attachment titled "Supplemental PS DR 2-8a LDCA Pricings.pdf."



Supplemental PS DR
2-8a LDCA Pricings.pc

**Duke Energy Carolinas
and
Duke Energy Progress
Response to
NC Public Staff Data Request
Data Request No. NCPS 2**

Docket Nos. E-7, Sub 1243 and E-2, 1262

**Date of Request: November 9, 2020
Date of Response: November 17, 2020**

☐ **CONFIDENTIAL**
☒ **NOT CONFIDENTIAL**

Confidential Responses are provided pursuant to Confidentiality Agreement

The attached response to NC Public Staff Data Request No. 2-9, was provided to me by the following individual(s): Shana W. Angers, Manager, Accounting II, and was provided to NC Public Staff under my supervision.

Camal O. Robinson
Associate General Counsel
Duke Energy Carolinas

North Carolina Public Staff
Data Request No. 2
DEC Docket No. E-7, Sub 1243
DEP Docket No. E-2, Sub 1262
Item No. 2-9
Page 1 of 1

Request:

- a. Has DEF or any other utility subsidiary of Duke Energy Corporation that acts or has acted as servicer for securitized utility bonds documented its specific incremental annual servicing and administration out-of-pocket costs to provide the services as described in the proposed DEP/DEC servicing agreement and administration agreement? If so, please provide the supporting documentation for these costs on an annual basis from 2017-2019.
- b. Has DEF identified its incremental out-of-pocket costs of acting as servicer and administrator for its 2016 securitized utility bonds in connection with the preparation of its annual financial statements?
- c. How do these incremental actual costs compare with estimated annual costs for the DEP/DEC utility securitization?
- d. Will any information system set-up fees or other incremental servicing costs be paid from bond proceeds as a “financing cost”?

Response:

- a. DEF has not quantified the actual cost of performing the servicing or administration function under the respective transaction agreements for its 2016 securitization transaction. Customers are kept whole for these expenses. The labor and labor related cost of employees performing the servicing and administration functions and the earnings from the servicing and administration fees are factored into DEC and DEP’s base rates. The servicing and administration fees will be charged to and collected from customers through the storm recovery charge. The fees will be paid to DEC and DEP and will be recorded as reductions to their operating expenses, as such, customers will not be double paying the servicing and administration fees.
- b. See response to PS Data Request 2-9.a.
- c. See response to PS Data Request 2-9.a.
- d. As provided for in the storm securitization statute, incremental information technology programming costs are considered a financing cost. As discussed in Witness Heath’s testimony (page 21 line 21 through page 22 line 2), DEC and DEP intend to recover amounts related to systems modifications to bill, monitor, collect, and remit the storm recovery charges. An estimate for these incremental costs is included in Heath Exhibit 1. The scope and nature of these required systems modifications are still being determined. As a result, the incremental cost related to any modifications may be more or less than the amounts included in Heath Exhibit 1.

**Duke Energy Carolinas
and
Duke Energy Progress
Response to
NC Public Staff Data Request
Data Request No. NCPS 2**

Docket Nos. E-7, Sub 1243 and E-2, 1262

**Date of Request: November 9, 2020
Date of Response: November 17, 2020**

☐ **CONFIDENTIAL**
☒ **NOT CONFIDENTIAL**

Confidential Responses are provided pursuant to Confidentiality Agreement

The attached response to NC Public Staff Data Request No. 2-10, was provided to me by the following individual(s): Charles Atkins, CEO, Atkins Capital Strategies LLC, and was provided to NC Public Staff under my supervision.

Camal O. Robinson
Associate General Counsel
Duke Energy Carolinas

North Carolina Public Staff
Data Request No. 2
DEC Docket No. E-7, Sub 1243
DEP Docket No. E-2, Sub 1262
Item No. 2-10
Page 1 of 1

Request:

Witness Atkins testifies that the storm recovery bond transaction proposed by DEP and DEC will comply with the safe harbor federal income tax rules of IRS Revenue Procedure 2005-62. Section 62-172(a)(14) defines “storm recovery costs” to include “the cost to replenish and fund any storm reserves”. The Joint Petition states that neither DEC nor DEP “at this time” plans to use proceeds of securitized bonds to replenish or fund any storm reserves, but DEP/DEC appear to reserve the right to change those plans. Is replenishing or funding a storm reserve a “cost” for purposes of the federal income tax safe harbor rule of Revenue Procedure 2005-62?

Response:

As noted in their Joint-Petition, DEC and DEP are not requesting that proceeds from the transaction be used to fund storm reserves. That said, funding of storm reserves would qualify under Revenue Procedure 2005-62. Section 5.03 defines “specified costs” that qualify under the Rev. Proc. as “those costs identified by the State legislature as appropriate for recovery through the securitization mechanism of the specified cost recovery legislation.” N.C. Gen. Stat. § 62-172(a)(14) states that “storm recovery costs” includes “the cost to replenish and fund any storm reserves” and thus the legislature deems them “appropriate for recovery through the securitization mechanism”.

**Duke Energy Carolinas
and
Duke Energy Progress
Response to
NC Public Staff Data Request
Data Request No. NCPS 2**

Docket Nos. E-7, Sub 1243 and E-2, 1262

**Date of Request: November 9, 2020
Date of Response: November 17, 2020**

☐ **CONFIDENTIAL**
☒ **NOT CONFIDENTIAL**

Confidential Responses are provided pursuant to Confidentiality Agreement

The attached response to NC Public Staff Data Request No. 2-11, was provided to me by the following individual(s): Tom Heath, Corporate Finance Director, and was provided to NC Public Staff under my supervision.

Camal O. Robinson
Associate General Counsel
Duke Energy Carolinas

North Carolina Public Staff
Data Request No. 2
DEC Docket No. E-7, Sub 1243
DEP Docket No. E-2, Sub 1262
Item No. 2-11
Page 1 of 5

Request:

- a. Witness Atkins and Witness Heath recommend a negotiated pricing with underwriters to price the SRB Securities. What is the definition of a negotiated underwriting? Please be specific as to what is negotiated and by whom under this proposal.
- b. What specific items or terms will be negotiated with the underwriters? How will underwriters be selected for the proposed SRB Securities?
- c. How many underwriters does DEP/DEC expect to negotiate with for the proposed securitization?
- d. Will underwriters be compensated regardless of their performance in the structuring, marketing, and pricing of the bonds?
- e. If there is more than one underwriter, how will the compensation of each underwriter be determined?
- f. What are the requirements to be considered a potential underwriter for the SRB Securities?
- g. If experience in underwriting previous utility securitization bonds will be a factor, and given the turnover in personnel at many of these firms, how will DEP/DEC assure itself that a candidate firm has personnel with direct experience in utility securitization?
- h. If experience in SEC registered offerings will be a factor, what is the threshold amount?
- i. How will the performance of underwriters in previous utility securitizations be evaluated?
- j. Will being a lender to Duke Energy Corporation or any of its affiliates be a factor in selecting an underwriter of the SRB Securities?
- k. Are there any underwriting firms that are not lenders to Duke Energy Corporation or any of its affiliates that have been selected as underwriters by Duke Energy Corporation or any of its affiliates? If so, please name those firms.
- l. For all firms that are lenders to Duke Energy Corporation or any of its affiliates and that also are selected as underwriters, please indicate the lending commitment and the number of times that firm has participated as an underwriter.
- m. Do underwriters of securities have a duty to the issuer of those securities? Is it a fiduciary duty?
- n. If there is more than one underwriter, how will the compensation of each underwriter be determined?
- o. Do underwriters have to act in the best interests of the issuer and not in their own economic interest?
- p. The underwriting agreement for the 2016 DEF securitized utility bond transaction states: "No Advisory or Fiduciary Relationship. Each of the Issuer and the Depositor acknowledges and agrees that (a) the purchase and sale of the Bonds pursuant to this Agreement, including the determination of the offering price of the Bonds and any related discounts and commissions, is an arm's-length commercial transaction between the Issuer and the Depositor, on the one hand, and the several Underwriters, on the other hand, (b) in connection with the offering and the process leading thereto, each Underwriter is and has been acting solely as a principal and is not the agent or fiduciary of either the Issuer or the

North Carolina Public Staff
Data Request No. 2
DEC Docket No. E-7, Sub 1243
DEP Docket No. E-2, Sub 1262
Item No. 2-11
Page 2 of 5

Depositor, any of their subsidiaries or their respective members, directors, creditors, employees or any other party, (c) no Underwriter has assumed or will assume an advisory or fiduciary responsibility in favor of the Issuer or the Depositor with respect to the offering or the process leading thereto (irrespective of whether such Underwriter has advised or is currently advising the Issuer or the Depositor or any of its subsidiaries on other matters) and no Underwriter has any obligation to the Issuer or the Depositor with respect to the offering except the obligations expressly set forth in this Agreement, (d) the Underwriters and their respective affiliates may be engaged in a broad range of transactions that involve interests that differ from those of the Issuer or the Depositor, (e) any duties and obligations that the Underwriters may have to the Issuer or the Depositor shall be limited to those duties and obligations specifically stated herein and (f) the Underwriters have not provided any legal, accounting, regulatory or tax advice with respect to the offering and each of the Issuer and the Depositor has consulted its own respective legal, accounting, regulatory and tax advisors to the extent it deemed appropriate.”

Is this issue commonly addressed in underwriting agreements? If so, please explain why?

q. Will the underwriters provide advice to DEP/DEC concerning the structure, marketing, preliminary pricing and pricing of SRB Securities?

r. Will the underwriters analyze and provide other information or review other information for the benefit of DEP/DEC?

s. Will the underwriters analyze and provide any information or review for the benefit of customers responsible for paying the non-bypassable storm recovery charges?

t. In the Joint Petition, DEC and DEP propose that each will deliver an Issuance Advice Letter following pricing and prior to issuance of the SRB Securities. In those Issuance Advices Letters, DEC and DEP must certify that “the structuring and pricing of the SRB Notes and the underlying Storm Recovery Bonds issued on behalf of [DEC / DEP] resulted in the lowest storm recovery charges payable by customers of [DEC / DEP] consistent with market conditions at the time such SRB Notes and underlying Storm Recovery Bonds were priced and the terms set forth in the Financing Order.” Should the bookrunning underwriter(s) of the SRB Securities be required to deliver a similar certification?

u. In any of the 24 transactions that Witness Atkins lists in his experience, did one or more of the bookrunning underwriters deliver a certification that the structuring, marketing and pricing of the securitized utility bonds resulted in the Issuer receiving the lowest cost of funds for the bonds, consistent with the financing order and market conditions at the pricing time? If so, please identify such transactions and provide a copy of such certification.

v. In any of the 24 transactions that Witness Atkins lists in his experience, did one or more of the bookrunning underwriters deliver any type of certification or opinion? If so, please describe and provide a copy of such certification or opinion.

Response:

a. A “negotiated underwriting” is an underwriting conducted pursuant to an underwriting agreement that is negotiated between the issuer and depositor and the underwriters. In such

North Carolina Public Staff
Data Request No. 2
DEC Docket No. E-7, Sub 1243
DEP Docket No. E-2, Sub 1262
Item No. 2-11
Page 3 of 5

a negotiated underwriting, the issuer and depositor and the underwriters will work together to market and sell the SRB Securities.

b. In a negotiated underwriting, all terms are subject to negotiation, but DEC and DEP anticipate the underwriting agreement will resemble the underwriter agreements used by DEC and DEP in their traditional capital markets transactions and the underwriting agreement used in the DEF utility securitization.

c. At this stage of the transaction cycle, DEC and DEP have not developed detailed plans for selecting and compensating underwriters for the transaction. However, it is likely that DEC and DEP would ultimately have an underwriting syndicate similar to their affiliate DEF's 2016 transaction. The 2016 DEF transaction had an underwriting syndicate consisting of two joint book-running lead underwriters and six co-managers. DEC and DEP will select underwriters that have relevant experience with the issuance of utility securitization bonds and that share DEC and DEP's approach to the structuring and marketing plans for this transaction (targeted to the broadest spectrum of investors, presented as structured corporate securities, understand the unique credit quality of the bonds, etc.). Underwriters will likely be selected through the use of a request for proposal process.

d. See response to PS Data Request 2-11.c.

e. See response to PS Data Request 2-11.c.

f. See response to question PS Data Request 2-11.c.

g. DEC and DEP have relationships with credit providers and non-credit providing financial institutions and maintain frequent contact with them throughout each year. This relationship management process helps DEC and DEP to stay aware of key personnel changes at these financial institutions. The underwriting group will likely not consist exclusively of DEC and DEP's relationship financial institutions. If a request for proposal process is utilized, one of the relevant questions will be for the financial institution to list specific personnel who will be involved in the proposed transaction and their relevant experience with utility securitization bond issuances.

h. See response to PS Data Request 2-11.c. and 2-11.g.

i. See response to question PS Data Request 2-11.g.

j. See response to question PS Data Request 2-11.g.

k. Since 2018, Duke Energy and its affiliates have selected the financial institutions listed below, which do not provide credit to them, as underwriters on various public debt issuances. Academy Securities, Inc. Blaylock Van, LLC CastleOak Securities, L.P. C.L.

North Carolina Public Staff
Data Request No. 2
DEC Docket No. E-7, Sub 1243
DEP Docket No. E-2, Sub 1262
Item No. 2-11
Page 4 of 5

King & Associates, Inc. Great Pacific Securities Guggenheim Securities, LLC Drexel Hamilton, LLC Jefferies LLC Loop Capital Markets LLC Mischler Financial Group, Inc. Samuel A. Ramirez & Company, Inc. Siebert Williams Shank & Co., LLC

l. No underwriters have been selected for this transaction to date. The only financial institution engaged in any capacity at this point are Guggenheim and Atkins Capital, neither of which are credit providers to DEC and DEP or any of their affiliates.

m. The underwriters do not have a fiduciary duty to the issuer, but as required by the statute, the transaction is expected to be structured and priced to result in the lowest storm recovery charges consistent with market conditions at the time the SRB Securities are priced and the terms of the Financing Orders.

n. See response to PS Data Request 2-11.g.

o. DEC and DEP object to this request on the grounds that it calls for the provision of legal conclusions regarding the duties owed to issuers by underwriters generally. Without waiving this objection DEC and DEP provide the following response: The duties between DEC and DEP and underwriters for the proposed SRB transactions will be set forth in the written agreements between DEC and DEP. In addition, the statute requires 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 SRB Securities are priced and the terms set forth in the Financing Orders. DEC and DEP will provide a certification as such in connection with the issuance advice letter process. Therefore, the underwriters, and DEC and DEP, will be working with common purpose to achieve this objective. Furthermore, as noted in prior responses, the relationship between DEC and DEP and the underwriters will be a commercial relationship and at least some of the underwriters are expected to have considerable incentive to deliver for the utilities in order to attract future business from Duke Energy. Lastly, DEC and DEP are sophisticated actors in capital markets transactions, fully capable of evaluating transactions.

p. Yes, the language cited above is common in underwriting agreements. It is an acknowledgement between the parties that the underwriting agreement memorializes a commercial arms-length transaction between the underwriters and the issuer and depositor that creates no fiduciary duties between the parties. As sophisticated market participants, DEC and DEP are knowledgeable in the issuance of securities generally and many of the DEC and DEP employees who will be working on the proposed SRB Securities worked on the DEF transaction. Similar language is found in DEC's and DEP's first mortgage bond underwriting agreements and DEC and DEP are comfortable with this language.

q. Yes, this is common practice in the issuance of securitization bonds and corporate bond issuances in general.

North Carolina Public Staff
Data Request No. 2
DEC Docket No. E-7, Sub 1243
DEP Docket No. E-2, Sub 1262
Item No. 2-11
Page 5 of 5

- r. Yes, the underwriters will assist in the preparation of rating agency presentations (if engaged at that stage), marketing materials, and other documentation related to the transaction.
- s. Underwriters will assist DEC and DEP in ensuring the transaction achieves the statutory objective of providing quantifiable benefits to customers.
- t. DEC and DEP will provide the certificate described above. Each are still considering whether or not to request a similar certification from the book-running underwriters.
- u. Yes, underwriters in some of these transactions did provide a form of “lowest costs” certificate. The exact form of such certification is heavily negotiated and varies depending on the requirements of the transaction and/or requirements of the applicable statute. Many of these certificates are confidential, so Witness Atkins is not able to identify or provide copies of such certifications.
- v. Yes. As discussed in the response above, these certifications are typically confidential and may not be shared with third parties.

**Duke Energy Carolinas
and
Duke Energy Progress
Response to
NC Public Staff Data Request
Data Request No. NCPS 2**

Docket Nos. E-7, Sub 1243 and E-2, 1262

**Date of Request: November 9, 2020
Date of Response: November 20, 2020**

☐ **CONFIDENTIAL**
☒ **NOT CONFIDENTIAL**

Confidential Responses are provided pursuant to Confidentiality Agreement

The attached response to NC Public Staff Data Request No. 2-12, was provided to me by the following individual(s): Charles Atkins, CEO, Atkins Capital Strategies LLC, and was provided to NC Public Staff under my supervision.

Camal O. Robinson
Associate General Counsel
Duke Energy Carolinas

North Carolina Public Staff
Data Request No. 2
DEC Docket No. E-7, Sub 1243
DEP Docket No. E-2, Sub 1262
Item No. 2-12
Page 1 of 2

Request:

- a. In connection with public offerings of securities, what is the difference between an underwriter and a placement agent?
- b. What is the difference between a “firm commitment” underwriting and a “best efforts” underwriting? Do DEC and DEP propose that the SRB Issuer will sell the SRB Securities to underwriters in a “firm commitment” underwriting or a “best efforts” underwriting?
- c. In a firm commitment underwriting of bonds, must the underwriters have orders from investors when the bonds are priced and the underwriting agreement is executed?
- d. Of the 24 utility securitization transactions in which Witness Atkins has participated, totaling \$22.6 billion, as stated on Atkins Exhibit 1, page 2, did underwriters ever use their own capital to purchase bonds for which investors had not placed orders at the public offering price at the time of pricing (not for its proprietary account, which is prohibited, but acting in its capacity as underwriter)?
- e. Is Witness Atkins aware of any transaction (including, but not limited to, any utility securitization transaction) during his time at Morgan Stanley in which Morgan Stanley, as underwriter, purchased bonds from an issuer without a corresponding order from an investor(s) for a specific bond? If yes, please describe those transactions.
- f. Witness Atkins describes a process in which underwriters will use their “professional judgement” to increase the credit spread (cost to the customers) to a level in which there are enough investors to “clear the market” for each tranche of SRB Securities. In an underwriting of securitized utility bonds, how is pricing each tranche to the last investor’s price level in the best interests of consumers?
- g. When underwriters use their professional judgement to increase the spread, are they providing advice to the issuer that is in the issuer’s best interest and not in the underwriters’ economic interest?

Response:

- a. The primary difference between an underwriter and a placement agent in a public offering is that the underwriter provides a firm commitment to buy the securities at closing at the time of pricing (subject to the conditions precedent in the underwriting agreement) while the placement agent is retained to locate investors on behalf of the issuer but does not obligate itself to buy the securities at closing. A placement agent is contractually obligated in a placement agency agreement to use its best efforts or commercially reasonable efforts to locate buyers for the securities. An underwriter will sign an underwriting agreement at the time of pricing of the securities obligating it buy the securities at closing subject to conditions precedent being met in the underwriting agreement.
- b. DEC and DEP propose that the SRB Issuer will sell the SRB Securities in a firm commitment underwriting. This differs from a “best efforts” placement in which the placement agent will use “best efforts” to locate buyers for the Securities. See also response to PS Data Request 2-12.a.

North Carolina Public Staff
Data Request No. 2
DEC Docket No. E-7, Sub 1243
DEP Docket No. E-2, Sub 1262
Item No. 2-12
Page 2 of 2

c. It is DEC and DEP's understanding from underwriters they have worked with previously that the underwriters do not necessarily have to have a full book orders from investors when the bonds are priced and the underwriting agreement is executed. However, practices among underwriters may differ based on firm practices and potential regulatory constraints.

d. Prior to the more stringent bank capital requirements imposed after the 2008 financial crisis, in certain cases, underwriters may have used their own capital to purchase limited amounts of unsold utility securitization bonds. While Witness Atkins does not have a specific deal-by-deal recollection of such events, for those transactions where Morgan Stanley was a lead bookrunning underwriter, it is certainly possible that such events occurred. Regarding other asset classes, Witness Atkins does recall a few such occurrences, but not on a specific transaction basis. After more stringent capital requirements were imposed on banks post-financial crisis, Witness Atkins does not recall any such occurrence, which may be less likely due to the increase in capital requirements. Witness Atkins cannot offer any views whether underwriters may subsidize utility securitization issues with their own capital in current or future market or regulatory environments. e. See response to 12.d. f. A market-clearing pricing would result in interest rates for the SRB Securities that are consistent with market conditions at the time of pricing. Interest rates that are subsidized by private companies, whether underwriter firms or the Companies, through the purchase or retention of unsold utility securitization bonds, are not consistent with market conditions at the time of pricing, and therefore inconsistent with N.C. Gen. Stat. § 62-172.

g. See response to PS Data Requests 2-11.o. and 2-12.f.

**Duke Energy Carolinas
and
Duke Energy Progress
Response to
NC Public Staff Data Request
Data Request No. NCPS 2**

Docket Nos. E-7, Sub 1243 and E-2, 1262

**Date of Request: November 9, 2020
Date of Response: November 17, 2020**

☐ **CONFIDENTIAL**
☒ **NOT CONFIDENTIAL**

Confidential Responses are provided pursuant to Confidentiality Agreement

The attached response to NC Public Staff Data Request No. 2-13, was provided to me by the following individual(s): Tom Heath, Corporate Finance Director, and was provided to NC Public Staff under my supervision.

Camal O. Robinson
Associate General Counsel
Duke Energy Carolinas

North Carolina Public Staff
Data Request No. 2
DEC Docket No. E-7, Sub 1243
DEP Docket No. E-2, Sub 1262
Item No. 2-13
Page 1 of 2

Request:

- a. Please provide DEP/DEC's marketing plan for the proposed SRB Securities, including, but not limited to, the trading history of comparable securities to be used in such plan, proposed roadshow materials, pros and cons sales memorandum, and categories of investors to be targeted. Please provide all objective evidence as practicable to support the recommendations in the plan.
- b. Witness Atkins indicates that a broad group of investors in corporate and asset backed securities will be contacted. Please define "broad".
- c. How much of utility securitization bonds will be outstanding as of December 31, 2020, and what will be the distribution by weighted average life? Who are the disclosed investors in these securities?
- d. What efforts will DEP/DEC will make to attract new sources of investment money to this deal, not just the traditional buyers?
- e. Please identify the list of investors to be contacted and how the Designated Member or anyone else can confirm that those investors have actually been contacted. Will the underwriters provide written and accountable certifications that such a distribution has been made?
- f. Southern California Edison Company is planning a similar utility securitization offering in January 2021. How could this affect the pricing of these SRB Securities?
- g. Pacific Gas and Electric Company is planning a \$7.5 billion similar utility securitization offering in 2021. How could this affect the pricing of these SRB Securities?

Response:

- a. Marketing plans have not been formally developed at this stage of the transaction as DEC and DEP's primary focus to this point has been directed to this regulatory proceeding phase of the transaction. The marketing plan is expected to be similar to, but not identical to, the marketing plan utilized in DEC and DEP affiliate DEF's 2016 transaction. The marketing plan for DEF's 2016 transaction included non-deal investor meetings at ABS and other investor conferences, in-person and on-line deal roadshows, one-on-one and/or small group investors meetings, etc. Certain aspects of the marketing will also depend on the national health situation due to COVID-19.
- b. The marketing of the 2016 DEF transaction represents an example of outreach to a broad group of investors. The current advisor to the Public Staff advised the Florida Commission during the marketing of that transaction, and more than 160 investors were contacted.

North Carolina Public Staff
Data Request No. 2
DEC Docket No. E-7, Sub 1243
DEP Docket No. E-2, Sub 1262
Item No. 2-13
Page 2 of 2

c. See attached schedule provided in response to this request.



PS DR 2-13c utility
securitization bonds c

d. See response to PS Data Request 2-13.a.

e. See response to PS Data Request 2-13.a. It would be highly unusual and inappropriate for third parties who do not have securities law liability to directly contact potential investors. Financial institutions are very sensitive with respect to their relationships with investors.

f. DEC and DEP have no control over the timing of any competing utility securitization bond transactions, they can only control the timing of their own issuance(s). Given the potential for such large competing issuances, it will be important for DEC and DEP to have underwriters that have significant experience and exposure in the utility securitization bond market. These financial institutions can assist DEC and DEP to determine transaction timing that will avoid, to the extent possible, being in the market at the same time as a competing issuance. With respect to a potential issuance by Southern California Edison in January 2021, DEC and DEP do not expect any significant detrimental impacts to their transaction(s) as they are not expecting to be in the market until mid-2021 which should allow the SCE transaction to be fully digested in the market. Utility securitization bond offerings are generally infrequent. Since DEC and DEP affiliate DEF's issuance in 2016, there have only been two other utility securitization transactions. As result of this infrequent issuance activity, the marketing process includes an element of investor education to re-familiarize the market with the unique aspects of these transactions. A transaction several months prior to DEC and DEP's transaction may actually provide positive pricing benefits to their transaction as investors will already be familiar with this type of transaction. This could allow DEC and DEP to focus investor attention to distinguishing features of their North Carolinas service territories compared to SCE's California territory. An issuance by Pacific Gas and Electric Company later in 2021 has the potential to be of more concern. It will be important to stay clear of the transaction in the market, and if possible, to be in the market prior to the potential PG&E transaction because of its size. If the PG&E transaction were to price in the market prior to DEC and DEP's transaction, investors will attempt to draw direct comparisons between these transactions. With respect to either of these potential competing transactions it will be very important for DEC and DEP to select underwriters who are aligned with their philosophy for marketing the transaction. This includes approaches to cast the broadest net and to identify new investors for utility securitization bonds.

g. See response to PS Data Request 2-13.f.

**Duke Energy Carolinas
and
Duke Energy Progress
Response to
NC Public Staff Data Request
Data Request No. NCPS 3**

Docket Nos. E-7, Sub 1243 and E-2, 1262

**Date of Request: November 20, 2020
Date of Response: November 23, 2020**

☐ **CONFIDENTIAL**
☒ **NOT CONFIDENTIAL**

Confidential Responses are provided pursuant to Confidentiality Agreement

The attached response to NC Public Staff Data Request No. 3-1, was provided to me by the following individual(s): Kimberly K Smith, Rates & Regulatory Strategy Manager, and was provided to NC Public Staff under my supervision.

Camal O. Robinson
Associate General Counsel
Duke Energy Carolinas

North Carolina Public Staff
Data Request No. 3
DEC Docket No. E-7, Sub 1243
DEP Docket No. E-2, Sub 1262
Item No. 3-1
Page 1 of 1

Request:

1. What local, state and federal income tax rate assumptions does Ms. Abernathy use in calculating the revenue requirement impact of the securitization option (including, but not limited to, components related to storm recovery bond payments, upfront financing costs, and ongoing financing costs), as compared to traditional financing mechanisms?

Response:

Witness Abernathy included an after-tax WACC rate in calculating the return component of the storm recovery costs in Abernathy Exhibit 1 through May 31, 2021 as is provided in workpapers provided to the Public Staff in PS DR 1. The statutory tax rate used was approximately 23.4% and 23.2% for DEC and DEP, respectively. These can be found in the workpapers to Abernathy Exhibit 1-7 provided in PS DR 1. These rates are consistent with those used in the pending rate cases.

**Duke Energy Carolinas
and
Duke Energy Progress
Response to
Confidential NC Public Staff Data Request No. 3-2
Filed Under Seal**

**Duke Energy Carolinas
and
Duke Energy Progress
Response to
NC Public Staff Data Request
Data Request No. NCPS 3**

Docket Nos. E-7, Sub 1243 and E-2, 1262

**Date of Request: November 20, 2020
Date of Response: November 23, 2020**

☐ **CONFIDENTIAL**
☒ **NOT CONFIDENTIAL**

Confidential Responses are provided pursuant to Confidentiality Agreement

The attached response to NC Public Staff Data Request No. 3-3, was provided to me by the following individual(s): Morgan Beveridge, Rates and Regulatory Strategy Manager, and was provided to NC Public Staff under my supervision.

Camal O. Robinson
Associate General Counsel
Duke Energy Carolinas

North Carolina Public Staff
Data Request No. 3
DEC Docket No. E-7, Sub 1243
DEP Docket No. E-2, Sub 1262
Item No. 3-3
Page 1 of 1

Request:

3. Please provide a reconciliation of the 18 customer classes shown in Abernathy DEC Exhibit 3 with the 30 customer rate schedules shown in Byrd DEC Exhibit 1. Likewise, please provide a reconciliation of 10 customer classes shown in Abernathy DEP Exhibit 3 with the 22 customer rate schedules shown in Byrd DEP Exhibit 1.

Response:

Reconciliation of Abernathy Exhibit 3 and Byrd Exhibit 1 for DEC and DEP is provided in attached workbook "PS_DR_3-3.xlsx".



PS_DR_3-3.xlsx

The rate class breakout for DEC OPTV rate schedules ties to the Excel workpaper for Abernathy Exhibit 3 provided in PS DR 1.

**Duke Energy Carolinas
and
Duke Energy Progress
Response to
NC Public Staff Data Request
Data Request No. NCPS 3**

Docket Nos. E-7, Sub 1243 and E-2, 1262

**Date of Request: November 20, 2020
Date of Response: November 23, 2020**

☐ **CONFIDENTIAL**
☒ **NOT CONFIDENTIAL**

Confidential Responses are provided pursuant to Confidentiality Agreement

The attached response to NC Public Staff Data Request No. 3-4, was provided to me by the following individual(s): Kimberly K Smith, Rates & Regulatory Strategy Manager, and was provided to NC Public Staff under my supervision.

Camal O. Robinson
Associate General Counsel
Duke Energy Carolinas

North Carolina Public Staff
Data Request No. 3
DEC Docket No. E-7, Sub 1243
DEP Docket No. E-2, Sub 1262
Item No. 3-4
Page 1 of 1

Request:

4. Please provide a reconciliation of the annual DEC storm recovery charge of \$15.677 million (\$14.169M + \$1.508M) in Abernathy DEC Exhibit 7 with the \$17.6M total debt service shown in Atkins Exhibit 4. Page 1 of 4. Likewise, please provide a reconciliation of the annual DEP storm recovery charge of \$51.357 million (\$45.790M + \$5.567M) in Abernathy DEP Exhibit 7 with the \$57.2M total debt service shown in Atkins Exhibit 4. Page 2 of 4.

Response:

For both DEC and DEP, the amounts shown in Abernathy Exhibit 7 will not agree to the amounts shown in Atkins Exhibit 4 due to the Stipulation agreed to between the Companies and the Public Staff with regards to the calculation of quantifiable benefits to customers for this securitization. Abernathy Exhibit 7 is used in the calculation of savings. Please see the response to DR 3-5 for more information about the Stipulation and the requirements of the savings calculations. The amounts referenced from Atkins Exhibit 4 are shown in Abernathy Exhibit 4 as Principal and Interest for Year 1 and are used when calculating the Storm Recovery Charges for this proceeding.

**Duke Energy Carolinas
and
Duke Energy Progress
Response to
NC Public Staff Data Request
Data Request No. NCPS 3**

Docket Nos. E-7, Sub 1243 and E-2, 1262

**Date of Request: November 20, 2020
Date of Response: November 23, 2020**

☐ **CONFIDENTIAL**
☒ **NOT CONFIDENTIAL**

Confidential Responses are provided pursuant to Confidentiality Agreement

The attached response to NC Public Staff Data Request No. 3-5, was provided to me by the following individual(s): Kimberly K Smith, Rates & Regulatory Strategy Manager, and was provided to NC Public Staff under my supervision.

Camal O. Robinson
Associate General Counsel
Duke Energy Carolinas

North Carolina Public Staff
Data Request No. 3
DEC Docket No. E-7, Sub 1243
DEP Docket No. E-2, Sub 1262
Item No. 3-5
Page 1 of 1

Request:

5. Please provide a reconciliation of the Abernathy DEC Exhibit 7 \$215.848 amount to securitize (\$195.079 O&M + \$20.769M capital) with the \$230.8M in Atkins Exhibit 4, page 1 of 4. Similarly, please provide a reconciliation of the corresponding DEP amounts between Abernathy and Atkins.

Response:

For both DEC and DEP, the amounts to securitize shown in Abernathy Exhibit 7 will not agree to the amounts to securitize shown in Atkins Exhibit 4 due to the Stipulation agreed to between the Companies and the Public Staff. Within the Stipulation, the parties agreed to certain criteria/assumptions that would be used for this securitization when calculating and demonstrating quantifiable benefits to customers. This includes several pre-determined dates, including date of the storms, date of new rates effective and the date of securitization. Abernathy Exhibit 7 reflects the annual revenue requirement for storm securitization with the agreed upon requirements of the Stipulation and Atkins Exhibit 4 shows the amounts to securitize based on the actual amounts that will be securitized as shown in Abernathy Exhibit 1. The primary driver of the difference between Abernathy Exhibit 7 and Atkins Exhibit 4 is that in Abernathy Exhibit 7, carrying charges are calculated through September 30, 2020 and the date of securitization is assumed to be October 1, 2020; whereas, Atkins Exhibit 4 includes carrying charges through May 31, 2021 with an expected June 1, 2021 bond financing date.

**Duke Energy Carolinas
and
Duke Energy Progress
Response to
NC Public Staff Data Request
Data Request No. NCPS 3**

Docket Nos. E-7, Sub 1243 and E-2, 1262

**Date of Request: November 20, 2020
Date of Response: November 24, 2020**

☐ **CONFIDENTIAL**
☒ **NOT CONFIDENTIAL**

Confidential Responses are provided pursuant to Confidentiality Agreement

The attached response to NC Public Staff Data Request No. 3-6, was provided to me by the following individual(s): Charles Atkins, CEO, Atkins Capital Strategies LLC, and was provided to NC Public Staff under my supervision.

Camal O. Robinson
Associate General Counsel
Duke Energy Carolinas

North Carolina Public Staff
Data Request No. 3
DEC Docket No. E-7, Sub 1243
DEP Docket No. E-2, Sub 1262
Item No. 3-6
Page 1 of 1

Request:

6. Please explain the additional \$224,500 in ongoing expenses shown on Atkins Exhibit 4, page 3 of 4, over and above operating expenses on the prior 2 pages for DEC and DEP separately.

Response:

\$224,500 are for ongoing expenses at the SRB trust level which will be allocated as expenses for each of DEC and DEP on a pro-rata basis. The assumption for each of DEC and DEP is shown in line items called "Allocated Trust Expenses," which reflect what SRB Trust expenses will be paid by DEC's and DEP's customers, and those amounts add up to the \$224,500.

**Duke Energy Carolinas
and
Duke Energy Progress
Response to
NC Public Staff Data Request
Data Request No. NCPS 3**

Docket Nos. E-7, Sub 1243 and E-2, 1262

**Date of Request: November 20, 2020
Date of Response: November 23, 2020**

☐ **CONFIDENTIAL**
☒ **NOT CONFIDENTIAL**

Confidential Responses are provided pursuant to Confidentiality Agreement

The attached response to NC Public Staff Data Request No. 3-7, was provided to me by the following individual(s): Kimberly K Smith, Rates & Regulatory Strategy Manager, and was provided to NC Public Staff under my supervision.

Camal O. Robinson
Associate General Counsel
Duke Energy Carolinas

North Carolina Public Staff
Data Request No. 3
DEC Docket No. E-7, Sub 1243
DEP Docket No. E-2, Sub 1262
Item No. 3-7
Page 1 of 1

Request:

7. Why do the DEC and DEP savings calculations use a different principal amount for securitization in Abernathy Exhibit 7 than in Abernathy Exhibits 1 through 4, and why are they different from the amounts used in Witness Atkins' preliminary structure?

Response:

Please see the Companies' response to PS DR 3-5.

**Duke Energy Carolinas
and
Duke Energy Progress
Response to
NC Public Staff Data Request
Data Request No. NCPS 3**

Docket Nos. E-7, Sub 1243 and E-2, 1262

**Date of Request: November 20, 2020
Date of Response: November 23, 2020**

☐ **CONFIDENTIAL**
☒ **NOT CONFIDENTIAL**

Confidential Responses are provided pursuant to Confidentiality Agreement

The attached response to NC Public Staff Data Request No. 3-8, was provided to me by the following individual(s): Kimberly K Smith, Rates & Regulatory Strategy Manager, and was provided to NC Public Staff under my supervision.

Camal O. Robinson
Associate General Counsel
Duke Energy Carolinas

North Carolina Public Staff
Data Request No. 3
DEC Docket No. E-7, Sub 1243
DEP Docket No. E-2, Sub 1262
Item No. 3-8
Page 1 of 1

Request:

8. Please reconcile the principal amounts financed in Abernathy Exhibits 5 and 7 to the principal amounts used in Abernathy Exhibits 1 through 4 and in Atkins' preliminary structure.

Response:

Please see the Companies' response to PS DR 3-5.

**Duke Energy Carolinas
and
Duke Energy Progress
Response to
NC Public Staff Data Request
Data Request No. NCPS 3**

Docket Nos. E-7, Sub 1243 and E-2, 1262

**Date of Request: November 20, 2020
Date of Response: November 23, 2020**

☐ **CONFIDENTIAL**
☒ **NOT CONFIDENTIAL**

Confidential Responses are provided pursuant to Confidentiality Agreement

The attached response to NC Public Staff Data Request No. 3-9, was provided to me by the following individual(s): Kimberly K Smith, Rates & Regulatory Strategy Manager, and was provided to NC Public Staff under my supervision.

Camal O. Robinson
Associate General Counsel
Duke Energy Carolinas

North Carolina Public Staff
Data Request No. 3
DEC Docket No. E-7, Sub 1243
DEP Docket No. E-2, Sub 1262
Item No. 3-9
Page 1 of 1

Request:

9. Why did DEC and DEP use the same issuance cost estimate in the savings calculations presented in witness Abernathy's exhibits as Witness Atkins used in his preliminary structure even though DEC's and DEP's principal amounts were less?

Response:

DEC and DEP used for upfront and ongoing expenses the best estimates at the time of the securitization filing based on witness Heath's Exhibit 1.

For upfront fees, which are factored into the bond issuance, only rating agency fees, underwriting fees and SEC fees would directly correlate to the amount of the financing (the other amounts would be comparable with no regard to the principal amounts).

Ongoing fees, which do correlate to the magnitude of the principal amounts, would be considered higher than expected based on the lower principal amount in Abernathy Exhibit 7 as compared to Atkins' Exhibit 4; however the estimated data was readily available as a data point. Use of the estimates submitted in Witness Heath's testimony and exhibits was a conservative approach to the cost of securitization (expenses are overstated) and did not improperly inflate customer savings.

**Duke Energy Carolinas
and
Duke Energy Progress
Response to
NC Public Staff Data Request
Data Request No. NCPS 3**

Docket Nos. E-7, Sub 1243 and E-2, 1262

**Date of Request: November 20, 2020
Date of Response: November 23, 2020**

☐ **CONFIDENTIAL**
☒ **NOT CONFIDENTIAL**

Confidential Responses are provided pursuant to Confidentiality Agreement

The attached response to NC Public Staff Data Request No. 3-10, was provided to me by the following individual(s): Kimberly K Smith, Rates & Regulatory Strategy Manager, and was provided to NC Public Staff under my supervision.

Camal O. Robinson
Associate General Counsel
Duke Energy Carolinas

North Carolina Public Staff
Data Request No. 3
DEC Docket No. E-7, Sub 1243
DEP Docket No. E-2, Sub 1262
Item No. 3-10
Page 1 of 1

Request:

10. In Abernathy Exhibit 7 for both DEC and DEP, why was it assumed that principal would be reduced each month even though, in reality, principal payments will most likely be semi-annual?

Response:

The principal payments will most likely be semi-annual as stated in the data request question. The Companies followed the methodology agreed upon with the Public Staff during the Stipulation discussions related to Storms, which calculated the payment stream on a monthly payments methodology, not semi-annual. The Company provided the agreed upon template with Mike Maness of the Public Staff for the calculation in PS DR 1.

**Duke Energy Carolinas
and
Duke Energy Progress
Response to
NC Public Staff Data Request
Data Request No. NCPS 3**

Docket Nos. E-7, Sub 1243 and E-2, 1262

**Date of Request: November 20, 2020
Date of Response: November 23, 2020**

☐ **CONFIDENTIAL**
☒ **NOT CONFIDENTIAL**

Confidential Responses are provided pursuant to Confidentiality Agreement

The attached response to NC Public Staff Data Request No. 3-11, was provided to me by the following individual(s): Kimberly K Smith, Rates & Regulatory Strategy Manager, and was provided to NC Public Staff under my supervision.

Camal O. Robinson
Associate General Counsel
Duke Energy Carolinas

North Carolina Public Staff
Data Request No. 3
DEC Docket No. E-7, Sub 1243
DEP Docket No. E-2, Sub 1262
Item No. 3-11
Page 1 of 1

Request:

11. Please provide Excel worksheets that show DEC and DEP securitization cash flows discounted using the WACC to the net present values shown in DEC Exhibit 5 and DEP Exhibit 5.

Response:

Per email discussion with Public Staff, the Excel sheets have been provided for DEC and DEP.

**Duke Energy Carolinas
and
Duke Energy Progress
Response to
NC Public Staff Data Request
Data Request No. NCPS 4**

Docket Nos. E-7, Sub 1243 and E-2, 1262

**Date of Request: November 25, 2020
Date of Response: December 4, 2020**

☐ **CONFIDENTIAL**
☒ **NOT CONFIDENTIAL**

Confidential Responses are provided pursuant to Confidentiality Agreement

The attached response to NC Public Staff Data Request No. 4-1, was provided to me by the following individual(s): Charles Atkins, CEO, Atkins Capital Strategies and was provided to NC Public Staff under my supervision.

Camal O. Robinson
Associate General Counsel
Duke Energy Carolinas

North Carolina Public Staff
Data Request No. 4
DEC Docket No. E-7, Sub 1243
DEP Docket No. E-2, Sub 1262
Item No. 4-1
Page 1 of 2

Request:

1. QUALIFICATIONS AND EXPERIENCE - WITNESS ATKINS

- a. In response to PS DR 2-1(a), Witness Atkins states: “The attached table also includes annotations to specify Mr. Atkins’ roles as requested in item 1.d. Where Mr. Atkins indicates a supporting role in the marketing of a transaction, he reviewed and assisted in the preparation of marketing materials, educated the sales force and sometimes answered investor questions. Where he indicates a supporting role in the pricing of the transaction, he coordinated with the Issuer and the Commission Advisor (if engaged), assisted the underwriting syndicate and advocated for tight market-clearing pricing.”
- i. We would like to please request a clarification on the response. With the exception of the two CenterPoint transactions, entries in the Column titled “Issuer” annotate all assignments “***” – indicating that Witness Atkins served as “Financial Advisor and/or Expert Witness Role.” What was Witness Atkins’ specific role in the two CenterPoint transactions? Please specify which transactions Witness Atkins acted as a Financial Advisor, Expert Witness, or both, and whether Witness Atkins played a supervisory or supporting role? In each case, please indicate whom Witness Atkins represented.
- ii. Entries in the Column titled “Role State Advisor Staff / Commissioner” include subscripts i, v, and/or vi. Please explain the meaning of these subscripts and the duties and activities of the role.
- b. Please identify which transactions on Witness Atkins’ list with respect to which Witness Atkins has participated in any investor roadshow presentations for utility securitization, met with investors, or held direct discussions with the SEC or FINRA on any matters related to utility securitizations.
- c. Guggenheim will be constructing the financial model. What is their experience in modeling utility securitizations?
- d. Has Witness Atkins audited or supervised the construction of a financial model concerning utility securitization?
- e. In pricing discussions concerning each of the 24 utility securitization offerings on Witness Atkins’ list, did Witness Atkins represent underwriters, his employer, ratepayers, or other?

Response:

- a. Witness Atkins described his roles in the response to PS DR 2-1.a. and the accompanying attachment, and stated that in each instance where he served as Financial Advisor and/or Expert Witness he was retained by the sponsoring utility. The annotations in the attachment match the specific roles listed in PS DR 2-1.d., i through vi, as appropriate under “Role.” The role for the CenterPoint transactions is indicated in the attachment as a support role in the marketing of the transactions, since Morgan Stanley was one of the co-lead underwriters for those transactions and did not serve as structuring advisor. A separate attachment was provided that lists transactions where Witness Atkins also served as Expert Witness, and submitted testimony.

North Carolina Public Staff
Data Request No. 4
DEC Docket No. E-7, Sub 1243
DEP Docket No. E-2, Sub 1262
Item No. 4-1
Page 2 of 2

b. For those transactions where Witness Atkins indicates a marketing support role, he generally supervised and participated in the creation of investor presentation materials. From time to time he participated in investor presentations and responded to investor questions. As a banker, Witness Atkins was not a part of the underwriting syndicate desk or the sales force, which personnel conducted the primary investor discussions, as is routine in major investment banks. With respect to discussions with the SEC and FINRA, in each transaction listed by Witness Atkins, the sponsoring utility and issuer were represented by legal counsel, and any discussions with the SEC were properly conducted by issuer legal counsel. Witness Atkins is not aware of any FINRA discussions taking place during the execution of the listed transactions.

c. Guggenheim constructed the financial model used by Public Service Company of New Mexico in connection with their financial order application that was filed in 2019. Also the Guggenheim team created an internal model for the Duke Energy Florida 2016 transaction. In addition, a member of the Guggenheim team at his prior firm worked closely with the independent structuring team that created models for other utility securitizations.

d. Please see the responses to PS DR 2-2.m. and n.

e. In those listed transactions where Witness Atkins indicates a support role in the pricing process, Witness Atkins was employed by or contracted with Morgan Stanley, and worked closely with issuer and the commission representative/advisor (if participating) during the transparent pricing process, with the issuer and commission representative reviewing the investor order book.

**Duke Energy Carolinas
and
Duke Energy Progress
Response to
NC Public Staff Data Request
Data Request No. NCPS 4**

Docket Nos. E-7, Sub 1243 and E-2, 1262

**Date of Request: November 25, 2020
Date of Response: December 4, 2020**

☐ **CONFIDENTIAL**
☒ **NOT CONFIDENTIAL**

Confidential Responses are provided pursuant to Confidentiality Agreement

The attached response to NC Public Staff Data Request No. 4-2, was provided to me by the following individual(s): Tom Heath, Corporate Finance Director, and was provided to NC Public Staff under my supervision.

Camal O. Robinson
Associate General Counsel
Duke Energy Carolinas

North Carolina Public Staff
Data Request No. 4
DEC Docket No. E-7, Sub 1243
DEP Docket No. E-2, Sub 1262
Item No. 4-2
Page 1 of 1

Request:

a. The initial response to PS DR-12 identified Jordan Yarett as “Partner, Paul Weiss,” a law firm. Does Witness Yarett represent any of the parties in this proceeding and in what role? If so, please indicate which category of expense depicted in Heath Exhibit 1 to which the Companies will book this expense.

Response:

a. The firm Paul, Weiss, Rifkind, Wharton & Garrison, LLP represents the co-advisors to DEC and DEP and is further expected to represent the underwriters to the transaction once they are selected. Estimated fees to Paul Weiss are included in the Legal Fees lines of Heath Exhibit 1.

**Duke Energy Carolinas
and
Duke Energy Progress
Response to
NC Public Staff Data Request
Data Request No. NCPS 4**

Docket Nos. E-7, Sub 1243 and E-2, 1262

**Date of Request: November 25, 2020
Date of Response: December 4, 2020**

☐ **CONFIDENTIAL**
☒ **NOT CONFIDENTIAL**

Confidential Responses are provided pursuant to Confidentiality Agreement

The attached response to NC Public Staff Data Request No. 4-3, was provided to me by the following individual(s): Tom Heath, Corporate Finance Director, and was provided to NC Public Staff under my supervision.

Camal O. Robinson
Associate General Counsel
Duke Energy Carolinas

North Carolina Public Staff
Data Request No. 4
DEC Docket No. E-7, Sub 1243
DEP Docket No. E-2, Sub 1262
Item No. 4-3
Page 1 of 6

Request:

- a. On page 23 of direct testimony, Witness Heath states: "We expect Guggenheim to have the opportunity to continue as an underwriter until the bonds are issued, but all structuring fees are expected to be earned upon commencement of the ratings process."
- i. Please provide a detailed explanation and supporting documentation as to why the Company is paying the fee upon the commencement of the ratings process rather than at the successful conclusion of the ratings process. Please provide the Companies' means of recourse per the contract in the event of (a) underperformance, (b) delayed performance, or (c) nonperformance by the firm. Additionally, please provide a detailed explanation and supporting documentation of any additional measures the Companies have undertaken or plan to undertake to protect ratepayers in in such instances.
- ii. If Guggenheim also serves as an underwriter of the SRB Securities, how will Guggenheim's duties as an "advisor" to DEP/DEC, the issuer of SRB Securities, and/or ratepayers be affected? Please provide a detailed explanation and any supporting documentation as to how the Companies will verify Guggenheim is working in the best interest of the ratepayers. Additionally, please provide a detailed explanation and supporting documentation of any measures the Companies have or plan to undertake to protect the ratepayers.
- iii. Do the Companies believe the Financing Order should specify whether the Structuring Advisor, or other financial advisor to DEC/DEP, and/or structuring advisor to the issuer of SRB Securities may also be an underwriter of the SRB Securities, or should this be left to the Bond Team.
- b. In response to PS DR 2-2(h), Witness Heath states: "For the vast majority of utility securitizations not issued by municipal entities, with only a very few exceptions, it is the market practice for the structuring advisor to also serve as a lead underwriter."
- i. Please provide verification as to whether DEC/DEP invited the firm that developed the financial model and structured the 2016 Duke Energy Florida Project Finance Aaa/AAA/AAA utility securitization to submit a proposal for performing similar duties in this transaction? If not, please provide an explanation as to why.
- ii. "For the vast majority of utility securitizations not issued by municipal entities," did the independent structuring advisor that did not act as an underwriter charge less in fees and obtain the same ratings as structuring advisors who are also underwriters?
- iii. Does the potential crediting of structuring fees to underwriting fees give a financial incentive for the underwriters to structure the SRB Securities primarily for a quick sale?
- iv. Please provide verification as to whether utility securitizations issued through municipal entities prohibit the structuring advisor from also being an underwriter. If it is prohibited, please provide the Companies' understanding as to why it is prohibited.
- c. In response to PS DR 2-11(a), Witness Heath states: "A "negotiated underwriting" is an underwriting conducted pursuant to an underwriting agreement that is negotiated between the issuer and depositor and the underwriters. In such a negotiated underwriting, the issuer and depositor and the underwriters will work together to market and sell the SRB Securities."
- i. Does Witness Heath agree that in a "negotiated underwriting," (i) the issuer sells the SRB Securities to the underwriters at agreed upon and negotiated fixed prices; and (ii) the

North Carolina Public Staff
Data Request No. 4
DEC Docket No. E-7, Sub 1243
DEP Docket No. E-2, Sub 1262
Item No. 4-3
Page 2 of 6

underwriter agrees to re-offer the SRB Securities to investors for an agreed upon underwriting period at a higher agreed upon price?

ii. Please provide a detailed explanation and supporting documentation as to how the Companies have ensured or plan to ensure that the underwriters are working in the best interests of the ratepayers in a “negotiated underwriting.”

iii. In a negotiated underwriting, will any review by the underwriters of the issuer, or any other matters relating to the transaction be performed by the underwriters on behalf of the issuer and for the benefit of the issuer and/or ratepayers?

d. Please provide responses not provided in the initial response to PS DR 2-11:

i. How will underwriters be selected for the proposed SRB Securities?

ii. Will underwriters be compensated regardless of their performance in the structuring, marketing, and pricing of the bonds? If so, what recourses has or do the Companies’ plan to negotiate as part of the contract to protect ratepayers in the event of (a) an underperformance or (b) nonperformance of the contract.

iii. If there is more than one underwriter, how will the compensation of each underwriter be determined?

iv. Please provide a detailed explanation as to how the Companies will evaluate the performance of underwriters in previous utility securitizations to ensure the best execution for ratepayers.

v. If experience in SEC registered offerings will be a factor, what is the threshold amount?

e. In responding to PS DR 2-11(g), Witness Heath states: “If a request for proposal process is utilized, one of the relevant questions will be for the financial institution to list specific personnel who will be involved in the proposed transaction and their relevant experience with utility securitization bond issuances.”

i. Will a request for proposal be utilized?

ii. Given the infrequent offerings of utility securitizations and the mixed results in pricings and costs to ratepayers, do the Companies believe experience with utility securitization the most relevant factor in selecting a firm to negotiate? If so, please provide a detailed explanation as to why.

iii. Please provide a detailed description of any other relevant factors that the Companies should considered?

f. In response to PS DR 2-12(c), Witness Atkins states: “It is DEC and DEP’s understanding from underwriters they have worked with previously that the underwriters do not necessarily have to have a full book orders from investors when the bonds are priced and the underwriting agreement is executed. However, practices among underwriters may differ based on firm practices and potential regulatory constraints.”

i. Does Witness Atkins have the same understanding as DEC and DEP? Please explain the basis for Witness Atkins’ understanding.

ii. What regulatory constraints prevent underwriters from underwriting AAA rated bonds to facilitate transactions for customers?

iii. Is it better for ratepayers to negotiate with underwriters who are willing to use their financial capital to achieve the best execution for ratepayers without a full book of orders or with underwriters who would refuse to use their capital and require that they have a full

North Carolina Public Staff
Data Request No. 4
DEC Docket No. E-7, Sub 1243
DEP Docket No. E-2, Sub 1262
Item No. 4-3
Page 3 of 6

book of orders and no risk for best execution for ratepayers regardless of the amount of bonds without orders for any given tranche?

iv. When underwriters use their financial capital to underwrite transactions are they subsidizing the issuer? Is risk to their capital reflected in the fee paid to the underwriters for their services? If not, how is the level of their fee determined?

g. In response to PS DR 2-12(f), Witness Atkins states: “A market-clearing pricing would result in interest rates for the SRB Securities that are consistent with market conditions at the time of pricing. Interest rates that are subsidized by private companies, whether underwriter firms or the Companies, through the purchase or retention of unsold utility securitization bonds, are not consistent with market conditions at the time of pricing, and therefore inconsistent with N.C. Gen. Stat. § 62-172.”

i. Please respond to the specific question(s) in PS DR 2-12(f): “When underwriters use their professional judgement to increase the spread, are they providing advice to the issuer that is in the issuer’s best interest and not in the underwriters’ economic interest?”

ii. If the underwriters are permitted (but not required by the Underwriting Agreement or other pre-pricing contractual commitments) to purchase or retain unsold SRB Securities for their own account, but one or more underwriters decides it is in its/their own best interest to do so (for example, to earn the underwriting spread on the SRB Securities for which orders have been placed), why is that not a component of the market-clearing price?

iii. Witness Atkins indicated an underwriter’s “purchase or retention of unsold utility securitization bonds [is] not consistent with market conditions at the time of pricing, and therefore inconsistent with N.C. Gen. Stat. § 62-172.” What is the basis for this conclusion (Witness Atkins’ opinion as a matter of North Carolina law)?

Response:

a.i. DEC and DEP object to any assertion that they would participate in a transaction that is not in the interest of its customers. The Companies’ decision to pursue securitization as opposed to traditional cost recovery is based on the premise that it will provide savings to its customers. Notwithstanding the objection, milestone payments were agreed to as part of the negotiation process with the co-advisors. Further, the engagement letters, as is customary in all commercial agreements, set forth the executory obligations of the contracting parties and further provide that advisory engagements may be terminated at any time. These agreements are legally binding and enforceable. The timing of payments under the agreements, as is the case with all commercial contracts, was the subject of negotiation among the contracting parties, each of whom is a sophisticated business entity with experience in the subject matter of the agreements. To the extent this question presumes some potential prejudice or disadvantage to customers associated with the contract payment structures agreed to, DEC and DEP reject that presumption.

ii. See previous response to PS DR 2-2.h. DEC and DEP object to any assertion that they would participate in a transaction that is not in the interest of its customers. The

North Carolina Public Staff
Data Request No. 4
DEC Docket No. E-7, Sub 1243
DEP Docket No. E-2, Sub 1262
Item No. 4-3
Page 4 of 6

Companies' decision to pursue securitization as opposed to traditional cost recovery is based on the premise that it will provide savings to its customers. Notwithstanding the objection, the draft lowest costs certification in the IAL includes steps the Companies plan to undertake to protect customers.

iii. See previous response to PS DR 2-2.h. There has been no determination at this time as to whether a Bond Team will or will not be utilized in conjunction with the bond issuances anticipated by this docket.

b. i. See prior response to PS DR 2-2.e.

ii. Other than the DEF transaction, DEC and DEP are not aware of the structuring advisor fees on other prior utility securitization transactions.

iii. Under the terms of the current engagement letter with Guggenheim and Atkins Capital, there are no provisions for crediting structuring fees to underwriting fees.

iv. DEC and DEP object to this question as irrelevant to this proposed transaction since the SRB Securities are not being issued by a municipal entity and are not municipal bonds. As such, there has not been an evaluation of MSRB Rules' applicability for utility securitization bonds issued by municipal entities.

c. i. In a negotiated underwriting, the issuer and depositor and underwriters will negotiate and agree both the price at which the issuer sells the SRB Securities to the underwriter and the price at which the underwriter sells the SRB Securities to investors.

ii. DEC and DEP reject the underlying premise of this question. Underwriters, as do all participants in financing transactions, work in their own best interests consistent with the contractual and legal obligations under which they operate. The protection of customers under the anticipated bond issuances will come from the objective and requirements established in the statute and through the provisions of the respective Financing Orders as proposed by DEC and DEP, including the issuance advice letter process which includes a lowest cost certification from each company, the work of DEC and DEP treasury personnel and the consultants they have retained (all of whom have significant experience in negotiating long-term bond issuances for which customers ultimately pay the costs and who will use the same due diligence to protect customer interests in these transactions as they do in issuing other bonds), and ultimately in the ability of the Commission to reject bond issuances under the IAL process proposed by DEC and DEP.

iii. DEC and DEP reject the underlying premise of this question as it misunderstands the role of underwriters. Underwriters will review the issuers and the depositors as part of their due diligence process. Underwriters do not perform reviews on behalf of issuers or any other party.

North Carolina Public Staff
Data Request No. 4
DEC Docket No. E-7, Sub 1243
DEP Docket No. E-2, Sub 1262
Item No. 4-3
Page 5 of 6

d. i. Underwriters will be selected through a request for proposal process.

ii. DEC and DEP expect to follow the common practice in the corporate bond market which is to pay a set underwriting fee on the principal amount of the bonds. Underwriters will be paid from the proceeds of the bond issuance. If the underwriters, as a group, fail to successfully price the bonds then no fees will be paid. Individual underwriters, if not performing according to DEC and DEP's expectations, can be replaced or dropped from the underwriting syndicate prior to the bond issuance and will not be entitled to any compensation.

iii. As noted in the previous response to PS DR 2-11.c., DEC and DEP expect to have an underwriting syndicate consisting of both book-running lead underwriters and co-managers. Similar to DEC and DEP's first mortgage bond offerings, the vast majority (approximately 75-90%) of the total underwriting fees would be allocated to the book-running lead underwriters with the remainder allocated to the co-managers. Fees allocated to these groups would then be shared ratably between the underwriters in each group.

iv. As part of the request for proposal process, the Companies will request that each respondent provide a summary of all utility securitizations in which they were involved. As mentioned in the prior response to PS DR 2-11.g., one of the relevant questions will be for the financial institution to list specific personnel who will be involved in the proposed transaction and their relevant experience with utility securitization bond issuances. Through the RFP process, DEC and DEP will select underwriters that have relevant experience with the issuance of utility securitization bonds and that share DEC and DEP's approach to the structuring and marketing plans for this transaction (targeted to the broadest spectrum of investors, presented as structured corporate securities, understand the unique credit quality of the bonds, etc.).

v. There is no minimum requirement.

e. i. Yes, as stated in the response to PS DR 4-3d, a request for proposal process will be utilized.

ii. No, the most relevant factor is alignment with DEC and DEP's approach to the structuring and marketing plans for this transaction (targeted to the broadest spectrum of investors, presented as structured corporate securities, understand the unique credit quality of the bonds, etc.).

iii. See response to PS DR 4-3.d.ii.

f. i. From Witness Atkins' experience, he has the same understanding.

ii. Capital requirements may have bearing on whether an underwriter purchases and holds any portion of a bond offering rather than selling all of the offering on to investors.

North Carolina Public Staff
Data Request No. 4
DEC Docket No. E-7, Sub 1243
DEP Docket No. E-2, Sub 1262
Item No. 4-3
Page 6 of 6

iii. The Companies object to the premise of this question. The SRB Securities will not be issued by customers, so it is inappropriate to suggest that customers would negotiate with underwriters. In fact, the Companies are not aware of any securities offerings where ratepayers negotiated directly with underwriters. While from time to time underwriters during the pricing process may purchase a certain amount of unsold bonds-- which by definition are bonds at rates that did not attract sufficient orders from investors in the market—such bonds are purchased by definition either at negotiated subsidized rates, or at negotiated rates that are intended to be profitable for the firm. After the Underwriting Agreement is executed, underwriters are the ones taking the risk of investors' orders failing to close if market events occur and so it is incorrect to assume that the underwriters' capital is not at risk.

iv. When underwriters purchase bonds at rates that are below market-clearing rates, they are subsidizing the rates on that bond issuance. Underwriting fees cover the negotiation and management of the offering and sale of the bonds and are generally not set assuming that the underwriter will subsidize the rates on the bond issuance. Underwriters regularly take the risk that investors fail to follow through with their bond purchase.

g. i. Based upon Witness Atkins' experience, when underwriters increase the spread, that decision is made in consultation with the issuer and any commission representative/advisor that is involved. Such advice is based upon market conditions, actual investor feedback, and is designed to discover the market-clearing spreads for the bond issue, consistent with market conditions at the time of marketing and pricing.

ii. Underwriters may for their own reasons at the time of pricing decide to subsidize interest rates on one or more tranches of bonds, and to cut short the interest rate discovery process. In the opinion of Witness Atkins, firms that are engaged as underwriters are not third-party investors in the marketplace, and their purchases of unsold bonds do not represent market-clearing rates. Such purchases represent a decision to halt the market-based rate discovery process, which may certainly be appropriate in certain situations.

iii. A plain reading of the statutory phrase implies a process that involves rates that are determined by investors in the market, at the time of pricing.

**Duke Energy Carolinas
and
Duke Energy Progress
Response to
NC Public Staff Data Request
Data Request No. NCPS 4**

Docket Nos. E-7, Sub 1243 and E-2, 1262

**Date of Request: November 25, 2020
Date of Response: December 4, 2020**

☐ **CONFIDENTIAL**
☒ **NOT CONFIDENTIAL**

Confidential Responses are provided pursuant to Confidentiality Agreement

The attached response to NC Public Staff Data Request No. 4-4, was provided to me by the following individual(s): Tom Heath, Corporate Finance Director, and was provided to NC Public Staff under my supervision.

Camal O. Robinson
Associate General Counsel
Duke Energy Carolinas

North Carolina Public Staff
Data Request No. 4
DEC Docket No. E-7, Sub 1243
DEP Docket No. E-2, Sub 1262
Item No. 4-4
Page 1 of 2

Request:

a. Ordering Paragraph 97 of the Florida PSC's financing order for the 2016 DEF transaction states: "No later than 5:00 p.m. Eastern time on the second business day following pricing, this Commission's financial advisor shall deliver to this Commission an opinion letter consistent with the terms of its contract as to whether the structuring, marketing and pricing of the nuclear asset-recovery bonds achieved: (1) the statutory cost objectives; (2) the lowest nuclear asset-recovery charges consistent with prevailing market conditions at the time of pricing, terms and conditions and terms of this Financing Order, and other applicable law; and (3) the greatest possible customer protections."

i. Did the financial advisor to the Florida PSC for that 2016 DEF transaction deliver such an opinion letter?

b. Ordering Paragraph 97 of the Florida PSC's financing order for the 2016 DEF transaction also states: "That opinion letter shall include a report of any action or inaction which this Commission's financial advisor believes might have caused the transaction not to achieve the statutory cost objectives, the lowest nuclear asset-recovery charges, and/or the greatest possible customer protections regardless of whether the reason for action or inaction by DEF was the result of DEF's sole view that the action or inaction would expose DEF or the SPE to securities law or other potential liability, The report of any such action or inaction which this Commission's financial advisor believes might have caused the transaction not to achieve the statutory cost objectives, the lowest nuclear asset-recovery charges, and/or the greatest possible customer protections, regardless of whether the reason for action or inaction by DEF was the result of DEF's sole view that the action or inaction would expose DEF or the SPE to securities law or other potential liability, shall be treated as a material qualification to the opinion letter of this Commission's financial advisor." (Emphasis added.)

i. Were there any such material qualifications to that opinion letter?

c. Ordering Paragraph 78 of the Florida PSC's financing order for the 2016 DEF transaction states: "The Bond Team may also request one or more of the bookrunning underwriters to deliver an opinion letter as to whether the structuring, marketing, and pricing of the nuclear asset-recovery bonds achieved the lowest overall cost standard."

i. Did the Bond Team for that 2016 DEF transaction request one or more of the bookrunning underwriters to deliver such an opinion letter to the satisfaction of the financial advisor?

ii. If so, did one or more of the bookrunning underwriters deliver such an opinion letter?

iii. Were there any material qualifications to that opinion letter?

iv. Should one or more of the bookrunning underwriters for the proposed SRB Securities be required to deliver such an opinion letter?

v. Does DEC/DEP receive any other legal or financial opinions in this transaction from any entities in this transaction without material qualification for its benefit? If so, please list the opinions the Companies receive and from whom.

d. Should the Bond Team be authorized and directed to require DEP and DEC to deliver such opinion letters concerning the structuring marketing and pricing of the SRBs and/or Recovery Bonds without material qualification for their respective Storm Recovery Bonds?

North Carolina Public Staff
Data Request No. 4
DEC Docket No. E-7, Sub 1243
DEP Docket No. E-2, Sub 1262
Item No. 4-4
Page 2 of 2

Response:

a. i. DEC and DEP object to the question as irrelevant. Notwithstanding the objection, from a review of the public record, such an opinion letter was provided by Saber Partners, advisor to the Florida Public Service Commission.

b. i. DEC and DEP object to the question as irrelevant. Notwithstanding the objection, according to the public record in the DEF proceeding there was no material qualification. The opinion was delivered on a confidential basis by Saber Partners.

c. i. It is the Companies' understanding that one or more opinion letters were delivered to Saber Partners, advisor to the Florida Public Service Commission, on a confidential basis.

ii. See response to PS DR 4-4-c.i.

iii. See response to PS DR 4-4-c.i.

iv. The Companies previously responded to this question in PS DR 2-11.t.

v. Customary legal opinions, with customary qualifications and assumptions, will be delivered to the underwriters and rating agencies in connection with the transaction.

d. There has been no determination as to whether a Bond Team will or will not be utilized in the proposed bond issuances. DEC and DEP, however, have proposed to deliver the lowest cost certification attached to the form of issuance advice letter included with the proposed financing orders for each Company.

**Duke Energy Carolinas
and
Duke Energy Progress
Response to
NC Public Staff Data Request
Data Request No. NCPS 4**

Docket Nos. E-7, Sub 1243 and E-2, 1262

**Date of Request: November 25, 2020
Date of Response: December 4, 2020**

☐ **CONFIDENTIAL**
☒ **NOT CONFIDENTIAL**

Confidential Responses are provided pursuant to Confidentiality Agreement

The attached response to NC Public Staff Data Request No. 4-5, was provided to me by the following individual(s): Charles Atkins, CEO, Atkins Capital Strategies, and was provided to NC Public Staff under my supervision.

Camal O. Robinson
Associate General Counsel
Duke Energy Carolinas

North Carolina Public Staff
Data Request No. 4
DEC Docket No. E-7, Sub 1243
DEP Docket No. E-2, Sub 1262
Item No. 4-5
Page 1 of 2

Request:

a. On pages 24 and 25 of direct testimony, Witness Atkins states “The DEC bonds and the DEP bonds are to be issued to a third SPE, a grantor-trust that is wholly-owned by Duke Energy (‘SRB Issuer’). SRB Issuer issues to the market pass-through securities (‘SRB Securities’) that are backed by separate storm recovery bonds issued by DEC and DEP.” (Emphasis supplied.)

Finding of Fact 14 in each of the proposed forms of Financing Order attached as exhibits to the Joint Petition states: “In the alternative, [DEC/DEP] is authorized to sell the Storm Recovery Bonds in combination with [DEP/DEC] to a grantor trust (the ‘SRB Issuer’) that will issue secured pass-through notes that are backed by the storm recovery bonds and storm recovery bonds issued by [DEP/DEC] in one transaction through the use of the SRB Issuer.” (Emphasis supplied.)

On page 26 of direct testimony, Witness Atkins states this is done to qualify the SRB Securities for inclusion in the Bloomberg Barclays Aggregate Bond Index. However according to a description sheet of the Aggregate Index provided by Bloomberg Barclays found at <https://data.bloomberglp.com/indices/sites/2/2016/08/2017-02-08-Factsheet-US-Aggregate.pdf>, the Bloomberg Barclays Aggregate Bond securities that are excluded from the index are “structured notes” or “pass-through certificates.”

i. Please explain why the SRB Pass-Through Certificates’ Securities will not be excluded for purposes of the Bloomberg Barclays Aggregate Bond Index.

ii. Did the lack of being included in the Corporate Bond Index at the time of pricing the 2016 Duke Energy Florida Project Finance have an effect on the pricing of the 10-year tranche? If yes, please explain.

b. On page 38 of direct testimony, Witness Atkins states: “In addition to the required true-ups, it is important for the servicer to have the option to conduct an optional true-up at any time to ensure that debt service and on-going financing costs are paid on time.” On page 24 of direct testimony, Witness Atkins states: “The true-up adjustment effective dates for the DEC and DEP bonds are also to be the same dates.”

i. Do the Companies believe optional interim true-up adjustments at any time for either DEP or DEC independently should be required or might be desirable and viewed favorably by the rating agencies and/or investors? If not, please explain.

Response:

a. i. The SRB Securities will be notes, not certificates. See also the Companies' response to PS DR 2-7.1.

ii. DEC and DEP object to this question as it seeks information irrelevant and unrelated to an evaluation of the Companies' Joint Petition in this proceeding. Notwithstanding the objection, yes. Although certain investors indicated that the size of their orders could have been larger with certainty of index inclusion, it is difficult to attribute any effect on price for the bonds sold. An argument can be made that larger orders may have increased ability for additional pricing tension – however these bonds were oversubscribed and allocations

North Carolina Public Staff
Data Request No. 4
DEC Docket No. E-7, Sub 1243
DEP Docket No. E-2, Sub 1262
Item No. 4-5
Page 2 of 2

were required. In light of the status in of the book for the 10 year at the time, a significantly larger order from this investor at that time could have positively affected pricing.

b. i. Witness Atkins recommends that the effective dates for regular semiannual true-ups occur on the same date for DEC and DEP, and that optional interim true-ups should be authorized and may be implemented at any time for DEC and DEP independently. DEC and DEP understand this to be viewed favorably by the rating agencies.

**Duke Energy Carolinas
and
Duke Energy Progress
Response to
Confidential NC Public Staff Data Request No. 5-1
Filed Under Seal**

**Duke Energy Carolinas
and
Duke Energy Progress
Response to
NC Public Staff Data Request
Data Request No. NCPS 5**

Docket Nos. E-7, Sub 1243 and E-2, 1262

**Date of Request: November 25, 2020
Date of Response: December 4, 2020**

☐ **CONFIDENTIAL**
☒ **NOT CONFIDENTIAL**

Confidential Responses are provided pursuant to Confidentiality Agreement

The attached response to NC Public Staff Data Request No. 5-2, was provided to me by the following individual(s): Charles Atkins, CEO, Atkins Capital Strategies, and was provided to NC Public Staff under my supervision.

Camal O. Robinson
Associate General Counsel
Duke Energy Carolinas

North Carolina Public Staff
Data Request No. 5
DEC Docket No. E-7, Sub 1243
DEP Docket No. E-2, Sub 1262
Item No. 5-2
Page 1 of 1

Request:

2. In response to PS DR 2-1(d), Witness Atkins states: “While it is quite possible that two AAA utility securitizations marketed and priced on the same day, one larger and one smaller, may have the same interest coupons (the Public Staff has provided such an example in PS Data Request 2-3(e) below), it is also possible on any given pricing day that the smaller issue may have less demand from investors and may price with higher interest coupons, particularly since larger issues tend to attract more investors. Witness Atkins served as an advisor to Entergy on 2 sets of transactions, involving two Entergy subsidiaries, that were marketed and priced by Citi as lead underwriter on the same day in July of 2010, and again in July of 2014-- the LCDA/ELL and LCDA/EGSL transactions of those years. In both of those instances, the smaller EGSL transactions priced wider than the larger ELL transactions.” See also Witness Atkins’ response to PS DR 2-8(a).
- i. In each of these sets of securitized utility energy bonds issued for Energy subsidiaries, however, the two transactions had materially different weighted average lives (“WALs”). Please explain whether any of the most comparable set of tranches was wider to the identified benchmark security than the other.
 - ii. Please elaborate on Witness Atkins’s statement regarding the 2010 Louisiana Entergy transactions, that a +81 bps spread on an 8.0 year WAL tranche was “tighter” than a +77 bps spread on a 7.0 year WAL tranche.

Response:

a. Please refer to the information provided regarding the LCDA/ELL and LCDA/EGSL transactions. For the 2014 and 2010 transactions, the information illustrates that the weighted average coupon for the smaller issue was higher than the weighted average coupon for the larger issue. While the weighted average lives for the transactions were not precisely the same, they were very close. For the 2014 transactions the WALs were 6.68 and 6.72 respectively. For the 2010 transactions, the WALs were 6.63 and 6.62 respectively. For the 2014 transactions, the smaller LCDA/EGSL transaction had the slightly longer WAL and the higher average coupon. For the 2010 transactions, the smaller LCDA/EGSL transaction had the slightly shorter WAL, but again had the higher average coupon. In any event, regarding the upcoming DEC and DEP transactions, the Companies cannot ensure in advance that the two transactions, if priced separately, would have the same interest rates. The SRB Securities approach, is an approach that ensures the same interest rates for the DEC and DEP customers. As previously discussed, the Companies are seeking the flexibility in the financing order to issue SRB Securities if a single offering would result in lower overall storm recovery charges as compared to two separate offerings. A final determination to issue SRB Securities or storm recovery bonds in concurrent offerings will be based on market conditions and which approach will achieve the Statutory Cost Objectives outlined in the proposed financing order.

**Duke Energy Carolinas
and
Duke Energy Progress
Response to
NC Public Staff Data Request
Data Request No. NCPS 5**

Docket Nos. E-7, Sub 1243 and E-2, 1262

**Date of Request: November 25, 2020
Date of Response: December 4, 2020**

☐ **CONFIDENTIAL**
☒ **NOT CONFIDENTIAL**

Confidential Responses are provided pursuant to Confidentiality Agreement

The attached response to NC Public Staff Data Request No. 5-3, was provided to me by the following individual(s): Charles Atkins, CEO, Atkins Capital Strategies, and was provided to NC Public Staff under my supervision.

Camal O. Robinson
Associate General Counsel
Duke Energy Carolinas

North Carolina Public Staff
Data Request No. 5
DEC Docket No. E-7, Sub 1243
DEP Docket No. E-2, Sub 1262
Item No. 5-3
Page 1 of 1

Request:

3. In response to PS DR 2-8(a), Witness Atkins states: “Please see the attached spread and coupon information for those [2010 and 2014 Entergy] transactions included as an attachment to PS Data Request 2-8.” However, the attachment to PS Data Request 2-8 shows only “indicative” spreads and rates for the proposed SRB Securities, not the actual rates and spreads for the 2010 and 2014 Entergy transactions. Did Witness Atkins intend to refer to the attachment to PS Data Request 2-1? Please provide the accurate final spreads and interest rates.

Response:

Please see the Companies’ response to Supplemental PS DR 2-8.a.

**Duke Energy Carolinas
and
Duke Energy Progress
Response to
NC Public Staff Data Request
Data Request No. NCPS 5**

Docket Nos. E-7, Sub 1243 and E-2, 1262

**Date of Request: November 25, 2020
Date of Response: December 4, 2020**

☐ **CONFIDENTIAL**
☒ **NOT CONFIDENTIAL**

Confidential Responses are provided pursuant to Confidentiality Agreement

The attached response to NC Public Staff Data Request No. 5-4, was provided to me by the following individual(s): Charles Atkins, CEO, Atkins Capital Strategies, and was provided to NC Public Staff under my supervision.

Camal O. Robinson
Associate General Counsel
Duke Energy Carolinas

North Carolina Public Staff
Data Request No. 5
DEC Docket No. E-7, Sub 1243
DEP Docket No. E-2, Sub 1262
Item No. 5-4
Page 1 of 1

Request:

4. In response to PS DR-7(c), Witness Atkins states: “Witness Atkins does not have specific data demonstrating the positive impact of larger bond issues that are eligible for one of the listed Indices. However, based upon Witness Atkins’ historical experience and expertise, he opines that larger issues are considered by investors to be more liquid than smaller issues.”

Absent specific data demonstrating a positive impact of larger bond issues eligible for one of the listed Indices that would result in lower customer charges and increased present value savings, what is the basis for Witness Atkins’ “historical experience and expertise” that supports the above opinion?

Response:

By definition, larger bond issues have more bonds than smaller issues, thus larger issues are more likely to have more investors purchasing bonds than in the case of smaller issues. Outstanding bonds with more investor holders have a greater potential for more buyers and sellers in the secondary market—hence the larger issues are more likely to be considered more liquid than smaller issues. Perceived liquidity or illiquidity is often one factor considered by investors, among other factors.

**Duke Energy Carolinas
and
Duke Energy Progress
Response to
NC Public Staff Data Request
Data Request No. NCPS 5**

Docket Nos. E-7, Sub 1243 and E-2, 1262

**Date of Request: November 25, 2020
Date of Response: December 4, 2020**

☐ **CONFIDENTIAL**
☒ **NOT CONFIDENTIAL**

Confidential Responses are provided pursuant to Confidentiality Agreement

The attached response to NC Public Staff Data Request No. 5-5, was provided to me by the following individual(s): Charles Atkins, CEO, Atkins Capital Strategies, and was provided to NC Public Staff under my supervision.

Camal O. Robinson
Associate General Counsel
Duke Energy Carolinas

North Carolina Public Staff
Data Request No. 5
DEC Docket No. E-7, Sub 1243
DEP Docket No. E-2, Sub 1262
Item No. 5-5
Page 1 of 1

Request:

5. In response to PS DR 2-7(m), Witness Atkins states: “DEC and DEP object to the description of their proposed structure as complex. While it does add an additional entity to the typical structure of utility securitizations, the additional entity is simply a trust entity that enables aggregation of two issuances into a combined larger issuance amount.” See also Witness Atkins’ response to PS DR-7(p). The proposed composite SRB Securities structure also modifies the overall credit risk to investors. For example, it is possible that a financial default on only one of the two underlying issues of Storm Recovery Bonds will not result in a financial default on the SRB Securities. Conversely, it is possible that a financial default on only one of the two underlying issues of Storm Recovery Bonds will result in a financial default on the entire amount of SRB Securities.

- i. To provide full and fair disclosure in accordance with applicable securities laws, will it be necessary to describe these credit risks that are different from owning the individual underlying SRBs prominently to the credit rating agencies and investors?
- ii. If so, will investors seek to be compensated for these unique risks in higher credit spreads on the SRB Securities?

Response:

- i. The structure of the transaction, including the credit characteristics of the constituent parts, will be described to investors in a manner that complies with applicable securities laws. The structure of the transaction will also be described to the credit rating agencies, and any questions the credit rating agencies have regarding the structure will be answered.
- ii. The Companies anticipate AAA equivalent ratings for the storm recovery bonds separately and also for the SRB Securities. Thus the risk of financial default under both approaches would be a AAA equivalent risk, and the AAA credit profile would be communicated to investors under either approach. The Companies believe that there are significant potential advantages to the larger, more liquid index-eligible offering of the SRB Securities that should be evaluated as a possible alternative to separate issues where only one offering would be index-eligible. Regardless, the Companies petition ultimately seeks flexibility from the Commission to determine which structure is best tailored to then-existing rating agency considerations, market conditions, and investor preferences to achieve a financing that meets the statutory cost objectives.

**Duke Energy Carolinas
and
Duke Energy Progress
Response to
NC Public Staff Data Request
Data Request No. NCPS 5**

Docket Nos. E-7, Sub 1243 and E-2, 1262

**Date of Request: November 25, 2020
Date of Response: December 4, 2020**

☐ **CONFIDENTIAL**
☒ **NOT CONFIDENTIAL**

Confidential Responses are provided pursuant to Confidentiality Agreement

The attached response to NC Public Staff Data Request No. 5-6, was provided to me by the following individual(s): Charles Atkins, CEO, Atkins Capital Strategies, and was provided to NC Public Staff under my supervision.

Camal O. Robinson
Associate General Counsel
Duke Energy Carolinas

North Carolina Public Staff
Data Request No. 5
DEC Docket No. E-7, Sub 1243
DEP Docket No. E-2, Sub 1262
Item No. 5-6
Page 1 of 1

Request:

6. In response to PS DR 2-1(g), Witness Atkins states: “DEC and DEP are aware of two transactions that have used a similar trust structure with underlying bonds, the FirstEnergy Ohio PIRB Special Purpose Trust 2013 issue, and the Massachusetts RRB Special Purpose Trust 2005-1. These two transactions utilized trust certificates, representing fractional undivided beneficial interests in the underlying bonds. The SRB Securities structure recommended as an option for the Companies issues notes backed by the underlying bonds, rather than certificates. There were no other utility securitizations priced during the same day or the same week as those transactions, that would be suitable for spread comparisons.”

- i. The PG&E 2005-1 Bonds were priced on February 3, 2005, close in time to the Massachusetts 2005-1 Certificates. How did the pricing of the two compare?
- ii. In addition, the Ohio Phase-In Recovery Series 2013 Bonds were priced close in time to the FirstEnergy Ohio PIRB Special Purpose Trust 2013 Certificates. How did the pricing of the two compare?

Response:

- i. There are many factors that ultimately determine pricing of a given security, and it is difficult to fully ascertain why different offerings priced at different levels, especially when they were not priced on the same day. That being said, from a review of publicly available information:

On the basis of weighted average coupon, the Massachusetts 2005-1 deal priced tighter than the PG&E 2005-1 transaction, based on data obtained from Bloomberg. On the basis of weighted average spread (with benchmark being EDSF for 1 year WAL tranches and interpolated swaps for all other tranches), the PG&E 2005-1 deal priced tighter than the Massachusetts 2005-1 deal, based on data obtained from Bloomberg.

- ii. The Ohio Phase-In Recovery Series 2013 Bonds priced tighter than the FirstEnergy Ohio PIRB Special Purpose Trust 2013 Certificates on the basis of both weighted average coupon and weighted average spread, based on data obtained from Bloomberg.

**Duke Energy Carolinas
and
Duke Energy Progress
Response to
NC Public Staff Data Request
Data Request No. NCPS 5**

Docket Nos. E-7, Sub 1243 and E-2, 1262

**Date of Request: November 25, 2020
Date of Response: December 4, 2020**

☐

CONFIDENTIAL

☒

NOT CONFIDENTIAL

Confidential Responses are provided pursuant to Confidentiality Agreement

The attached response to NC Public Staff Data Request No. 5-7, was provided to me by the following individual(s): Charles Atkins, CEO, Atkins Capital Strategies, and was provided to NC Public Staff under my supervision.

Camal O. Robinson
Associate General Counsel
Duke Energy Carolinas

North Carolina Public Staff
Data Request No. 5
DEC Docket No. E-7, Sub 1243
DEP Docket No. E-2, Sub 1262
Item No. 5-7
Page 1 of 1

Request:

7. In response to PS DR 2-3(j), Witness Atkins states: “Spreads for ABS bonds and traditional corporate bonds are different and not directly comparable, in addition to the fact that multiple variables affect pricing spreads for ABS and corporate debt instruments. Corporate bonds may typically have a bullet maturity structure, rather than an amortizing structure. Traditional corporate bonds represent a general obligation of the sponsoring corporate issuer, while ABS bonds are generally nonrecourse to the sponsoring company. ABS bonds are generally secured by contractual rights, dedicated property or other assets, rather than the general corporate obligation. For these and other reasons, a traditional bullet maturity corporate bond spread may be tighter than the spread for an amortizing ABS bond of a similar weighted average life, if issued at the same time. The spreads for traditional corporate bonds would not be comparable for nonrecourse structured amortizing debt securities such as the storm recovery bonds or SRB Securities, whether or not they are “asset-backed securities” within the meaning of SEC Regulation AB.”

- i. Do some of these factors argue for a tighter (not wider) spread for securitized utility bonds and lower customer charges?
- ii. In particular, purchasers of securitized utility bonds are protected against the risk of bankruptcy of the utility business enterprise. Would this support a tighter (not wider) credit spread for securitized utility bonds and lower customer charges?

Response:

Spreads for amortizing bond tranches are generally not directly comparable to spreads for bullet maturity bonds. From time to time, the AAA ratings for utility securitizations may contribute to a lower cost of funds compared to BBB rated utility corporate bonds of a similar maturity.

**Duke Energy Carolinas
and
Duke Energy Progress
Response to
NC Public Staff Data Request
Data Request No. NCPS 5**

Docket Nos. E-7, Sub 1243 and E-2, 1262

**Date of Request: November 25, 2020
Date of Response: December 4, 2020**

☐ **CONFIDENTIAL**
☒ **NOT CONFIDENTIAL**

Confidential Responses are provided pursuant to Confidentiality Agreement

The attached response to NC Public Staff Data Request No. 5-8, was provided to me by the following individual(s): Tom Heath, Corporate Finance Director, and was provided to NC Public Staff under my supervision.

Camal O. Robinson
Associate General Counsel
Duke Energy Carolinas

North Carolina Public Staff
Data Request No. 5
DEC Docket No. E-7, Sub 1243
DEP Docket No. E-2, Sub 1262
Item No. 5-8
Page 1 of 1

Request:

8. In response to PS DR 2-3(l), Witness Atkins states: “DEC and DEP have recommended provisions of the proposed Trust agreements that are designed to have the SEC determine that the storm recovery bonds and the SRB Securities are not “asset-backed securities” under Item 1101 of SEC Regulation AB. The SEC is an independent agency of the US government, and receiving such a determination for this transaction is not assured.”

Will DEC and DEP request the SEC to make an affirmative determination as to whether the storm recovery bonds and the SRB Securities are “asset-backed securities” under Item 1101 of SEC Regulation AB, or will it only be necessary that the SEC not to object to this treatment proposed by the filers of the Registration Statement during the normal review and comment process, as was the case with the DEF 2016 transaction?

Response:

Absent a request for an additional no-action letter, it is unlikely the SEC will make an affirmative determination as to whether the storm recovery bonds and SRB Securities are or are not asset backed securities under Item 1101 of Regulation AB. The Companies intend to rely on existing SEC precedent and no action letters. To the extent the SEC has questions or raises any concerns during its review and comment process, the Companies will respond and take them under advisement.

**Duke Energy Carolinas
and
Duke Energy Progress
Response to
NC Public Staff Data Request
Data Request No. NCPS 5**

Docket Nos. E-7, Sub 1243 and E-2, 1262

**Date of Request: November 25, 2020
Date of Response: December 4, 2020**

☐ **CONFIDENTIAL**
☒ **NOT CONFIDENTIAL**

Confidential Responses are provided pursuant to Confidentiality Agreement

The attached response to NC Public Staff Data Request No. 5-9, was provided to me by the following individual(s): Charles Atkins, CEO, Atkins Capital Strategies, and was provided to NC Public Staff under my supervision.

Camal O. Robinson
Associate General Counsel
Duke Energy Carolinas

North Carolina Public Staff
Data Request No. 5
DEC Docket No. E-7, Sub 1243
DEP Docket No. E-2, Sub 1262
Item No. 5-9
Page 1 of 1

Request:

9. Page 32 of Witness Atkins' testimony states: "I reiterate that it will be beneficial for the storm recovery bonds to be structured to have substantially level annual debt service. This is important because it will facilitate a modest decline in the aggregate storm recovery charges over the life of the storm recovery bonds, assuming actual load growth."

i. Please provide the load growth forecast that is assumed for this purpose. Do DEC and/or DEP have a load growth forecast that goes out longer than the typical 5-year forecast? If so, please provide those longer-term forecasts.

ii. The 2009 transactions for Monongahela Power and Potomac Edison had approximately 20-year scheduled final maturities with interest only for 17 years and 100% of principal scheduled to be paid during the final three years, wrapping around scheduled debt service on previously issued 2007 securitized bonds. Taking into consideration all structuring costs, this deferral of principal repayment resulted in lower customer charges and greater present value savings for customers for the 2009 issuances than level debt service payments and a shorter scheduled final maturity. Those 2009 Monongahela Power and Potomac Edison securitized bonds were rated Aaa/AAA/AAA.

1. [12.01.2020 INTENTIONALLY DELETED BY PUBLIC STAFF]

2. If the SRB Securities proposed by DEP/DEC are issued in more than one series at different times, may the second set of SRB Securities similarly have scheduled debt service that "wraps around" scheduled debt service on the earlier series so as to create a composite level annual debt service and increased present value savings to customers?

Response:

i. Please see the Companies' response to PS DR 3-2.

ii. 2. In the case of multiple series of SRB Securities or separate DEC and DEP issues, a wraparound structure may be considered. However, the currently contemplated issues are not wraparound transactions.

**Duke Energy Carolinas
and
Duke Energy Progress
Response to
NC Public Staff Data Request
Data Request No. NCPS 5**

Docket Nos. E-7, Sub 1243 and E-2, 1262

**Date of Request: November 25, 2020
Date of Response: December 4, 2020**

☐ **CONFIDENTIAL**
☒ **NOT CONFIDENTIAL**

Confidential Responses are provided pursuant to Confidentiality Agreement

The attached response to NC Public Staff Data Request No. 5-10, was provided to me by the following individual(s): Tom Heath, Corporate Finance Director, and was provided to NC Public Staff under my supervision.

Camal O. Robinson
Associate General Counsel
Duke Energy Carolinas

North Carolina Public Staff
Data Request No. 5
DEC Docket No. E-7, Sub 1243
DEP Docket No. E-2, Sub 1262
Item No. 5-10
Page 1 of 1

Request:

10. On page 17 of his testimony, Witness Heath states: “DEC and DEP will receive the net proceeds after the payment of up-front financing costs. The net proceeds will be used to relieve DEC and DEP’s storm recovery costs.”

- i. Does “relieve” mean to reimburse DEC/DEP?
- ii. If so, how will DEP and DEC spend the net proceeds they receive as reimbursements? For example, will DEP and DEC use these net proceeds
 1. to repurchase a mix of outstanding debt and equity?
 2. to harden their respective transmission and distribution systems so as to reduce potential damages from future storms?
 3. to fund their broader capital spending across the typical spectrum of generation, transmission, and distribution facilities?
 4. For other purposes? (please specify)

Response:

- i. Yes.
- ii. DEC and DEP have funded the underlying storm restoration costs with debt. DEC has funded these costs largely with commercial paper. DEP funded its costs initially with a bank term loan. In August 2020 that term loan was replaced with an 18-month floating rate first mortgage bond, which is callable after six months. DEC and DEP will use the net proceeds from the proposed issuance to repay these outstanding debt obligations.

**Duke Energy Carolinas
and
Duke Energy Progress
Response to
NC Public Staff Data Request
Data Request No. NCPS 5**

Docket Nos. E-7, Sub 1243 and E-2, 1262

**Date of Request: November 25, 2020
Date of Response: December 4, 2020**

☐ **CONFIDENTIAL**
☒ **NOT CONFIDENTIAL**

Confidential Responses are provided pursuant to Confidentiality Agreement

The attached response to NC Public Staff Data Request No. 5-11, was provided to me by the following individual(s): Tom Heath, Corporate Finance Director, and was provided to NC Public Staff under my supervision.

Camal O. Robinson
Associate General Counsel
Duke Energy Carolinas

North Carolina Public Staff
Data Request No. 5
DEC Docket No. E-7, Sub 1243
DEP Docket No. E-2, Sub 1262
Item No. 5-11
Page 1 of 1

Request:

11. On page 16 of his testimony, Witness Heath states: “DEC and DEP will be permitted to earn a return on their capital contribution equal to the rate of interest payable on the longest maturing tranche of the storm recovery bonds.” Please provide the justification for DEC/DEP to earn a return above the actual investment of the amount in highly rated short-term securities permitted as eligible investments for the capital account in an AAA-rated subsidiary which is subject to a true-up on a semi-annual basis from the nonbypassable charge.

Response:

A capital contribution of 0.5% of the initial aggregate principal amount of securities is required by IRS Rev. Proc. 2005-62. Each Company will make its capital contribution from its own funds and the capital contributions will be returned to each utility upon the final repayment of the storm recovery bonds. Reasonable and prudent capital investments by DEC and DEP are traditionally entitled to earn a return at their weighted average cost of capital during the amortization period. Accordingly, the Companies expect to earn a return above what DEC and DEP would be entitled for short-term investments.

**Duke Energy Carolinas
and
Duke Energy Progress
Response to
NC Public Staff Data Request
Data Request No. NCPS 5**

Docket Nos. E-7, Sub 1243 and E-2, 1262

**Date of Request: November 25, 2020
Date of Response: December 4, 2020**

☐ **CONFIDENTIAL**
☒ **NOT CONFIDENTIAL**

Confidential Responses are provided pursuant to Confidentiality Agreement

The attached response to NC Public Staff Data Request No. 5-12, was provided to me by the following individual(s): Charles, Atkins, CEO, Atkins Capital Strategies, and was provided to NC Public Staff under my supervision.

Camal O. Robinson
Associate General Counsel
Duke Energy Carolinas

North Carolina Public Staff
Data Request No. 5
DEC Docket No. E-7, Sub 1243
DEP Docket No. E-2, Sub 1262
Item No. 5-12
Page 1 of 1

Request:

12. Have any prior utility securitization financing orders included on Witness Atkins' list allowed the sponsoring utility to earn a return on their capital contribution equal to the rate of interest payable on the longest maturing tranche instead of the actual return of the capital contribution from investments in the highly-rated eligible securities in the Capital Subaccount of the Collection Account? If so, please specify which utility securitization issues and related financing orders specified such a return on the Capital Account.

Response:

The 2016 transaction of DEC and DEP affiliate DEF and the proposed PNM New Mexico transaction provide for a return under the same methodology proposed by DEC and DEP. DEC and DEP anticipate a return at this rate will be less than a return at their weighted average cost of capital.

**Duke Energy Carolinas
and
Duke Energy Progress
Response to
NC Public Staff Data Request
Data Request No. NCPS 5**

Docket Nos. E-7, Sub 1243 and E-2, 1262

**Date of Request: November 25, 2020
Date of Response: December 4, 2020**

☐ **CONFIDENTIAL**
☒ **NOT CONFIDENTIAL**

Confidential Responses are provided pursuant to Confidentiality Agreement

The attached response to NC Public Staff Data Request No. 5-13, was provided to me by the following individual(s): Tom Heath, Corporate Finance Director, and was provided to NC Public Staff under my supervision.

Camal O. Robinson
Associate General Counsel
Duke Energy Carolinas

North Carolina Public Staff
Data Request No. 5
DEC Docket No. E-7, Sub 1243
DEP Docket No. E-2, Sub 1262
Item No. 5-13
Page 1 of 2

Request:

13. Subject to satisfying a Rating Agency Condition, Section 1.07 of the proposed form of LLC Agreement set forth as Exhibit 2e to the testimony of Witness Heath authorizes each of the SPE issuers to issue more than one series of storm recovery bonds, each secured by separate storm recovery property. In addition, page 5 of the proposed form of Trust Agreement included as Heath Exhibit 2f states: “WHEREAS, the Trust may issue additional series of Notes pursuant to the Note Indenture secured by additional series of storm recovery bonds (as defined in the Statute) purchased from the Bond Issuers (‘Additional Bonds’) . . .”

i. Will this cause (a) the SPE issuers and also the grantor trust which issues the SRB Securities not to be “asset-backed issuers” under Item 1101 of SEC Regulation AB and the September 19, 2007 letter from the SEC Office of Chief Counsel, Division of Corporate Finance to MP Environmental Funding LLC and to PE Environmental Funding LLC (<https://www.sec.gov/divisions/corpfin/cf-noaction/2007/mpef091907-1101.htm>), and (b) the Storm Recovery Bonds and the SRB Securities not to be “asset-backed securities” under Item 1101 of SEC Regulation AB?

ii. If the SRB Securities are not “asset-backed securities” for purposes of SEC Regulation AB, will the prospectus state that, and will the DEC/DEP and the underwriters seek to qualify the SRBs for the Bloomberg Barclays Aggregate ABS Index as “asset-backed securities”?

iii. Except for the size of the CUSIP, would they qualify for another Bloomberg Barclays index?

iv. Is inclusion in the Corporate Utility Index more favorable or less favorable than inclusion in the Aggregate Bond Index?

v. Did Bloomberg Barclays have a formal market consultation period with market participants concerning any publicly offered issue of utility securitization bonds as to the inclusion in a specific bond index? If so, what were the results of that consultation with market participants?

North Carolina Public Staff
Data Request No. 5
DEC Docket No. E-7, Sub 1243
DEP Docket No. E-2, Sub 1262
Item No. 5-13
Page 2 of 2

Response:

iii. As long as the additional series of notes meet the eligibility requirements of the index at the time of issuance, then they may be considered for inclusion in the index.

iv. While inclusion in any index is a positive, inclusion in the corporate utility index would be more beneficial to pricing.

v. The Companies understand from Technical Notes published by Bloomberg Barclays that a consultation was held in connection with their consideration of the 2016 DEF transaction. Bloomberg Barclays concluded after the consultation period that the transaction should be included in the Corporate Utility Index. The Companies do not recall details regarding the consultation process.

**Duke Energy Carolinas
and
Duke Energy Progress
Response to
NC Public Staff Data Request
Data Request No. NCPS 5**

Docket Nos. E-7, Sub 1243 and E-2, 1262

**Date of Request: November 25, 2020
Date of Response: December 4, 2020**

☐

CONFIDENTIAL

☒

NOT CONFIDENTIAL

Confidential Responses are provided pursuant to Confidentiality Agreement

The attached response to NC Public Staff Data Request No. 5-14, was provided to me by the following individual(s): Charles Atkins, CEO Atkins Capital Strategies, and was provided to NC Public Staff under my supervision.

Camal O. Robinson
Associate General Counsel
Duke Energy Carolinas

North Carolina Public Staff
Data Request No. 5
DEC Docket No. E-7, Sub 1243
DEP Docket No. E-2, Sub 1262
Item No. 5-14
Page 1 of 2

Request:

14. On page 12 of his testimony, Witness Atkins states: “A true sale of the collateral supports the ‘bankruptcy-remoteness’ of the SPE and the securitization debt.” On page 15 of his testimony, Witness Atkins adds: “When I refer to ‘bankruptcy-remote,’ I mean that the SPE is structured so that in the unlikely event of a DEC, DEP or Duke Energy Corporation (‘Duke Energy’) bankruptcy, that SPE would not be consolidated with other Duke Energy entities, would not be included in Duke Energy’s bankruptcy estate, and the payment of the securitization debt service would not be ‘stayed’ or stopped during the bankruptcy process.”

i. How does a “true sale” of storm recovery property to the SPE “support” its “bankruptcy-remoteness”?

ii. Is a “bankruptcy remote” subsidiary the same as a “ringed fenced” subsidiary? If not, why not?

iii. In 2001, PPL Corporation indicated they used securitization for a U.S. electricity delivery company (see <https://pplweb.mediaroom.com/news-releases?item=16577>) that did not involve issuance of utility securitization bonds. How is what PPL did different from what Witness Atkins states on page 15 concerning his use of the term “bankruptcy-remoteness”?

iv. Since all investors are concerned about unencumbered rights to the nonbypassable charge should a bankruptcy of the parent company occur, is there any marketing advantage to using only one commonly used term to describe the relationship between the parent and the subsidiary in disclosure documents and investor education materials?

North Carolina Public Staff
Data Request No. 5
DEC Docket No. E-7, Sub 1243
DEP Docket No. E-2, Sub 1262
Item No. 5-14
Page 2 of 2

Response:

i. The “true sale” transfer of the storm recovery property establishes that the SPE is the absolute owner of the property that serves as the collateral for the securitization, and that property provides the cash flow to service the securitization debt service and ongoing financing costs. Without the transfer of the securitization property, there would be no assets separate from the bankruptcy estate of Duke Energy to support the securitization financing. While there are other features required for the bankruptcy remoteness of the SPE, the true sale transfer of the securitization property is a fundamental component of the bankruptcy remoteness analysis supporting the AAA equivalent rating of the securitization bonds.

ii. A “bankruptcy remote” subsidiary is not the same as a “ring-fenced” subsidiary. “Ring-fencing” is a term that encompasses a broad spectrum of credit protection features that may fall far short of bankruptcy remoteness. Such common ring-fencing measures may be financial, not organizational restrictions, including dividend pay-out limitations, capital structure requirements, restrictions of additional indebtedness and the maintenance of certain financial covenants. “Bankruptcy remote” structures require non-consolidation legal opinions, as well as SPE organizational features that mitigate the risk of bankruptcy, beyond the mere presence of financial restrictions.

iii. Witness Atkins was a lead structuring Morgan Stanley banker for the 2001 Securitization Deal of the Year award-winning securitization ring-fencing of PPL’s electric transmission and distribution subsidiary. This transaction did not seek nor achieve AAA ratings for the \$800 million of debt that was issued by the ring-fenced subsidiary. While the subsidiary was legally insulated from the parent through a range of features that did include some features common in securitizations, the transaction did not involve an absolute transfer of the subsidiary equity to a newly established bankruptcy remote intermediate SPE holding company. The degree of credit separation achieved was not sufficient to support AAA ratings for the debt issued by the ring-fenced subsidiary. This fact sets the PPL ring-fencing transaction apart from AAA rated utility securitizations.

iv. Most ring-fencing measures used in the utility sector are not sufficient to support the issuance of AAA equivalent rated debt. Witness Atkins does not recommend use of the broad “ring-fencing” term without including the “bankruptcy remote” clarifying modifier.

**Duke Energy Carolinas
and
Duke Energy Progress
Response to
NC Public Staff Data Request
Data Request No. NCPS 5**

Docket Nos. E-7, Sub 1243 and E-2, 1262

**Date of Request: November 25, 2020
Date of Response: December 4, 2020**

☐ **CONFIDENTIAL**
☒ **NOT CONFIDENTIAL**

Confidential Responses are provided pursuant to Confidentiality Agreement

The attached response to NC Public Staff Data Request No. 5-15, was provided to me by the following individual(s): Tom Heath, Corporate Finance Director, and was provided to NC Public Staff under my supervision.

Camal O. Robinson
Associate General Counsel
Duke Energy Carolinas

North Carolina Public Staff
Data Request No. 5
DEC Docket No. E-7, Sub 1243
DEP Docket No. E-2, Sub 1262
Item No. 5-15
Page 1 of 1

Request:

15. On pages 35 and 36 of his testimony, Witness Heath states he understands that the “customer protections” included in the DEF 2016 transaction documents also are included in the proposed forms of transaction documents which Heath sponsors as exhibits to his testimony.

- i. Please confirm that the forms of transaction documents sponsored by Witness Heath do, in fact, include the “customer protections” included in the DEF 2016 transaction documents.
- ii. Please provide a specific list of the “customer protections” to which Witness Heath refers on page 35 and 36.

Response:

- i. Confirmed.
- ii. Please refer to the draft transaction documents included with the Companies' Joint Petition.

**Duke Energy Carolinas
and
Duke Energy Progress
Response to
NC Public Staff Data Request
Data Request No. NCPS 5**

Docket Nos. E-7, Sub 1243 and E-2, 1262

**Date of Request: November 25, 2020
Date of Response: December 4, 2020**

☐ **CONFIDENTIAL**
☒ **NOT CONFIDENTIAL**

Confidential Responses are provided pursuant to Confidentiality Agreement

The attached response to NC Public Staff Data Request No. 5-16, was provided to me by the following individual(s): Tom Heath, Finance Corporate Director, and was provided to NC Public Staff under my supervision.

Camal O. Robinson
Associate General Counsel
Duke Energy Carolinas

North Carolina Public Staff
Data Request No. 5
DEC Docket No. E-7, Sub 1243
DEP Docket No. E-2, Sub 1262
Item No. 5-16
Page 1 of 1

Request:

16. What is the proposed minimum denomination of the Storm Recovery Bonds and SRB Securities? Please explain why this amount is chosen.

Response:

The proposed minimum denomination will likely be \$2,000 and \$1,000 increments, except for one bond, which may be a smaller denomination. The smaller minimum denomination would likely make it easier for retail investors to participate in the transaction.

**Duke Energy Carolinas
and
Duke Energy Progress
Response to
NC Public Staff Data Request
Data Request No. NCPS 5**

Docket Nos. E-7, Sub 1243 and E-2, 1262

**Date of Request: November 25, 2020
Date of Response: December 4, 2020**

☐ **CONFIDENTIAL**
☒ **NOT CONFIDENTIAL**

Confidential Responses are provided pursuant to Confidentiality Agreement

The attached response to NC Public Staff Data Request No. 5-17, was provided to me by the following individual(s): Tom Heath, Corporate Finance Director, and was provided to NC Public Staff under my supervision.

Camal O. Robinson
Associate General Counsel
Duke Energy Carolinas

North Carolina Public Staff
Data Request No. 5
DEC Docket No. E-7, Sub 1243
DEP Docket No. E-2, Sub 1262
Item No. 5-17
Page 1 of 1

Request:

17. Does DEC/DEP expect to market the Aaa/AAA/AAA-rated Storm Recovery Bonds and SRB Securities solely to institutional investors and not to individual retail investors? If solely to institutional investors, please provide the justification.

Response:

Once an underwriter team is selected, the Issuer and Underwriters will consider a range of distribution options in order to achieve the Statutory Cost Objectives. Distribution options will be evaluated based on market conditions that exist at the time of the offering, incremental costs, and logistical and timing considerations.

**Duke Energy Carolinas
and
Duke Energy Progress
Response to
NC Public Staff Data Request
Data Request No. NCPS 5**

Docket Nos. E-7, Sub 1243 and E-2, 1262

**Date of Request: November 25, 2020
Date of Response: December 4, 2020**

☐

CONFIDENTIAL

☒

NOT CONFIDENTIAL

Confidential Responses are provided pursuant to Confidentiality Agreement

The attached response to NC Public Staff Data Request No. 5-18, was provided to me by the following individual(s): Tom Heath, Corporate Finance Director, and was provided to NC Public Staff under my supervision.

Camal O. Robinson
Associate General Counsel
Duke Energy Carolinas

North Carolina Public Staff
Data Request No. 5
DEC Docket No. E-7, Sub 1243
DEP Docket No. E-2, Sub 1262
Item No. 5-18
Page 1 of 1

Request:

18. Has DEC/DEP considered a direct offering of some portion of the Storm Recovery Bonds and SRB Securities to retail investors (for example, to retail investors who live in the respective service territories of DEC and DEP)? Why or why not?

Response:

Please see the Companies' response to PS DR 5-17.

**Duke Energy Carolinas
and
Duke Energy Progress
Response to
NC Public Staff Data Request
Data Request No. NCPS 5**

Docket Nos. E-7, Sub 1243 and E-2, 1262

**Date of Request: November 25, 2020
Date of Response: December 4, 2020**

☐

CONFIDENTIAL

☒

NOT CONFIDENTIAL

Confidential Responses are provided pursuant to Confidentiality Agreement

The attached response to NC Public Staff Data Request No. 5-19, was provided to me by the following individual(s): Tom Heath, Corporate Finance Director, and was provided to NC Public Staff under my supervision.

Camal O. Robinson
Associate General Counsel
Duke Energy Carolinas

North Carolina Public Staff
Data Request No. 5
DEC Docket No. E-7, Sub 1243
DEP Docket No. E-2, Sub 1262
Item No. 5-19
Page 1 of 1

Request:

19. Has DEC/DEP considered setting aside some portion of the Storm Recovery Bonds and SRB Securities to be marketed to smaller institutional investors that are located in the Carolinas? Why or why not?

Response:

DEC and DEP have not fully considered setting aside any portion of the Storm Recovery Bonds and SRB Securities to be marketed to smaller institutional investors that are located in North Carolina, but are not opposed to the idea as long as it does not impact their ability to assert compliance with the Statutory Cost Objectives, including the ability to obtain the lowest storm recovery charges consistent with market conditions at the time of pricing and the terms of the Financing Orders.

**Duke Energy Carolinas
and
Duke Energy Progress
Response to
NC Public Staff Data Request
Data Request No. NCPS 5**

Docket Nos. E-7, Sub 1243 and E-2, 1262

**Date of Request: November 25, 2020
Date of Response: December 4, 2020**

☐ **CONFIDENTIAL**
☒ **NOT CONFIDENTIAL**

Confidential Responses are provided pursuant to Confidentiality Agreement

The attached response to NC Public Staff Data Request No. 5-20, was provided to me by the following individual(s): Tom Heath, Corporate Finance Director, and was provided to NC Public Staff under my supervision.

Camal O. Robinson
Associate General Counsel
Duke Energy Carolinas

North Carolina Public Staff
Data Request No. 5
DEC Docket No. E-7, Sub 1243
DEP Docket No. E-2, Sub 1262
Item No. 5-20
Page 1 of 1

Request:

20. Has DEC/DEP considered using alternative bond distribution channels and broker-dealers such as Charles Schwab, Fidelity, and Vanguard to distribute a portion or all of the SRB Securities to credit-sensitive individual retail investors who may value the safety and protection of the SRB Securities more than institutional investors? Why or why not?

Response:

Please see the Companies' response to PS DR 5-17. DEC and DEP have not fully considered using alternative bond distribution channels and broker-dealers such as Charles Schwab, Fidelity, and Vanguard but are not opposed to the idea as long as it does not negatively impact the overall offering, the Companies' ability to assert compliance with the Statutory Cost Objectives or add risk of additional liability to DEC and DEP.

**Duke Energy Carolinas
and
Duke Energy Progress
Response to
NC Public Staff Data Request
Data Request No. NCPS 5**

Docket Nos. E-7, Sub 1243 and E-2, 1262

**Date of Request: November 25, 2020
Date of Response: December 4, 2020**

☐

CONFIDENTIAL

☒

NOT CONFIDENTIAL

Confidential Responses are provided pursuant to Confidentiality Agreement

The attached response to NC Public Staff Data Request No. 5-21, was provided to me by the following individual(s): Charles Atkins, CEO, Atkins Capital Strategies, and was provided to NC Public Staff under my supervision.

Camal O. Robinson
Associate General Counsel
Duke Energy Carolinas

North Carolina Public Staff
Data Request No. 5
DEC Docket No. E-7, Sub 1243
DEP Docket No. E-2, Sub 1262
Item No. 5-21
Page 1 of 1

Request:

21. Please state all of the material assumptions upon which the estimated interest rates in the preliminary structure in Atkins Exhibit 4 are based. Please be specific. For example, if using the phrase “under market conditions,” please describe those market conditions.

Response:

The estimated interest rates are based on treasury rates as of October 9 plus an estimated spread based on comparable bonds. The estimated spreads assume market conditions similar to those on October 9.

**Duke Energy Carolinas
and
Duke Energy Progress
Response to
NC Public Staff Data Request
Data Request No. NCPS 5**

Docket Nos. E-7, Sub 1243 and E-2, 1262

**Date of Request: November 25, 2020
Date of Response: December 4, 2020**

☐

CONFIDENTIAL

☒

NOT CONFIDENTIAL

Confidential Responses are provided pursuant to Confidentiality Agreement

The attached response to NC Public Staff Data Request No. 5-22, was provided to me by the following individual(s): Charles Atkins, CEO, Atkins Capital Strategies, and was provided to NC Public Staff under my supervision.

Camal O. Robinson
Associate General Counsel
Duke Energy Carolinas

North Carolina Public Staff
Data Request No. 5
DEC Docket No. E-7, Sub 1243
DEP Docket No. E-2, Sub 1262
Item No. 5-22
Page 1 of 1

Request:

22. Please describe the process by which Witness Atkins determined the interest rates/yields to investors based on a specific credit spread to a benchmark on each of the 5 tranches in the preliminary structure in Atkins Exhibit 4.

Response:

The interest rates are based on a benchmark rate plus credit spread. The benchmark rate is the US treasury bond with the nearest maturity to the WAL for each SRB tranche.

**Duke Energy Carolinas
and
Duke Energy Progress
Response to
NC Public Staff Data Request
Data Request No. NCPS 5**

Docket Nos. E-7, Sub 1243 and E-2, 1262

**Date of Request: November 25, 2020
Date of Response: December 4, 2020**

☐ **CONFIDENTIAL**
☒ **NOT CONFIDENTIAL**

Confidential Responses are provided pursuant to Confidentiality Agreement

The attached response to NC Public Staff Data Request No. 5-23, was provided to me by the following individual(s): Charles, Atkins, CEO, Atkins Capital Strategies, and was provided to NC Public Staff under my supervision.

Camal O. Robinson
Associate General Counsel
Duke Energy Carolinas

North Carolina Public Staff
Data Request No. 5
DEC Docket No. E-7, Sub 1243
DEP Docket No. E-2, Sub 1262
Item No. 5-23
Page 1 of 1

Request:

23. Please provide the excel spreadsheet, workbook including formulas, Bloomberg fields or any other quantitative bases used to calculate Witness Atkins' SRBs overall interest rate of 1.15%/cost of funds from the individual rates estimated on each of the 5 tranches shown in Atkins Exhibit 4.

Response:

Please see the attached file.



DR5 23.xlsx

**Duke Energy Carolinas
and
Duke Energy Progress
Response to
NC Public Staff Data Request
Data Request No. NCPS 5**

Docket Nos. E-7, Sub 1243 and E-2, 1262

**Date of Request: November 25, 2020
Date of Response: December 4, 2020**

☐ **CONFIDENTIAL**
☒ **NOT CONFIDENTIAL**

Confidential Responses are provided pursuant to Confidentiality Agreement

The attached response to NC Public Staff Data Request No. 5-24, was provided to me by the following individual(s): Charles, Atkins, CEO, Atkins Capital Strategies, and was provided to NC Public Staff under my supervision.

Camal O. Robinson
Associate General Counsel
Duke Energy Carolinas

North Carolina Public Staff
Data Request No. 5
DEC Docket No. E-7, Sub 1243
DEP Docket No. E-2, Sub 1262
Item No. 5-24
Page 1 of 1

Request:

24. Please describe what types of comparable securities Witness Atkins expects to consider when pricing the individual tranches of the SRB Securities, other than U.S. Treasuries.

Response:

Ultimately, there will be consultation with the underwriters, but the expected comparable securities will be AAA ABS, investment grade first mortgage utility bonds, AAA corporates, and AAA US agency bonds.

**Duke Energy Carolinas
and
Duke Energy Progress
Response to
NC Public Staff Data Request
Data Request No. NCPS 5**

Docket Nos. E-7, Sub 1243 and E-2, 1262

**Date of Request: November 25, 2020
Date of Response: December 4, 2020**

☐ **CONFIDENTIAL**
☒ **NOT CONFIDENTIAL**

Confidential Responses are provided pursuant to Confidentiality Agreement

The attached response to NC Public Staff Data Request No. 5-25, was provided to me by the following individual(s): Charles, Atkins, CEO, Atkins Capital Strategies, and was provided to NC Public Staff under my supervision.

Camal O. Robinson
Associate General Counsel
Duke Energy Carolinas

North Carolina Public Staff
Data Request No. 5
DEC Docket No. E-7, Sub 1243
DEP Docket No. E-2, Sub 1262
Item No. 5-25
Page 1 of 1

Request:

25. In the most recent utility securitization pricing in which Witness Atkins participated, did he or his firm use such securities as benchmarks? If not, which securities were used? Please provide individual CUSIPs for any and all such securities.

Response:

Witness Atkins does not have access to the securities that the Morgan Stanley syndicate desk referred to during a pricing which occurred in 2013.

**Duke Energy Carolinas
and
Duke Energy Progress
Response to
NC Public Staff Data Request
Data Request No. NCPS 5**

Docket Nos. E-7, Sub 1243 and E-2, 1262

**Date of Request: November 25, 2020
Date of Response: December 4, 2020**

☐

CONFIDENTIAL

☒

NOT CONFIDENTIAL

Confidential Responses are provided pursuant to Confidentiality Agreement

The attached response to NC Public Staff Data Request No. 5-26, was provided to me by the following individual(s): Charles Atkins, CEO, Atkins Capital Strategies, and was provided to NC Public Staff under my supervision.

Camal O. Robinson
Associate General Counsel
Duke Energy Carolinas

North Carolina Public Staff
Data Request No. 5
DEC Docket No. E-7, Sub 1243
DEP Docket No. E-2, Sub 1262
Item No. 5-26
Page 1 of 1

Request:

26. Please provide a list of the specific outstanding comparable securities referred to in question t. above including CUSIP numbers, outstanding amounts and weighted average life remaining to the 5 tranches proposed in Atkins Exhibit 4, along with their weighted average lives from the date of issuance, yields and credit spreads to interpolated U.S. Treasury curve (G-spreads) as of the date of the preparation of the response.

Response:

Please see the attached file.



DR5 26.pdf

**Duke Energy Carolinas
and
Duke Energy Progress
Response to
NC Public Staff Data Request
Data Request No. NCPS 5**

Docket Nos. E-7, Sub 1243 and E-2, 1262

**Date of Request: November 25, 2020
Date of Response: December 4, 2020**

☐ **CONFIDENTIAL**
☒ **NOT CONFIDENTIAL**

Confidential Responses are provided pursuant to Confidentiality Agreement

The attached response to NC Public Staff Data Request No. 5-27, was provided to me by the following individual(s): Charles, Atkins, CEO, Atkins Capital Strategies, and was provided to NC Public Staff under my supervision.

Camal O. Robinson
Associate General Counsel
Duke Energy Carolinas

North Carolina Public Staff
Data Request No. 5
DEC Docket No. E-7, Sub 1243
DEP Docket No. E-2, Sub 1262
Item No. 5-27
Page 1 of 1

Request:

27. Would Witness Atkins consider non-callable AAA-rated U.S. agency securities with similar weighted average lives to be comparable to the proposed SRB Securities?
- i. If not, why not?
 - ii. If so, typically what spread to interpolated weighted average life would Witness Atkins expect the credit spreads to be between these two types of securities?

Response:

Non-callable AAA-rated US agency securities may be considered; however, these securities are generally expected to trade at a tighter credit spread than the utility securitization bonds.

**Duke Energy Carolinas
and
Duke Energy Progress
Response to
NC Public Staff Data Request
Data Request No. NCPS 5**

Docket Nos. E-7, Sub 1243 and E-2, 1262

**Date of Request: November 25, 2020
Date of Response: December 4, 2020**

☐ **CONFIDENTIAL**
☒ **NOT CONFIDENTIAL**

Confidential Responses are provided pursuant to Confidentiality Agreement

The attached response to NC Public Staff Data Request No. 5-28, was provided to me by the following individual(s): Tom Heath, Corporate Finance Director, and was provided to NC Public Staff under my supervision.

Camal O. Robinson
Associate General Counsel
Duke Energy Carolinas

North Carolina Public Staff
Data Request No. 5
DEC Docket No. E-7, Sub 1243
DEP Docket No. E-2, Sub 1262
Item No. 5-28
Page 1 of 1

Request:

28. Would any of the interest rates/credit spreads materially change for Storm Recovery Bonds marketed and issued under a common marketing plan at the same time?

Response:

While pricing of bonds is affected by investor perceptions of various transaction features, as well as market interest rate and supply conditions, it is clear that if the DEC and DEP bonds are marketed separately at the same time, that the larger DEP issue will be index-eligible, and would be perceived by some investors as more liquid, while the smaller, index-ineligible DEC issue may be perceived as less liquid by comparison. While investor demand is affected by factors that are difficult to determine definitively in advance, some investors may prefer to submit orders for the larger DEP issue, in part due to perceived greater liquidity. Such investor preferences have the potential to negatively affect the pricing for the smaller DEC issue. At the same time, it is possible that market supply factors may increase investor demand for both issues such that the pricing of the smaller index-ineligible DEC issue may not be negatively affected. However, if a common marketing approach of the separate issues is pursued, investors would be aware of the fact that the DEC issue is smaller and index-ineligible, and they would take that into consideration.

**Duke Energy Carolinas
and
Duke Energy Progress
Response to
NC Public Staff Data Request
Data Request No. NCPS 5**

Docket Nos. E-7, Sub 1243 and E-2, 1262

**Date of Request: November 25, 2020
Date of Response: December 4, 2020**

☐ **CONFIDENTIAL**
☒ **NOT CONFIDENTIAL**

Confidential Responses are provided pursuant to Confidentiality Agreement

The attached response to NC Public Staff Data Request No. 5-29, was provided to me by the following individual(s): Charles Atkins, CEO, Atkins Capital Strategies, and was provided to NC Public Staff under my supervision.

Camal O. Robinson
Associate General Counsel
Duke Energy Carolinas

North Carolina Public Staff
Data Request No. 5
DEC Docket No. E-7, Sub 1243
DEP Docket No. E-2, Sub 1262
Item No. 5-29
Page 1 of 1

Request:

29. Given that Witness Atkins is recommending a 9-month first payment period, is it correct that the preliminary structure in Witness Atkins' Exhibit 4 show a fractional year in year 15 rather than in year one (1)?

Response:

Deal year 1 in Exhibit 4 represents the first 2 semi-annual bond payments, so it includes cash flows from the expected closing date up to the second bond payment date. There are 29 total scheduled payments, so there is only one payment being shown in deal year 15.

**Duke Energy Carolinas
and
Duke Energy Progress
Response to
NC Public Staff Data Request
Data Request No. NCPS 5**

Docket Nos. E-7, Sub 1243 and E-2, 1262

**Date of Request: November 25, 2020
Date of Response: December 4, 2020**

☐ **CONFIDENTIAL**
☒ **NOT CONFIDENTIAL**

Confidential Responses are provided pursuant to Confidentiality Agreement

The attached response to NC Public Staff Data Request No. 5-30, was provided to me by the following individual(s): Charles Atkins, CEO, Atkins Capital Strategies, and was provided to NC Public Staff under my supervision.

Camal O. Robinson
Associate General Counsel
Duke Energy Carolinas

North Carolina Public Staff
Data Request No. 5
DEC Docket No. E-7, Sub 1243
DEP Docket No. E-2, Sub 1262
Item No. 5-30
Page 1 of 1

Request:

30. Please explain how in Witness Atkins Exhibit 4, especially for DEP, interest in year 1 for tranches A-3, A-4 and A-5, is substantially more than in year 2 even though the principal balance for those tranches is the same in both years.

Response:

Given the long first period, deal year 1 represents 8 months of interest accrual, whereas year 2 represents 12 months of interest accrual.

**Duke Energy Carolinas
and
Duke Energy Progress
Response to
NC Public Staff Data Request
Data Request No. NCPS 6**

Docket Nos. E-7, Sub 1243 and E-2, 1262

**Date of Request: November 25, 2020
Date of Response: December 7, 2020**

☐ **CONFIDENTIAL**
☒ **NOT CONFIDENTIAL**

Confidential Responses are provided pursuant to Confidentiality Agreement

The attached response to NC Public Staff Data Request No. 6-1, was provided to me by the following individual(s): Charles Atkins, CW- Professional, and was provided to NC Public Staff under my supervision.

Camal O. Robinson
Associate General Counsel
Duke Energy Carolinas

North Carolina Public Staff
Data Request No. 6
DEC Docket No. E-7, Sub 1243
DEP Docket No. E-2, Sub 1262
Item No. 6-1
Page 1 of 13

Request:

1. POST-FINANCING ORDER CONTROL OVER STRUCTURING, MARKETING AND PRICING OF THE PROPOSED SRB SECURITIES

a. In response to PS DR 2-4(a), Witness Heath states: “The table provided in response to PS Data Request 2-1 lists Witness Atkins’ utility securitization advisory and lead underwriting banking experience and includes transactions where the commission retained a financial advisor, provides the name of the advisor, and specifies when the advisor’s role was limited to participation in the pricing process. The table also reflects those transactions where Witness Atkins recalls a commission staff member or a commission member being involved in the financing process. Apart from the instances where the role of the advisor was limited to the pricing process, the advisor and the commission representative periodically were involved in working group discussions during the structuring, marketing and pricing process.”

i. Were the advisor and/or the commission representative involved visibly and in advance in all aspects of the structuring, marketing and pricing process, including in the decision-making process? If not, in which aspects were they involved, and in which aspects were they not involved?

b. Florida Statutes §366.95(3)(c)2. states: “In performing the responsibilities of this subparagraph and subparagraph 5., the commission may engage outside consultants and counsel.” The Florida PSC’s financing order in the 2016 nuclear asset-recovery bond transaction for DEF states: “We find that this Commission, as represented by designated Commission staff, this Commission’s financial advisor, and this Commission’s outside legal counsel, shall be actively and integrally involved in the bond issuance on a day-to-day basis . . . as part of a Bond Team that also includes DEF, its structuring advisor or underwriter(s), and its outside counsel(s), in all aspects of the structuring, marketing, and pricing of each series of nuclear asset-recovery bonds.” (Finding of Fact 91.)

i. Were commissions more often assisted by independent financial advisors and/or counsel in connection with their first securitized utility bond proceeding(s) than following transactions?

ii. Please comments on the positive comments made on the record by the Florida PSC staff, Office of Public Counsel and other intervenors at the open meeting in June 2016 on the work of the Bond Team in the 2016 securitized bond transaction for DEF?

iii. Do DEP and DEC agree that the Financing Order in this proceeding should direct that a similar “Bond Team” be formed to be actively and integrally involved on a day-to-day basis in the issuance of the proposed SRB Securities, including in all aspects of the structuring, marketing, and pricing of each series of SRB Securities?

iv. If not, why not?

c. N.C. Gen. Stat. § 62-172(n) states: “In making determinations under this section, the Commission or public staff or both may engage an outside consultant and counsel.” In response to PS DR 2-4(d), Witness Heath states: “In certain cases, the commission’s designated member or representative were assisted by an independent financial advisor and/or counsel. Pursuant to Section 62-172(n), any designated member of the NCUC would be permitted to engage an outside consultant or counsel.”

North Carolina Public Staff
Data Request No. 6
DEC Docket No. E-7, Sub 1243
DEP Docket No. E-2, Sub 1262
Item No. 6-1
Page 2 of 13

- i. Please identify the cases in which a commission's designated member or representative were assisted by an independent financial advisor and/or counsel.
 - ii. Were commissions more often assisted by independent financial advisors and/or counsel in connection with their first securitized utility bond proceeding(s) than following transactions?
 - iii. Should the Commission's designated representative and Commission staff in this proceeding be assisted by the Public Staff and independent expertise? If not, why not?
 - d. In response to PS DR 2-4(e), Witness Heath states: "Although N.C. Gen. Stat. § 62-172 does not mandate that a public utility propose, or the Commission establish, a bond team or designated member, the Joint Petition proposes a process to provide a Commissioner or Commission Staff member (the "Designated Member") with timely information to allow for the Designated Member's participation in the actual structuring, pricing, and issuance of the storm recovery bonds so that the Commission, upon receipt of the issuance advice letter, may determine whether or not the transactions meet the statutory cost objectives identified in the financing orders and consistent with N.C. Gen. Stat. § 62-172. In addition, membership on the DEF Bond Team was limited to DEF and designees of the Florida Public Service Commission, including their financial advisor. Bond Team membership was not extended to any intervening party to the financing proceeding. While it is true that representatives of the customer advocate (Office of Public Counsel) were invited to and joined certain of the Bond Team calls as a courtesy, they were not part of the Bond Team and did not have a formal role in the post-financing order stage of the DEF transaction." Unlike the Florida Office of Public Counsel (which is separate from Florida commission, see Florida Statutes § 350.061), the Commission's Public Staff is an aspect of the Commission itself. (N. C. Gen. Stat. § 62-15(b) states: "There is established in the Commission a public staff.") And whereas Florida Statutes § 366.95(2)(c)2. only authorized the Florida commission to retain outside consultants and counsel, N.C. Gen. Stat. § 62-172(n) states: "the Commission or public staff or both may engage an outside consultant and counsel."
 - i. If DEP and DEC are included as members of a Bond Team even though they are petitioning parties to the Commission proceeding, do DEP and DEC agree that there would be symmetry if Public Staff also is included as a member of the Bond Team even though Public Staff also is a party to the Commission's proceeding? If not, why not?
 - ii. Do DEC and DEP agree that outside consultant(s) and counsel(s) to the Commission and to Public Staff also should be included in any Bond Team which is formed pursuant to the Financing Order? If not, why not?
- The provisions from the DEF financing order cited in PS DR 2-5(a) are based on the Florida Statutes §366.95(2)(c)2: "In a financing order issued to an electric utility, the commission shall: . . . Include any other conditions that the commission considers appropriate and that are authorized by this section." Essentially the same "elastic clause" is included in N.C. Gen. Stat. § 62-172(b)(3)b.12.: "A financing order issued by the Commission to a public utility shall include all of the following elements : . . . Any other conditions not otherwise inconsistent with this section that the Commission determines are appropriate." Nevertheless, in response to PS DR 2-5(a), Witness Atkins states: "N.C. Gen.

North Carolina Public Staff
Data Request No. 6
DEC Docket No. E-7, Sub 1243
DEP Docket No. E-2, Sub 1262
Item No. 6-1
Page 3 of 13

Stat. § 62-172 is specific to North Carolina. In accordance with North Carolina law, the Companies adhered to the terms and requirements of N.C. Gen. Stat. § 62-172 in creating and requesting approval of their proposed Financing Orders. Accordingly, the Companies did not ‘depart’ from the Florida PSC’s financing order in the 2016 nuclear asset-recovery bond transaction for DEF and instead created Company-specific Financing Orders pursuant to North Carolina law.”

Would the Commission be acting within this authority to provide in its Financing Order in this proceeding provisions ensuring that any Storm Recovery Bonds and the SRB Securities authorized by the Financing Order will be structured, marketed and priced so as to result in the lowest storm recovery charges consistent with the Financing Order and market conditions at the time of pricing?

e. Witness Atkins’ testimony includes details on the standard process for marketing and sale of the storm recovery bonds. The Florida PSC’s financing order in the 2016 nuclear asset-recovery bond transaction for DEF included the following provisions to ensure that the “marketing” of those securitized bonds would result in the lowest securitized charges consistent with market conditions and the terms of the financing order. DEF did not object to any of these Findings of Fact or Ordering Paragraphs related to the securitized bond offering.

i. Finding of Fact 43: “One designated representative of DEF and one designated representative of this Commission should be joint decision makers in all aspects of the structuring, marketing and pricing of the nuclear asset-recovery bonds except for those recommendations that in the sole view of DEF would expose DEF or the SPE to securities law and other potential liability (i.e., such as, but not limited to, the making of any untrue statement of a material fact or omissions to state a material fact required to be stated therein or necessary in order to make the statements made not misleading) or contractual law liability (e.g., including but not limited to terms and conditions of the underwriter agreement(s)). (Emphasis added.)

ii. Finding of Fact 44: “This Commission’s designated staff and financial advisor should be visibly involved, in advance, in all aspects of the structuring, marketing, and pricing of the nuclear asset-recovery bonds.” (Emphasis added.)

iii. Finding of Fact 45: “All Bond Team members should actively participate in the design of the marketing materials for the transactions as well as in the development and implementation of the marketing and sales plan for the bonds.” (Emphasis added.)

iv. Finding of Fact 48: “Together with the Bond Team’s involvement in the structuring, marketing and pricing of the nuclear asset-recovery bonds, and the Issuance Advice Letter process, this Commission should be able to fully review the pricing of the bonds as this Commission determines whether to issue a stop order no later than 5:00 pm Eastern time on the third business day following pricing.” (Emphasis added.)

v. Finding of Fact 51: “[O]ur primary focus is on ensuring that the structuring, marketing, and pricing of nuclear asset-recovery bonds achieves the lowest overall cost standard and the greatest possible customer protections. Therefore, we find and direct that the standard for this Financing Order should be that the structuring, marketing, and pricing of nuclear

North Carolina Public Staff
Data Request No. 6
DEC Docket No. E-7, Sub 1243
DEP Docket No. E-2, Sub 1262
Item No. 6-1
Page 4 of 13

asset-recovery bonds will achieve the lowest overall cost standard and the greatest possible customer protections.” (Emphasis added.)

vi. Finding of Fact 55: “This Financing Order provides flexibility to recover such costs through the nuclear asset-recovery charge and the true-up of such charge. At the same time, we have established the Issuance Advice Letter procedures in Findings of Fact paragraphs 98 through 103 of this Financing Order which are intended to ensure that the structuring, marketing and pricing of nuclear asset-recovery bonds achieves the statutory cost objectives and lowest overall cost standard.” (Emphasis added.)

vii. Finding of Fact 83: “DEF and this Commission’s staff and this Commission’s financial advisor as Bond Team members, excluding DEF’s structuring advisor, should have equal rights on the hiring decisions for underwriters and counsel for the underwriters.” (Emphasis added.)

viii. Finding of Fact 84: “We find that requiring all book-running underwriters of a series of nuclear asset-recovery bonds to deliver periodic reports with indicative pricing levels derived independently by each book-running underwriter for the nuclear asset-recovery bonds before any public offering of that series of nuclear asset-recovery bonds is launched is likely to facilitate achievement of the statutory financing cost objective and the lowest overall cost standard. We also find that the Bond Team may request one or more of the bookrunning underwriters to deliver an opinion letter as to whether the structuring, marketing, and pricing of the nuclear asset-recovery bonds achieved the lowest overall cost standard.” (Emphasis added.)

ix. Finding of Fact 85: “We find that requiring the book-running underwriter(s) of nuclear asset-recovery bonds to provide the Bond Team documentary verification that any term sheet, prospectus, registration statement, offering memorandum or other marketing materials used by the underwriting syndicate in marketing the nuclear asset-recovery bonds (collectively, the ‘offering documents’) receives a broad distribution to potential investors most likely to accept the lowest yield on the nuclear asset-recovery bonds will facilitate achievement of the statutory financing cost objective and the lowest overall cost standard. This documentary verification may be provided on a confidential basis to members of the Bond Team to the extent confidential classification of the information included therein is permitted by law.” (Emphasis added.)

x. Finding of Fact 89: “Further, we find that unless the superior credit quality of these bonds is accurately and completely reflected in the marketing materials, there is no assurance that the nuclear asset-recovery bonds approved through this Financing Order will achieve the lowest overall cost standard.” (Emphasis added.)

“

xi. Finding of Fact 91: “We find that this Commission, as represented by designated Commission staff, this Commission’s financial advisor, and this Commission’s outside legal counsel, shall be actively and integrally involved in the bond issuance on a day-to-day basis, subject to Finding of Fact paragraph 50 and Ordering Paragraph 67 as part of a Bond Team that also includes DEF, its structuring advisor or underwriter(s), and its outside counsel(s), in all aspects of the structuring, marketing, and pricing of each series of nuclear asset-recovery bonds. This will allow for meaningful and substantive cooperation among

North Carolina Public Staff
Data Request No. 6
DEC Docket No. E-7, Sub 1243
DEP Docket No. E-2, Sub 1262
Item No. 6-1
Page 5 of 13

DEF and this Commission and its representatives to ensure that the structuring, pricing, and financing costs of the nuclear asset-recovery bonds will achieve the statutory cost objectives and the lowest overall cost standard. Cooperation among DEF and this Commission will promote transparency in the nuclear asset-recovery bond pricing process, thereby promoting the integrity of the issuance process. In this regard, this Commission's financial advisor needs to be an active and visible participant in the actual pricing process in real time if we are to obtain maximum benefits for ratepayers." (Emphasis added.)

xii. Finding of Fact 97: "No later than 5:00 p.m. Eastern time on the second business day following pricing, this Commission's financial advisor shall deliver to this Commission an opinion letter consistent with the terms of its contract as to whether the structuring, marketing and pricing of the nuclear asset-recovery bonds achieved: (1) the statutory cost objectives; (2) the lowest nuclear asset-recovery charges consistent with prevailing market conditions at the time of pricing, terms and conditions and terms of this Financing Order, and other applicable law; and (3) the greatest possible customer protections. That opinion letter shall include a report of any action or inaction which this Commission's financial advisor believes might have caused the transaction not to achieve the statutory cost objectives, the lowest nuclear asset-recovery charges, and/or the greatest possible customer protections regardless of whether the reason for action or inaction by DEF was the result of DEF's sole view that the action or inaction would expose DEF or the SPE to securities law or other potential liability, the report of any such action or inaction which this Commission's financial advisor believes might have caused the transaction not to achieve the statutory cost objectives, the lowest nuclear asset-recovery charges, and/or the greatest possible customer protections, regardless of whether the reason for action or inaction by DEF was the result of DEF's sole view that the action or inaction would expose DEF or the SPE to securities law or other potential liability, shall be treated as a material qualification to the opinion letter of this Commission's financial advisor. Such opinion letter may be provided to this Commission on a confidential basis subject to the ability of parties to this proceeding to review it on a confidential basis." (Emphasis added.)

xiii. Finding of Fact 99: "DEF shall file a combined IAL/TUAL in final form with this Commission no later than 5:00 pm Eastern time one business day after actual pricing at which time a meeting will be noticed for three business days after pricing to afford this Commission an opportunity to review the proposed transaction. As shown in the form of IAL/TUAL in Appendix C, the combined IAL/TUAL shall include the following information: the actual structure of the nuclear asset-recovery bond issuance; the expected and final maturities of the nuclear asset-recovery bonds; over-collateralization levels (if any); any other credit enhancements; revised estimates of the upfront bond issuance costs proposed to be financed from proceeds of the nuclear asset-recovery bonds and estimates of debt service and other ongoing financing costs for the first Remittance Period; a statement of the actions taken by the Bond Team and/or DEF in the marketing of the bonds; a comparison of the pricing relative to an independent benchmark versus other similar securities historically and at the time of pricing; the amount of orders received and investors that placed the orders (on a confidential basis); and other information deemed

North Carolina Public Staff
Data Request No. 6
DEC Docket No. E-7, Sub 1243
DEP Docket No. E-2, Sub 1262
Item No. 6-1
Page 6 of 13

necessary by the members of the Bond Team representing this Commission after review of the draft combined IAL/ITUAL, provided that such other information is consistent with the terms of this Financing Order; and a statement setting forth DEF's observations as to efforts made to assist the Bond Team in achieving the lowest overall cost standard. Finally, the combined IAL/TUAL shall include certifications from DEF if required, that the structuring, pricing and financing costs of the nuclear asset-recovery bonds achieved the statutory cost objectives." (Emphasis added.)

xiv. Finding of Fact 100: "The opinion letter from this Commission's financial advisor required pursuant to Finding of Fact paragraph 97 should be provided no later than 5:00 p.m. on the second business day after pricing. The members of the Bond Team will review this information on the second business day after pricing. If the IAL/TUAL and all required certifications and statements have been delivered and the transaction complies with applicable law and this Financing Order, and if this Commission's financial advisor has delivered an opinion letter pursuant to Finding of Fact paragraph 97 concluding without material qualification that the structuring, marketing and pricing of the nuclear asset-recovery bonds achieved: (1) the statutory cost objectives; (2) the lowest overall cost standard; and (3) the greatest possible customer protections, then the transaction shall be allowed to proceed without the need for further action of this Commission and without the need to hold the previously noticed Commission meeting. If, however, this Commission's financial advisor has delivered an opinion letter that contains material qualifications, or if the Commission's financial advisor has not delivered an opinion letter, then at the meeting previously noticed for the third business day after pricing, the members of the Bond Team will present to this Commission the results of their review. Despite there being material qualifications in the opinion letter from the Commission's financial advisor, this Commission retains discretion to allow the transaction to be completed if, after taking into account the opinion letter, if any, of the Commission's financial advisor, the views of other members of the Bond Team, and any other facts and circumstances, except for a change in market conditions after the moment of pricing, this Commission determines that the requirements of Section 366.95, F.S., and the Financing Order have been satisfied, and the transaction is otherwise in the best interests of customers. This Commission expects that any stop order will invite DEF to restructure, remarket and/or reprice the nuclear asset-recovery bonds so as to mitigate some or all of the concerns identified in the opinion letter of the Commission's financial advisor." (Emphasis added.)

xv. Ordering Paragraph 39: "ORDERED that one designated representative of DEF and one designated representative of this Commission shall be joint decision makers in all aspects of the structuring, marketing and pricing of the nuclear asset-recovery bonds except for those recommendations that in the sole view of DEF would expose DEF or the SPE to securities law and other potential liability (i.e., such as, but not limited to, the making of any untrue statement of a material fact or omissions to state a material fact required to be stated therein or necessary in order to make the statements made not misleading) or contractual law liability (e.g., including but not limited to terms and conditions of the underwriter agreement(s))." (Emphasis added.)

North Carolina Public Staff
Data Request No. 6
DEC Docket No. E-7, Sub 1243
DEP Docket No. E-2, Sub 1262
Item No. 6-1
Page 7 of 13

xvi. Ordering Paragraph 40: “ORDERED that this Commission’s designated staff and financial advisor shall be visibly involved, in advance, in all aspects of the structuring, marketing, and pricing of the nuclear asset-recovery bonds.” (Emphasis added.)

xvii. Ordering Paragraph 41: “ORDERED that all Bond Team members shall actively participate in the design of the marketing materials for the transactions as well as in the development and implementation of the marketing and sales plan for the bonds.” (Emphasis added.)

xviii. Ordering Paragraph 51: “ORDERED that this Commission, as represented by designated Commission staff, this Commission’s financial advisor, and this Commission’s outside legal counsel, shall be actively involved in the bond issuance, subject to Ordering Paragraphs 66 and 67, as part of a Bond Team that also includes DEF, its structuring advisor or underwriter(s), and its outside counsel(s), in all aspects of the structuring, marketing, and pricing of each series of nuclear asset-recovery bonds to ensure that customers are represented in the transaction process and that the lowest overall cost standard is achieved. As a member of the Bond Team, this Commission’s financial advisor will advise and represent this Commission on all matters relating to the structuring, marketing, and pricing of the nuclear asset-recovery bonds. Through its participation on the Bond Team, this Commission and its representatives will have an active and integral role in, and will participate fully and in advance in all plans and decisions relating to, the structuring, marketing, and pricing of the nuclear asset-recovery bonds as discussed in the body of this Order. Cooperation among DEF and this Commission will promote transparency in the nuclear asset-recovery bond pricing process, thereby promoting the integrity of the issuance process.” (Emphasis added.)

xix. Ordering Paragraph 58: “ORDERED that the role of this Commission’s financial advisor will include, among other things, advising this Commission and its staff whether or not DEF’s proposed structuring, marketing, pricing and financing costs of nuclear asset-recovery bonds meet all statutory requirements, including the statutory cost objectives, as well as the lowest overall cost standard. At the direction of this Commission staff, such financial advisor may represent this Commission as an active participant in the actual pricing process in real time. The financial advisor shall promptly inform this Commission’s staff of any items that, in the financial advisor’s opinion, are not reasonable or are not consistent with applicable statutory requirements, the statutory cost objectives, or the lowest overall cost standard so that such concerns can be brought to the attention of DEF in real time.” (Emphasis added.)

xx. Ordering Paragraph 69: “ORDERED that, subject to Ordering Paragraphs 66 and 67, the Bond Team shall work on a cooperative basis (a) to educate and expand the market among underwriters and investors for nuclear asset-recovery bonds and (b) to create the greatest possible participation and competition among underwriters and investors in order to ensure that the statutory cost objectives and the lowest overall cost standard are achieved.” (Emphasis added.)

xxi. Ordering Paragraph 74: “ORDERED that no later than 5:00 p.m. Eastern time on the second business day following pricing, this Commission’s financial advisor shall deliver to this Commission an opinion letter consistent with the terms of its contract as to whether the

North Carolina Public Staff
Data Request No. 6
DEC Docket No. E-7, Sub 1243
DEP Docket No. E-2, Sub 1262
Item No. 6-1
Page 8 of 13

structuring, marketing and pricing of the nuclear asset-recovery bonds achieved: (1) the statutory cost objectives; (2) the lowest nuclear asset-recovery charges consistent with prevailing market at the time of pricing, terms and conditions and terms of this Financing Order, and other applicable law; and (3) the greatest possible customer protections. That opinion letter shall include a report of any action or inaction which this Commission's financial advisor believes might have caused the transaction not to achieve the statutory cost objectives, the lowest nuclear asset-recovery charges, and/or the greatest possible customer protections, regardless of whether the reason for action or inaction by DEF was the result of DEF's sole view that the action or inaction would expose DEF or the SPE to securities law or other potential liability. The report of any such action or inaction which this Commission's financial advisor believes might have caused the transaction not to achieve the statutory cost objectives, the lowest nuclear asset-recovery charges, and/or the greatest possible customer protections, regardless of whether the reason for action or inaction by DEF was the result of DEF's sole view that the action or inaction would expose DEF or the SPE to securities law or other potential liability shall be treated as a material qualification to the opinion letter of this Commission's financial advisor. Such opinion letter may be provided to this Commission on a confidential basis subject to the ability of parties to this proceeding to review it on a confidential basis." (Emphasis added.)

xxii. Ordering Paragraph 78: "ORDERED that the Bond Team may require some or all underwriters of the nuclear asset-recovery bonds to deliver periodic reports on a confidential basis to members of the Bond Team presenting independently derived indicative pricing levels for the nuclear asset-recovery bonds before any public offering of the nuclear asset-recovery bonds is launched. The Bond Team may also request one or more of the bookrunning underwriters to deliver an opinion letter as to whether the structuring, marketing, and pricing of the nuclear asset-recovery bonds achieved the lowest overall cost standard." (Emphasis added.)

xxiii. Ordering Paragraph 79: "ORDERED that, upon the request of any member of the Bond Team, the bookrunning underwriter(s) of the nuclear asset-recovery bonds shall provide to all members of the Bond Team a copy of any term sheet, prospectus, or other marketing materials used by the underwriting syndicate in marketing the nuclear asset-recovery bonds, together with documentary verification that these marketing materials received a broad distribution to potential investors most likely to accept the lowest yields on the nuclear asset-recovery bonds." (Emphasis added.)

Please explain why DEC and DEP's proposed form of Financing Order departs from each of the above Findings of Fact and Ordering Paragraphs of the Florida PSC's financing order in the 2016 nuclear asset-recovery bond transaction for DEF by proposing in this proceeding that a designated representative of the Commission be involved only with post-financing order decisions concerning the "structuring and pricing" of the proposed SRB Securities, but not with post-financing order decisions concerning the "marketing" of those SRB Securities.

f. In response to PS DR 2-6(b), Witness Heath stated "Since the beginning of 2019, DEC and DEP have issued a combined total of \$3.6 billion in debt in the public debt market. Due to the low interest rate environment during this period DEC and DEP has

North Carolina Public Staff
Data Request No. 6
DEC Docket No. E-7, Sub 1243
DEP Docket No. E-2, Sub 1262
Item No. 6-1
Page 9 of 13

issued \$1.35 billion of that amount in 30-year fixed rate bonds. An additional \$0.7 billion was issued as 1.5-year floating rate bond which attracts a different type of investor than fixed rate bonds. The remaining \$1.55 billion was issued in 10-year fixed rate bonds. As result of the nature of these issuances, none have directly comparable maturities to the proposed securitization structure. Of the 10-year fixed rate bonds issued, \$600 million of that amount was issued as a Green Bond which attracts unique investors with environmental, sustainability, and governance (ESG) goals. Considering the above, there are two issues, both for DEC, while not directly comparable, they are discussed for the purposes of this question. One of these issuances was allocated to 71 unique accounts and the other was allocated to 57 unique accounts. By comparison, DEC and DEP affiliate DEF's 2016 securitization issuance allocated \$1.294 billion across five tranches to 56 unique accounts."

- i. Why is Witness Heath's response limited to traditional utility bonds issued since the beginning of 2019?
- ii. How many separate accounts purchased the \$1.35 billion of 30-year fixed-rate traditional utility bonds?
- iii. How many separate accounts purchased the \$0.955 billion of 10-year fixed-rate traditional utility bonds that were not issued as Green Bonds?
- iv. Why does Witness Heath believe that these 10-year fixed-rate traditional utility bonds are not comparable to the 10.4-year WAL Tranche A-4 in Atkins Exhibit 4 – which identifies the 10-year maturity U.S. Treasury bond as comparable?
- v. What were the issue dates, maturities and principal amounts of the two DEC traditional utility bond issues mentioned by Witness Heath?
- vi. How many unique accounts purchased each Tranche of DEF's 2016 securitized bonds?
- g. Witness Heath's response to PS DR 2-13(a) is not completely responsive to the questions asked. Please also provide the trading history of comparable securities, as well as a pros and cons sales memorandum, and categories of investors to be targeted.
- h. Witness Heath's response to PS DR 2-13(c) is not completely responsive to the questions asked: "Who were the disclosed investors in these securities [securitized utility bonds outstanding as of December 31, 2020]?" That information is not reflected in the attached schedule. Please provide.
- i. Witness Heath's response to PS DR 2-13(e) may not completely respond to the questions asked: "[H]ow the Designated Member or anyone else can confirm that those investors have actually been contacted. Will the underwriters provide written and accountable certifications that such a distribution has been made?" Please respond.

North Carolina Public Staff
Data Request No. 6
DEC Docket No. E-7, Sub 1243
DEP Docket No. E-2, Sub 1262
Item No. 6-1
Page 10 of 13

Response:

a. Witness Atkins' response to PS DR 2-1 provided information on prior securitization transactions in which he has been involved and illustrates his experience with utility securitization transactions generally. Having noted this, neither DEC/DEP nor witness Atkins take the position that each (or perhaps any) of the prior securitization transactions are necessarily particularly relevant, in their details, to the particulars of the DEC/DEP proposed transactions in this proceeding because they involve differing costs being recovered, differing jurisdictions, differing enabling statutory authority, differing state public service commissions, and different ultimate legal standards. Having noted the lack of comparability between DEC and DEP's proposed securitization transactions and those involved in prior securitization proceedings in other states, Mr. Atkins does not have the information or records available to him necessary to provide the requested information for each identified transaction.

b. i. DEC and DEP object to this question as it is overly broad and unduly burdensome on the Companies to research all first time securitized utility bond proceedings in each state that has had this type of transaction. However, they do note that Saber Partners, who is advising the Public Staff, appears to have such information on its website. The Companies have not validated this information, but it generally appears to reflect the Companies' understanding of other utility securitization transactions.

ii. DEC and DEP object to this question as it seeks information irrelevant to and unrelated to an evaluation of the Companies' Joint Petition in this proceeding. Further, the Companies are not in a position to speak to the comments of other parties in other utility proceedings in other states.

iii. As noted in prior response to PS DR 4-2.e., the Joint Petition proposes a process to provide a Commissioner or Commission Staff member (the "Designated Member") with timely information to allow for the Designated Member's participation in the actual structuring, pricing, and issuance of the storm recovery bonds so that the Commission, upon receipt of the issuance advice letter, may determine whether or not the transactions meet the statutory cost objectives identified in the financing orders and consistent with N.C. Gen. Stat. § 62-172.

iv. See response to PS DR 6-1.b.iii. above.

c. i. See response to PS DR 6-1.b.i. above. That being said, in reviewing the public record associated with public transactions since 2010, to the Companies' knowledge, financial advisors were engaged in transactions in Florida, Louisiana, Ohio, Texas and West Virginia and were not engaged in Arkansas, Michigan or New Hampshire.

ii. See response to PS DR 6-1.b.i. above.

North Carolina Public Staff
Data Request No. 6
DEC Docket No. E-7, Sub 1243
DEP Docket No. E-2, Sub 1262
Item No. 6-1
Page 11 of 13

iii. See response to PS DR 6-1.b.iii. Ultimately, it is the decision of the Commission and not DEC and DEP as to with whom they should or should not consult. However, as the Public Staff is an independent agency not subject to the supervision, direction, or control of the Commission, and in its role as an intervenor in this and other proceedings, the Companies understand that the Public Staff traditionally provides its recommendations to the Commission during the regulatory proceeding, not after an order is issued.

d. i. The Companies object to the presumption in this question that there should be a Bond Team for this transaction and refer the parties to the responses to PS DR 6-1.b.iii and PS DR 6-1.c.iii. Pursuant to securities laws, DEP and DEC will be the issuers of storm recovery bonds and any SRB Securities with liability under federal and state securities laws. Therefore, there is no “symmetry” and it is not correct to compare the role of DEP and DEC as part of any Bond Team, to the extent there is a Bond Team, and Public Staff.

ii. See responses to PS DR 6-1.b.iii. and PS DR 6-2.d.i.

iii. The statutory language speaks for itself.

e. The draft Financing Order for the proposed DEC and DEP transaction were designed to comply with the North Carolina statutory requirements, which did not include a role for a designated representative in the post-financing order decisions concerning the “marketing” of the securities being offered in the transaction. Comparison to the 2016 DEF transaction are not appropriate as that transaction concerned a different utility regulated by a different commission under a different statute.

f. i. The original response included transactions beginning in 2019 in order to provide almost two full calendar years of issuances for DEC and DEP.

ii. The \$1.35 billion was issued across three transactions. DEC issued \$350 million in August 2019 which was allocated to 50 accounts. DEC also issued \$400 million in January 2020 which was allocated to 72 accounts. DEP issued \$600 million in August 2020 which was allocated to 64 accounts. It should be noted that this information reflects final allocations of bonds and not total indications of investor interest at the final market clearing pricing level, which in most cases (not specific to the DEC and DEP transactions referenced herein) is greater than final allocations.

iii. As noted in the prior response to PS DR 2-6(b), \$600 million was issued as Green Bonds. This issuance was allocated to 105 accounts. It should be noted that this information reflects final allocations of bonds and not total indications of investor interest at the final market clearing pricing level, which in most cases (not specific to the DEC and DEP transactions referenced herein) is greater than final allocations.

North Carolina Public Staff
Data Request No. 6
DEC Docket No. E-7, Sub 1243
DEP Docket No. E-2, Sub 1262
Item No. 6-1
Page 12 of 13

iv. Witness Heath's comment was that the 10-year fixed rate bonds were not "directly comparable" to the 10.4-year WAL Tranche A-4. This is because the 10-year fixed rate bond are bullet maturity bonds whereas the 10.4-year WAL Tranche A-4 is an amortizing bond.

v. DEC issued \$450 million in August 2019 which matures in August 2029, this was the issuance allocated to 57 accounts. DEC also issued \$500 million in January 2020 which matures in February 2030, this was the issuance allocated to 71 accounts. It should be noted that this information reflects final allocations of bonds and not total indications of investor interest at the final market clearing pricing level, which in most cases (not specific to the DEC and DEP transactions referenced herein) is greater than final allocations.

vi. As noted in the prior response to PS DR 2-6(b), DEC and DEP affiliate DEF's 2016 securitization issuance allocated \$1.294 billion across five tranches to 56 unique accounts. The 2-year WAL tranche (\$183 million) was allocated to 18 accounts. The 5-year WAL tranche (\$150 million) was allocated to 13 accounts. The 10-year WAL tranche (\$436 million) was allocated to 30 accounts. The 15.2-year WAL tranche (\$250 million) was allocated to 9 accounts. The 18.7-year WAL tranche (\$275.3 million) was allocated to 11 accounts. It should be noted that only two investors were allocated bonds in each WAL tranche. It should also be noted that this information reflects final allocations of bonds and not total indications of investor interest which in most cases (not specific to the DEF transaction) is greater than final allocations.

g. Please see prior responses to PS DR 2-13(a) and 2-13(b). Marketing plans have not been formally developed at this stage of the transaction as DEC and DEP's primary focus to this point has been directed to this regulatory proceeding phase of the transaction.

h. DEC and DEP object to this request as it is not reasonably calculated to lead to the discovery of admissible evidence and it seeks information irrelevant to and unrelated to an evaluation of the Companies' joint petition in this proceeding. Notwithstanding, the Companies are not in position to comment on investors in securitized utility bonds outstanding as of a future date and therefore considers their original response to PS DR 2-13(c) to be fully responsive.

North Carolina Public Staff
Data Request No. 6
DEC Docket No. E-7, Sub 1243
DEP Docket No. E-2, Sub 1262
Item No. 6-1
Page 13 of 13

i. The Companies object to the nature of the question and the presumption that they would deceive the Commission as to the action undertaken in any transaction. As proposed in the joint-petition, and described in several responses to the data requests from the Public Staff, each Company will deliver a certification as to the Statutory Cost Objectives, including that the structuring and pricing of the SRB Securities and underlying storm recovery bonds issued on behalf of the applicable Company result in the lowest storm recovery charges payable by the customers of such Company consistent with market conditions at the time such SRB Securities and underlying storm recovery bonds are priced and the terms set forth

in the applicable Financing Order. Included with the proposed certification is an outline of the actions undertaken by the Companies and the underwriters to issue the bonds.

**Duke Energy Carolinas
and
Duke Energy Progress
Response to
NC Public Staff Data Request
Data Request No. NCPS 7**

Docket Nos. E-7, Sub 1243 and E-2, 1262

**Date of Request: December 1, 2020
Date of Response: December 8, 2020**

☐ **CONFIDENTIAL**
☒ **NOT CONFIDENTIAL**

Confidential Responses are provided pursuant to Confidentiality Agreement

The attached response to NC Public Staff Data Request No. 7-1, was provided to me by the following individual(s): Charles Atkins, CEO, Atkins Capital Strategies, and was provided to NC Public Staff under my supervision.

Camal O. Robinson
Associate General Counsel
Duke Energy Carolinas

North Carolina Public Staff
Data Request No. 7
DEC Docket No. E-7, Sub 1243
DEP Docket No. E-2, Sub 1262
Item No. 7-1
Page 1 of 1

Request:

1. Sections 5.01(1) and (6) and 5.03 of Revenue Procedure 2005-62 defines “qualified securitizations” to include only those transactions which finance the recovery of specified “costs.” In his response to PS DR 2-10, Witness Atkins states: “N.C. Gen. Stat. § 62-172(a)(14) states that ‘storm recovery costs’ includes ‘the cost to replenish and fund any storm reserves’ and thus the legislature deems them ‘appropriate for recovery through the securitization mechanism’.”

The intent of the question raised in PS DR 2-10 was not whether the North Carolina legislature deems “storm recovery costs” (as defined in N.C. Gen. Stat. § 62-172(a)(14)) to be appropriate for recovery through securitization. Rather, the question is whether funding storm reserves is a “cost” for federal income tax purposes in accordance with the IRS Revenue Procedure and whether DEC/DEP will hold ratepayers harmless for any additional costs if the IRS ultimately determines that the SRB Securities do not qualify for the safe harbor tax treatment under Revenue Procedure 2005-62.

As a general rule, deposits to a reserve for possible (even expected) future payments to others are not a “cost” for federal income tax purposes. In determining “cost” of goods sold (“section 471 costs”), Treasury Regulation § 1.263A-1(d)(2)(iii)(C) states: “A taxpayer that determines the amounts of section 471 costs under this paragraph (d)(2)(iii) may not include any financial statement write-downs, reserves, or other financial statement valuation adjustments when determining the amounts of its section 471 costs.”

- a) Does Witness Atkins contend that deposits to a storm recovery reserve would be a “cost” for federal income tax purposes?
- b) Will DEC/DEP assume the costs and hold ratepayers harmless if the IRS ultimately determines that the SRB Securities do not qualify for the safe harbor tax treatment under Revenue Procedure 2005-62?

Response:

a. The Companies did not evaluate whether a storm recovery reserve would be a "cost" for federal income tax purposes as the Companies are not requesting to fund a storm reserve in their Joint Petition.

b. See response to DR 7-1.i.

**Duke Energy Carolinas
and
Duke Energy Progress
Response to
NC Public Staff Data Request
Data Request No. NCPS 8**

Docket Nos. E-7, Sub 1243 and E-2, 1262

**Date of Request: November 25, 2020
Date of Response: December 8, 2020**

☐ **CONFIDENTIAL**
☒ **NOT CONFIDENTIAL**

Confidential Responses are provided pursuant to Confidentiality Agreement

The attached response to NC Public Staff Data Request No. 8-1, was provided to me by the following individual(s): Tom Heath, Corporate Finance Director, and was provided to NC Public Staff under my supervision.

Camal O. Robinson
Associate General Counsel
Duke Energy Carolinas

North Carolina Public Staff
Data Request No. 8
DEC Docket No. E-7, Sub 1243
DEP Docket No. E-2, Sub 1262
Item No. 8-1
Page 1 of 3

Request:

**1. RATING AGENCY COSTS FOR DEP/DEC ISSUANCE AND STORM
SECURITIZATION PROGRAM**

a. Compared to selling separate issues of Storm Recovery Bonds under a common marketing plan, will the proposed SRB Securities structure require higher fees payable to the rating agencies? On pages 23 and 24 of his testimony, Witness Heath states: "Neither DEC or DEP nor the Commission has any effective control over the fees charged by the rating agencies; however, DEC and DEP will use commercially reasonable means to negotiate the lowest possible rating agency fees. The amounts shown on line 4 of Heath Exhibit 1 reflect an estimate of the rating agencies fees to be incurred for a transaction of the size contemplated by DEC and DEP. The low end of the range presented is estimated at 7.5 basis points (or 0.075 percent) on the principal amount of bonds issued, which represents Moody's Investor Service's pricing guidance, payable to two rating agencies. This estimate assumes no additional fees charged for the Trust Issuer. The high end of the range includes a full 7.5 basis point fee charged for the Trust Issuer by two rating agencies. Accordingly, the possibility of a change due to either the size of the offering, or modification of the agencies' fee requirements must be taken into account in determining the level of rating agency fees, and any increase in these fees should be recoverable by DEC and DEP, pursuant to the issuance advice letter procedure."

- i. If a composite structure is used, the only instruments sold to investors will be the SRB Securities. Do DEP and DEC propose to request credit ratings solely for the SRB Securities or for ratings for the underlying Storm Recovery Bonds or both?
- ii. Please provide the Companies' definition of what "commercially reasonable means" are in this context.
- iii. How is a "commercially reasonable means" standard different from a "best efforts" standard? Which standard is more favorable to customers?
- iv. Would DEC/DEP agree to use its best efforts to negotiate the lowest possible rating agency fees?

v. Since the statute anticipates additional financings depending on the number of storms occurring in North Carolina and their severity, should an agreement with a rating agency anticipate lower fees on future financings similar to the agreement that DEC and DEP have for their traditional securities that receive ratings from these agencies?

b. In many utility transactions Moody's, S&P and Fitch all have provided credit ratings. However, DEC/DEP is proposing only "at least two of the three major rating agencies" in this transaction.

- i. Which rating agencies does DEC/DEP propose to engage?
- ii. Is there any cost to ratepayers for not using three rating agencies?
- iii. How many rating agencies does DEP/DEC pay to rate their publicly-offered debt securities?

c. Many top-rated bond transactions have only two ratings from Moody's, S&P or Fitch, but only one from either Moody's or S&P but not both. Has this caused any increase in interest costs to those issuers?

North Carolina Public Staff
Data Request No. 8
DEC Docket No. E-7, Sub 1243
DEP Docket No. E-2, Sub 1262
Item No. 8-1
Page 2 of 3

- d. Should DEC/DEP request (and pay for) additional, separate ratings on each of the underlying series of Storm Recovery Bonds?
- e. If the DEP bonds and the DEC bonds are sold at the same time directly to investors, without using a composite structure involving SRB Securities, under identical Financing Orders, do DEP and DEC expect to be able to negotiate lower fees for the two separate credit ratings under their general agreements with the rating agencies?

Response:

1.a.i. DEC and DEP believe the substance of the analytical work required to rate the proposed transaction is the same regardless of whether the SRB Structure is used or if separate DEC and DEP issuances are pursued. The Companies expect to assert this position with the rating agencies in order to obtain the lowest fees possible for rating the proposed transaction. Whether a formal rating will be issued on Storm Recovery Bonds as well as SRB Securities is yet to be determined.

ii. In this context “commercially reasonable means” indicates that the Companies will make commercially reasonable, arms length, and good faith efforts to obtain the lowest fees possible for the proposed transaction in order to further the Statutory Cost Objectives. The Companies will not take any efforts they consider unreasonable or imprudent. The Companies and their affiliates and parent company have broader relationships with certain rating agencies beyond the proposed transaction and it is critical for them to maintain effective working relationships with these rating agencies. The Companies will not take any actions in negotiating fees for this transaction, which they believe may impact their relationships with these rating agencies.

iii. DEC and DEP will negotiate as described in PS DR 8-1.a.ii. The Companies are unclear what distinction the Public Staff is trying to assert with this question as these are not defined terms under NCGS 62-172.

iv. Please see the Companies' responses to PS DR 8-1.a.i and PS DR 8-1.a.iii.

v. The level and frequency of future transactions are currently unknown. Accordingly, the Companies will focus on the arrangement and fee levels for this particular transaction.

b.i. The phrasing “at least two of the three major rating agencies” means that the Companies intend to engage at least two of the major rating agencies, it is not intended to be a limitation on engaging all three of the major rating agencies. No formal decision has been made at this time on the number of agencies or specific agencies that will or will not be engaged.

ii. The Companies and their affiliates and parent company utilize Moody’s and S&P for the publicly rated debt obligations, and the Companies are not aware of any additional costs to

North Carolina Public Staff
Data Request No. 8
DEC Docket No. E-7, Sub 1243
DEP Docket No. E-2, Sub 1262
Item No. 8-1
Page 3 of 3

customers at this time.

iii. The Companies and their affiliates and parent company utilize Moody's and S&P for the publicly rated debt obligations.

c. Please see the Companies' response to PS DR 8-1.b.ii.

d. Please see the Companies' response to PS DR 8-1.a.i.

e. No. The Companies do not expect fees for the proposed transaction, with or without the SRB Structure, to be eligible for inclusion in the general or "umbrella" arrangements for Duke Energy and its subsidiaries.

**Duke Energy Carolinas
and
Duke Energy Progress
Response to
NC Public Staff Data Request
Data Request No. NCPS 8**

Docket Nos. E-7, Sub 1243 and E-2, 1262

**Date of Request: November 25, 2020
Date of Response: December 8, 2020**

☐

CONFIDENTIAL

☒

NOT CONFIDENTIAL

Confidential Responses are provided pursuant to Confidentiality Agreement

The attached response to NC Public Staff Data Request No. 8-2, was provided to me by the following individual(s): Tom Heath, Corporate Finance Director, and was provided to NC Public Staff under my supervision.

Camal O. Robinson
Associate General Counsel
Duke Energy Carolinas

North Carolina Public Staff
Data Request No. 8
DEC Docket No. E-7, Sub 1243
DEP Docket No. E-2, Sub 1262
Item No. 8-2
Page 1 of 2

Request:

2. SERVICER AND ADMINISTRATION COSTS

a. Witness Angers stated that “The servicing and administration fees will be charged to and collected from customers through the storm recovery charge. The fees will be paid to DEC and DEP and will be recorded as reductions to their operating expenses, as such, customers will not be double paying the servicing and administration fees.”

i. Does this mean that the excess revenues received will reduce (or be credited against) other customer rates on an ongoing basis beginning with the first payment of servicing and administration fees so that customers receive the benefit at the same time? If not, please explain.

ii. In the 2006 storm recovery bond financing for Florida Power & Light Company, the Florida PSC’s financing order directed that such excess servicing and administration fees were to be credited concurrently to a storm cost reserve (“ORDERED that FPL shall apply to the Reserve all amounts it will receive under the Servicing Agreement for ongoing services and that FPL shall apply to the Reserve all amounts it will receive under the Administration Agreement for its services.”) Would this be a better alternative for ensuring DEC and DEP customers receive the benefit?

b. Will any information system programming costs, servicer set-up costs or other incremental servicing costs be paid from bond proceeds as a “financing cost”?

c. Heath Exhibit 1 estimates DEP’s and DEC’s up-front legal fees to be between \$2,775,000 and \$3,450,000. Does this include any fees for legal services associated with the Companies’ pursuit of the enactment of SB 559?

i. The issuer’s bond counsel and disclosure counsel for DEF’s 2016 securitization transaction have direct experience with securitization financing orders and the most recent SEC utility securitization registration statements and other public offering materials. Do DEC/DEP propose to use the same issuer’s bond counsel and disclosure counsel for the proposed Storm Recovery Bonds and SRB Securities? If not, please explain.

ii. If not, have the issuer’s bond counsel and disclosure counsel for the proposed Storm Recovery Bonds and SRB Securities participated in any other utility securitization transactions? If so, please indicate which transactions and whether the individuals assigned to the DEC/DEP transactions are the personnel with this experience.

iii. Please provide a specific breakdown of total anticipated legal expenses by category:

1. Preparing bond transaction documents
2. Regulatory petition and proceeding
3. Tax
4. Securities documentation and disclosure
5. Structuring Advisor
6. Underwriters

North Carolina Public Staff
Data Request No. 8
DEC Docket No. E-7, Sub 1243
DEP Docket No. E-2, Sub 1262
Item No. 8-2
Page 2 of 2

Response:

2.a.i. In regard to the above quote, this was stated in the Company's response to PS DR 2-9a, not by Witness Angers. Customers will not receive the benefit of any of the excess revenues collected in real time. As there are no established riders or mechanisms in North Carolina to refund any overcollections, the Company will adjust the cost of service in its test period for inclusion in future base rate cases to account for any over or under collections of revenue (all fees, whether over or under collected will be recorded to an operating expense account).

ii. DEC and DEP object to this question as it seeks information irrelevant and unrelated to an evaluation of the Companies' Joint Petition in this proceeding. There is no storm reserve established in North Carolina at this time. Any refund for customers would be included in a future rate case as discussed above.

b. Please see the Companies' response to PS DR 2-9.d.

c.i. Please see the Companies' response to PS DR 2-4.e. Hunton Andrews Kurth LLP as issuer counsel, and, Paul, Weiss, Rifkind, Wharton & Garrison LLP as structuring advisor counsel and eventually underwriter counsel, are engaged on the proposed DEC and DEP transaction.

ii. Please see the Companies' response to PS DR 8-2.c.i.

iii. Please see the Companies' response to PS DR 1-8.

**Duke Energy Carolinas
and
Duke Energy Progress
Response to
NC Public Staff Data Request
Data Request No. NCPS 8**

Docket Nos. E-7, Sub 1243 and E-2, 1262

**Date of Request: November 25, 2020
Date of Corrected Response: December 14, 2020**

☐ **CONFIDENTIAL**
☒ **NOT CONFIDENTIAL**

Confidential Responses are provided pursuant to Confidentiality Agreement

The attached response to NC Public Staff Data Request No. 8-3, was provided to me by the following individual(s): Tom Heath, Corporate Finance Director, and was provided to NC Public Staff under my supervision.

Camal O. Robinson
Associate General Counsel
Duke Energy Carolinas

North Carolina Public Staff
Data Request No. 8
DEC Docket No. E-7, Sub 1243
DEP Docket No. E-2, Sub 1262
Item No. 8-3
Page 1 of 8

Request:

3. STRUCTURING SRB SECURITIES

a. In responding to PS DR 2-2(k), Witness Heath states: “While the engagement letters with Guggenheim and Atkins Capital do not specifically address use of the financial model in the event they are not a party to the transaction, it is DEC and DEP’s experience that financial institutions do not permit the continued use of their proprietary financial models after cessation of their engagement.” Follow-up questions for Guggenheim Securities:

- i. What is Guggenheim’s experience in modeling utility securitizations?
- ii. Will the financial model that results from Guggenheim’s efforts be the property of DEC/DEP or of Guggenheim?
- iii. If the financial model that results from Guggenheim’s efforts will be the property of Guggenheim, will it be available to the underwriters, the Commission, Public Staff and other intervenors if Guggenheim is not hired as an underwriter for the SRB Securities?
- iv. Please specify which aspects of the financial model are considered “proprietary” and the justification for this designation under North Carolina or federal laws.
- v. Witness Heath stated in response to PS DR 2-2(a): “As stated in Witness Heath’s testimony (beginning on page 25 line 3 through page 26 line 12), the role of the structuring advisor will cease at an appropriate time in the future and some portion of the modeling will then be performed by DEC and DEP’s book-running lead underwriter.”
 1. What “portion” of the modeling must be done by the book-running lead underwriter?
 2. Is this necessary? Please explain.
 3. Did DEF’s book-running lead underwriter take over any portion of the modeling from Analytic Aid (Steve Heller)?
 4. What is the benefit to DEC/DEP customers of turning over the results of the financial modeling to the underwriters?

b. Among the securitized utility bond issues listed on Atkins Exhibit 2-1 is the \$207,156,000 Entergy Louisiana securitization transaction in 2011. At the time of that transaction, Witness Atkins was an employee of Morgan Stanley, initially the structuring advisor and later as the lead underwriter for these securitized bonds. Morgan Stanley’s response to the DEC/DEP Request for Proposals to Serve as Structuring and Financial Advisor (the “RFP”) observes that tight (lower credit) spreads for this 2011 Entergy Louisiana transaction were achieved despite “Small deal size, not index eligible”.

- i. Please have Witness Atkins comment on his former employer’s (Morgan Stanley’s) view that tighter credit spreads for this 2011 Entergy Louisiana transaction were achieved even though the securitized bonds were not index eligible?
- ii. If Witness Atkins agrees with Morgan Stanley’s view, then what is the basis for Witness Atkins’ assertion that it will be important for the proposed SRB Securities to be eligible for the “Aggregate Bond Index”? If not, what is the basis for objecting to Morgan Stanley’s description of the transaction?

North Carolina Public Staff
Data Request No. 8
DEC Docket No. E-7, Sub 1243
DEP Docket No. E-2, Sub 1262
Item No. 8-3
Page 2 of 8

c. Guggenheim's response to the DEC/DEP Structuring Advisor RFP (which included Witness Atkins) makes no mention of the "Aggregate Bond Index." Similarly, neither Goldman Sachs' response to the RFP, the case studies of the NStar Massachusetts 2005 Special Purpose Trust 2005 Pass-Through Certificates transaction nor the First Energy 2013 Ohio Pass-Through Certificates transaction attached as Appendix C to that Goldman Sachs response, mention the "Aggregate Bond Index" as a material factor in driving the structuring of those securities. In addition, neither the Morgan Stanley, Royal Bank of Canada or Guggenheim responses to the RFP mention the "Aggregate Bond Index" cited by Witness Atkins as a motivating factor in structuring the bond offering to achieve the best execution and lowest storm recovery charges consistent with market conditions at the time the storm recovery bonds are priced.

- i. Why did the Guggenheim response to the RFP discuss at length the advantages of qualifying the DE/DEP Securities for inclusion in the Bloomberg Barclays Corporate Utility Bond Index, but make no mention of the "Aggregate Bond Index"?
- ii. Would seeking to qualify the SRB Securities for the "Aggregate Bond Index" as "Asset Backed Securities" undermine investors' perception of the SRB Securities as similar to the DEF securitization bonds which qualified for the more important Corporate Utility Bond Index, but for their size?
- iii. Atkins Exhibit 2-7(ad) lists seven series of securitized bonds issued since 2008 that are or have been included in the "Aggregate Bond Index," including the 2016 DEF securitized bonds. Atkins Exhibit 2-7(h) is a published confirmation that the 2016 DEF securitized bonds qualified for inclusion in the Bloomberg Barclays Corporate Utility Bond Index. Please provide published confirmation that the seven series of securitized bonds listed in Atkins Exhibit 2-7(ad) (including the 2016 DEF securitized bonds) have been included in the "Aggregate Bond Index."

d. Guggenheim's response to the RFP does mention prominently the Corporate Utility Bond Index as a key factor in structuring the bonds. For example, page 19 of Guggenheim's response states:

"The DEF transaction was ground-breaking as the first utility securitization to become eligible for the Barclays Corporate Utility Index
Inclusion in the Corporate Index should make the issue more attractive to a broader set of corporate investors, particularly for maturities longer than 10 years
Given the proposed underlying note structure, it may be required for each note to meet the minimum \$300mm size. There may be a benefit to including a storm reserve in the sizing of the smaller transaction to ensure that the entire transaction is eligible for the Index"

Page 22 of Guggenheim's response continues:

"Marketing Plan: Offer Corporate Index-Eligible Bonds" Strategy Overview: Market Barclays Corporate Index-Eligible Bonds

Recommendation: Extensively target corporate buyers early in the marketing period and focus investor materials on the simplicity of the asset class, attractive alternative to hard-to-find AAA / AA corporates or superior credit relative to unsecured or first mortgage utilities
Traditional corporate buyers will provide incremental demand, particularly for longer-dated bonds and will be key to driving tighter pricing

The Guggenheim syndicate efforts are ideally suited for this strategy, with Andrew

North Carolina Public Staff
Data Request No. 8
DEC Docket No. E-7, Sub 1243
DEP Docket No. E-2, Sub 1262
Item No. 8-3
Page 3 of 8

Schwartz (Global Credit Group, Corporates) bringing extensive experience to the marketing process in addition to Guggenheim's Structured Products Group. For the Duke Energy Florida transaction, Guggenheim compiled an asset class primer that highlighted the structural simplicity and exceptionally strong credit of the asset class and avoided using traditional ABS nomenclature (refer to Appendix: RRB Primer for additional detail).

Guggenheim recommends transaction related offering and marketing materials be composed similarly to this RRB primer." [emphasis added]

Page 15 of Guggenheim's response to the RFP also states that 63% of all the investors were corporate investors and that corporate investors dominated the longer, most expensive maturities to ratepayers.

i. Is it DEC/DEP's position that inclusion of the SRB Securities in the "Aggregate Bond Index," as an ABS security, will produce lower costs to ratepayers than inclusion in the Corporate Utility Bond Index?

e. In response to PS DR 2-7(b), Witness Atkins states "The Corporate Utility Index could also positively affect the perceived liquidity of the SRB Securities, as investors may make their own conclusions regarding potential inclusion in the Utility Index, based upon disclosure that the SRB Securities are not 'asset-backed securities' pursuant to SEC Regulation AB."

However, in its response to the RFP Guggenheim "recommends transaction related offering and marketing materials be composed similarly to this RRB primer." The primer and offering materials referred to have a more detailed and descriptive disclosure that the bonds are "corporate securities" and not simply "not asset-backed" securities."

i. Does DEC/DEP plan to use the same descriptive disclosure of the reasons why the bond are corporate securities in addition to "not asset backed securities"?

ii. If not, though the nominal issuers are different, what descriptions do DEC/DEP wish to exclude, and what are the reasons to depart from the disclosure and marketing materials describing those aspects of the DEP/DEC transaction that are substantively the same in structure as the 2016 DEF transaction?

f. In response to PS DR 2-7(m), Witness Atkins states: "DEC and DEP object to the description of their proposed structure as complex. While it does add an additional entity to the typical structure of utility securitizations, the additional entity is simply a trust entity that enables aggregation of two issuances into a combined larger issuance amount."

However, Goldman Sachs was the structuring advisor and lead bookrunning manager on the NStar Massachusetts 2005 Special Purpose Trust 2005 Pass-Through Certificates transaction and on the First Energy Phased-In Recovery Bond transaction. Each of these transactions used the structure Witness Atkins is proposing.

In its response to the RFP, Goldman Sachs stated "Based on what we know at this point in time Goldman would recommend the issuance of two sequential securitization offerings for Duke's DEP and DEC subsidiaries given the complexity of a multi-utility offering. That said, Duke may wish to consider a single offering supported by both entities in the future.

North Carolina Public Staff
Data Request No. 8
DEC Docket No. E-7, Sub 1243
DEP Docket No. E-2, Sub 1262
Item No. 8-3
Page 4 of 8

Goldman Sachs is one of the only banks experienced with multi-utility transactions (case studies available in Appendix B), and would expect to work with Duke to consider the benefits and considerations of a multi-utility transaction based on specific facts and market conditions at the time of planned issuance.” [emphasis added]

i. If the structuring advisor and lead bookrunner for the only other utilities that have experience with this structure considers it “complex,” Witness Atkins, DEC and DEP agree that the structure is complex compared to separate offerings for DEC and for DEP?

ii. If not, what is the basis for their disagreement with Goldman Sachs?

g. In response to PS DR 2-7(o), Witness Atkins states: “Yes, as reflected in Witness Heath Exhibit 1, there will be some incremental ongoing expenses related to the combined structuring including accounting and auditing fees, trustee fees, independent manger fees, etc.”

i. Does Witness Atkins expect net present value debt service savings from the issuance of SRB Securities will exceed the net present value of additional up-front and ongoing expenses?

h. In 2013, Toledo Electric Company issued \$43,375,000 principal amount of 2013 the FirstEnergy Ohio PIRB Special Purpose Trust Pass-Through Certificates with level annual debt service and approximately 20 years to scheduled final maturity.

i. Why did the rating agencies require a 1.75% deposit to the capital account in that transaction (which also earned a return of over 6% for the issuer paid by ratepayers) rather than the 0.50% minimum required by IRS Revenue Procedure 2005-62 and the amount of the deposits of other two utility issuers of the same offering?

ii. How did this improve or cost the net present value savings to customers?

i. The 2009 West Virginia transactions for Monongahela and Potomac Edison included a 1.75% reserve but not deposited to the capital account and therefore there was no additional charge to ratepayers. Unlike the above Ohio transaction, annual debt service charged to ratepayers included no principal payments for 17 years.

i. Did the net present value savings to West Virginia ratepayers from extending the weighted average life of the 2009 West Virginia securitization transactions, rather than structuring them with level annual debt service over the same 20-year period in a manner similar to what DEC/DEP proposes, exceed the present value cost to West Virginia ratepayers from using proceeds of the securitized bonds to fund the 1.75% reserve accounts? Please note, the discount rate used to calculate ratepayer present value savings required by the West Virginal Financing Order was 10%.

j. Given (i) the historically low interest rates, (ii) high transaction costs, (iii) time delays, including high carrying costs for individual future storm securitizations, and (iv) the benefits of inclusion in the Corporate Utility Bond Index cited by Guggenheim, has DEC/DEP analyzed the benefits and costs of the Guggenheim proposal in its RFP response to fund a storm reserve to meet the \$300 million minimum size for inclusion in the Corporate Utility Bond Index so long as there are no other negative consequences to ratepayers?

k. On page 28 of his testimony, Witness Atkins states: “The structure shown is designed...to provide an efficient distribution of securities across the maturity spectrum and thus the lowest weighted average cost of funds to the issuer...”

North Carolina Public Staff
Data Request No. 8
DEC Docket No. E-7, Sub 1243
DEP Docket No. E-2, Sub 1262
Item No. 8-3
Page 5 of 8

- i. What is meant by “weighted average”? Weighted by principal amount, by weighted average life, by both, by something else?
- ii. Is the length of the repayment window/sinking fund for specific tranches (i.e. the period during which principal is paid) an important factor in structuring the SRB Securities for efficient distribution?
 - 1. If so, why does his structure in Atkins Exhibit 2-4 have payment windows as short as 2 years and as long as 6 years rather than all being close to the same length?
 - 2. If it is not important, please explain.
- iii. Has Witness Atkins quantified the net incremental benefit to ratepayers of using a grantor trust structure (additional costs referred to in DR Response 2-7 (o) as opposed to two parallel issuances, such as the 2007 and 2009 transactions for Monongahela Power Company and The Potomac Edison Company?
 - 1. If so, what does Witness Atkins estimate net incremental benefit to be in dollars and in basis points on a per annum basis to be paid by ratepayers?
 - 2. What is Witness Atkins’ basis for such estimate?
 - l. Witness Atkins’ response to Item No. 2-8 a, states “DEC and DEP are familiar with two instances of utility securitizations sponsored by Entergy subsidiaries, marketed as separate issuances under common marketing plans and priced on the same day -- the LCDA/ELL and LCDA/EGSL transactions priced in July 2010, and the LCDA/ELL and LCDA/EGSL transactions priced in July of 2014. In both instances, the smaller transaction priced wider than the larger transaction.” Please provide the weighted average interest rate for each of the four (4) transactions, weighted by principal amount and weighted average life of the tranches in the respective 4 transactions. If witness Atkins did not base his conclusion that “the smaller transaction priced wider” upon such weighted average rates, then please explain what it was based on and provide supporting data.

Corrected Response:

- 3.a.i. Guggenheim constructed the financial model used by Public Service Company of New Mexico in connection with their financing order application that was filed in 2019. The Guggenheim team also created an internal model for the Duke Energy Florida 2016 transaction.
- ii. The financial model is property of Guggenheim.
- iii. Guggenheim's model will not be available if Guggenheim is not hired as an underwriter.
- iv. The model in its entirety is considered proprietary and a trade secret under N.C.G.S. § 62-132-1.2.
- v.1. The lead underwriter typically performs the transaction modeling, although this is not required.

North Carolina Public Staff
Data Request No. 8
DEC Docket No. E-7, Sub 1243
DEP Docket No. E-2, Sub 1262
Item No. 8-3
Page 6 of 8

v.2. Please see the Companies' response to PS DR 8-3.a.v.1.

v.3. Analytic Aid's model was the primary model used to provide data in the disclosure materials. An independent consultant performed agreed upon procedures on Analytic Aid's model.

v.4. DEC and DEP are not aware of any such benefit.

b.i & ii. Witness Atkins observes that his client Entergy Louisiana did not have the option of pursuing an issuance strategy to ensure index eligibility for the 2011 transaction. Therefore, the spread performance of a relatively small index ineligible transaction would not illustrate what the performance would have been for a larger, more liquid transaction that was index eligible. DEC/DEP have the option to present a structure to the market that ensures that the two customer bases will have charges set based upon the same cost of funds, through the SRB Securities Trust option. DEC/DEP retains the option to pursue a separate issuance approach, but such an approach cannot ensure the same market-clearing interest rates for the separate issues. The performance of the 2011 Entergy Louisiana transaction does not inform the decision whether to market a separate smaller DEC index ineligible bond offering at the same time as a larger, more liquid DEP index eligible bond offering. While the DEC customers may not be disadvantaged by such an approach, it is quite possible that the DEC customers may be disadvantaged. The Companies take seriously the obligation to achieve the Statutory Cost Objective regarding both our DEC and DEP customers.

c.i. The Corporate Utility Index is a component of the Aggregate Bond Index.

ii. DEC and DEP object to this request to the extent that it requires them to speculate about the state of mind of potential investors. Without waiving this objection, DEC and DEP would note that the SRB Securities would be structured to become eligible for the Corporate Utility Index, which is a component of the Aggregate Bond Index. If for some reason they were not included in the Corporate Utility Index, they should remain eligible for the ABS component of the Aggregate Bond Index. The advisors do not believe this strategy will undermine investors perceptions.

iii. Confirmation of index inclusion for the listed issues was provided by Bloomberg data services, available to subscribers to the Bloomberg Terminal information services.

North Carolina Public Staff
Data Request No. 8
DEC Docket No. E-7, Sub 1243
DEP Docket No. E-2, Sub 1262
Item No. 8-3
Page 7 of 8

d.i. Please see the Companies' response to PS DR 8-3.c.

e. The testimony of Witness Atkins did not intend to describe in full the marketing and offering materials.

f.i. & ii. As stated in the Companies' response to PS DR 2-7.m., DEC and DEP object to the description of their proposed structure as complex. Witness Atkins does not have access to Goldman Sachs' work papers, and therefore cannot fully comment on the statement referenced in the question. This structure is one alternative which could allow each Company to achieve the Statutory Cost Objectives.

g.i. This will be part of the analysis undertaken by the underwriting team in their consideration of the SRB Securities issuance strategy and separate issuance strategy.

h.i. & ii. DEC and DEP object to this question as it seeks information irrelevant and unrelated to an evaluation of the Companies' Joint Petition in this proceeding. Additionally, the Companies do not have direct knowledge of the discussions First Energy and their structuring advisor had with the rating agencies concerning this transaction. Notwithstanding the objection, based on a review of publicly available information, however, the Companies note that none of the published rating agency reports concerning this transaction cite a level annual debt service structure as a reason for requiring the 1.75% deposit to the capital account.

i.i. DEC and DEP object to this question as it seeks information irrelevant and unrelated to an evaluation of the Companies' Joint Petition in this proceeding.

j. No.

k.i. Weighted average coupons for the described transactions take into account the initial principal amount and coupons for each tranche in the calculation.

ii.1. & 2. The preliminary structure was designed to achieve a level annual debt service for the overall transaction, and the payment windows were taken into account as the indicative interest rates for each tranche were developed.

iii. As mentioned in the response to PS DR 8-3.g., the Companies request permission to consider both the SRB Securities issuance strategy and the separate issuance strategy,

North Carolina Public Staff
Data Request No. 8
DEC Docket No. E-7, Sub 1243
DEP Docket No. E-2, Sub 1262
Item No. 8-3
Page 8 of 8

which would ensure that the Statutory Cost Objectives are met. While there may be one or more examples of separate issuances of utility securitization bonds with matching interest rates, there is no assurance that the smaller, DEC issue would not risk being disadvantaged.

1. Please see the Companies' original and supplemental responses to PS DR 2-8.

**Duke Energy Carolinas
and
Duke Energy Progress
Response to
NC Public Staff Data Request
Data Request No. NCPS 9**

Docket Nos. E-7, Sub 1243 and E-2, 1262

**Date of Request: December 8, 2020
Date of Response: December 14, 2020**

☐ **CONFIDENTIAL**
☒ **NOT CONFIDENTIAL**

Confidential Responses are provided pursuant to Confidentiality Agreement

The attached response to NC Public Staff Data Request No. 9-1, was provided to me by the following individual(s): Charles Atkins, CEO, Atkins Capital Strategies, and was provided to NC Public Staff under my supervision.

Camal O. Robinson
Associate General Counsel
Duke Energy Carolinas

North Carolina Public Staff
Data Request No. 9
DEC Docket No. E-7, Sub 1243
DEP Docket No. E-2, Sub 1262
Item No. 9-1
Page 1 of 1

Request:

1. Witness Atkins: Liquidity and Investor Preferences. In testimony (pages 28-29), Witness Atkins states that it is important to ratepayers to “maintain large enough tranche sizes to ensure secondary market liquidity for the SRB Securities, which is a consideration for investors during the bond marketing and pricing process. Liquidity in this context refers to the ability of a noteholder to sell the note in the secondary market without having to discount significantly its price.”
 - a. For purposes of determining “liquidity,” which is important: (i) the size of the particular tranche (CUSIP No.), or (ii) the overall size of the issue of which each tranche is just a piece?
 - b. If the size of the particular tranche is more important, then why is inclusion in the Aggregate Index based on the overall size of the issue and not the tranche?

Response:

- a. Both can be important.
- b. The ABS component of the Aggregate Bond Index has both tranche and issue minimum size eligibility requirements, while the Corporate component of the Index only has a minimum issue size eligibility requirement.

**Duke Energy Carolinas
and
Duke Energy Progress
Response to
NC Public Staff Data Request
Data Request No. NCPS 9**

Docket Nos. E-7, Sub 1243 and E-2, 1262

**Date of Request: December 8, 2020
Date of Response: December 14, 2020**

☐ **CONFIDENTIAL**
☒ **NOT CONFIDENTIAL**

Confidential Responses are provided pursuant to Confidentiality Agreement

The attached response to NC Public Staff Data Request No. 9-2, was provided to me by the following individual(s): Charles Atkins, CEO, Atkins Capital Strategies, and was provided to NC Public Staff under my supervision.

Camal O. Robinson
Associate General Counsel
Duke Energy Carolinas

North Carolina Public Staff
Data Request No. 9
DEC Docket No. E-7, Sub 1243
DEP Docket No. E-2, Sub 1262
Item No. 9-2
Page 1 of 4

Request:

2. Witness Atkins: Liquidity and Investor Preferences. Witness Atkins states “Liquidity in this context refers to the ability of a noteholder to sell the note in the secondary market without having to discount significantly its price.”

- a. Please explain, elaborate on what is meant by “liquidity in this context”?
- b. What is meant by “discount” in this context? i.e., a discount to what?
- c. At what price is it assumed the investor/noteholder bought the security?
- d. At what time is it assumed the investor/noteholder wants to sell the security?
- e. Are there other factors that affect “secondary market liquidity” as referred to by Witness Atkins? If so, please identify them and assign in your professional judgement a relative weight of each factor that affects “secondary market liquidity” and the pricing of the security.
- f. Do investors upon purchase of the security in the initial offering expect the security to ever have a value in the secondary market below the initial offering price?
- g. When investors purchase securities with a fixed coupon, in the secondary market after the initial offering, that they expect that the bond’s price will remain constant after purchasing the bonds? If not, what are their expectations?
- h. Liquidity and investor preferences (cont.):
- i. What is the difference between a “buy and hold” investor and an investor who actively buys and sells investments in an attempt to earn a higher “total investment returns”?
- ii. Does each type of investor value “liquidity” the same?
- iii. Would these two types of investors (buy and hold versus total return) be willing to accept a very low or tight credit spread to benchmark securities under market conditions at the time of pricing or are there differences in their preferences?
- iv. Is the willingness of each of these two types of investors to accept a tight credit spreads influenced equally by the size of that is part of the same issue or tranche?
- i. If a large storm securitization bond tranche size is priced at yield of 2% when the benchmark UST Treasury upon which the tranche was priced was 1% and the UST Treasury benchmark yield of the pricing maturity and all other UST maturities rise by 0.5%, and there are no changes in the bond’s credit ratings, the outstanding amount of the tranche or anything material to the credit of the issuer, will anything happen to the “liquidity” of the bonds in accordance with Witness Atkins’ definition of liquidity?
- j. SB559 does not establish a minimum issue (or tranche) size for utilities to apply for financing orders to issue storm securitization bonds. Is there a minimum issue size for a securitization bond offering that will provide savings to ratepayers based on the standards identified in SB559 and described in DEC/DEP Joint Petition?
- k. The response to PS DR 5-6 states that “Ohio Phase-in Recovery Series 2013 Bonds priced tighter than the First Energy Ohio PIRB Special Purpose Trust 2013 Certificates...” If this is true, would it not be contrary to his assertion that the grantor trust structure provides for better pricing?
- l. The response to PS DR 5-3 states “deal year 1 represents 8 months of interest accrual, whereas year 2 represents 12 months of interest accrual.” Was it instead meant to indicate “8 months plus a normal 6-month accrual”? Otherwise, why would interest be greater in year 1 than in year 2?

North Carolina Public Staff
Data Request No. 9
DEC Docket No. E-7, Sub 1243
DEP Docket No. E-2, Sub 1262
Item No. 9-2
Page 2 of 4

m. In response to PS DR 5-1, there is an attached excel spreadsheets showing Witness Atkins' assumed interest rates for a 20-year storm recovery bond structure in which the A-4 14-year tranche has an interest rate of 1.53%, equating to a G-spread of about 50 basis points, whereas the A-5 18.1-year tranche has an interest rate of 2.54%, equating to a G-spread of about 130 basis points. Please explain why the DEC/DEP believes that the 4 additional years of weighted average life for that tranche should cause such a large increase in credit spread given the slope of the US Treasury benchmarks?

n. The response to PS DR 6-1.c.i. states: "in reviewing the public record associated with public transactions since 2010, to the Companies' knowledge, financial advisors were engaged in transactions in Florida, Louisiana, Ohio, Texas and West Virginia and were not engaged in Arkansas, Michigan or New Hampshire."

i. Is it correct that in connection with the first securitized utility bonds issued in Michigan the Michigan PSC engaged First Acceptance Corp. as its financial advisor?

ii. Is it also correct that in connection with the first securitized utility bonds issued in New Hampshire the New Hampshire PSC engaged as its financial advisor, and New Hampshire PSC engaged PRAG as its financial advisor?

o. The response to PS DR 6-1.h. states: "the Companies are not in position to comment on investors in securitized utility bonds outstanding as of a future date and therefore considers their original response to PS DR 2-13(c) to be fully responsive." The question asked in PS DR 6-1.h was not who will own these bonds on December 31, 2020, but rather, who currently owns bonds that will still be outstanding on December 31, 2020?

Response:

a. This portion of the testimony of Witness Atkins discusses the process of a structuring underwriter taking views of investor preferences and potential secondary market liquidity into account as factors in the structuring of issue tranche sizes.

b. The discount to the offering price.

c. The issue offering price.

d. No such assumption is made during the design of the transaction tranche structure.

e. Factors taken into consideration by investors include: issue size, tranche size, ratings, underlying asset class, number of investors in asset class/deal, number of dealers making

North Carolina Public Staff
Data Request No. 9
DEC Docket No. E-7, Sub 1243
DEP Docket No. E-2, Sub 1262
Item No. 9-2
Page 3 of 4

markets in the bonds, and available leverage. Investors don't typically rank one factor over the other. They look at all factors together to determine their views on secondary market liquidity at the time of consideration.

f. Institutional investors understand that bond values are subject to change.

g. Please see the Companies' response to PS DR 9-2.f.

h.i. In general, "buy and hold" investors may hold bonds longer than investors with other investment strategies.

ii. Individual institutional investors of all types may value liquidity differently as their portfolio management priorities change, and as their views of particular bonds may vary.

iii. The Companies do not have knowledge of, and therefore cannot provide, accurate generalizations concerning the willingness of individual institutional investors to accept "tight" credit spreads.

iv. Please see the Companies' response to PS DR 9-2.h.iii.

i. Changes in bond market values may affect secondary market activity. While bond issue and tranche size are generally known during the structuring and marketing process, and bond issues may be structured to meet index inclusion criteria (and that fact can be communicated to investors during the marketing process), post-issuance market value

North Carolina Public Staff
Data Request No. 9
DEC Docket No. E-7, Sub 1243
DEP Docket No. E-2, Sub 1262
Item No. 9-2
Page 4 of 4

fluctuations are by definition not known during the structuring and marketing process. Post-issuance factors potentially affecting secondary market liquidity were not addressed during the discussion regarding tranche structuring found in the testimony of Witness Atkins.

j. Regarding a separate standalone issue, no.

k. The Companies object to the question as irrelevant because it pertains to another utility's transaction, and the Companies do not have knowledge about the specifics of pricing of another utility's transaction occurring over seven years ago. Notwithstanding the objection, there are always several factors, in addition to varying market conditions, that affect the pricing of bonds.

l. Deal year 1 represents 8 months of interest accrual for the first bond payment, plus 6 months of interest accrual for the second bond payment.

m. The exhibit to the response to PS DR 5-1 contained a clerical error in the estimated spreads as of October 9, 2020 that affected the spread and the yield of the A-4 tranche. The corrected estimated spreads that were intended to be provided are in the attachment provided with this response.

n.i. The Companies object to the question as irrelevant because it pertains to a past utility transaction and does not seek information relevant to the investigation of the Companies' proposals in their Joint Petition. Notwithstanding the objection, based upon information available on the Saber Partners' website, yes.

ii. Please see the Companies' response to PS DR 2-n.i.

o. The Companies consider their original response and accompanying attachment to PS DR 2-13.c. to be responsive based upon available information as it listed current holders of several transactions.



Duke DEC-DEP
Model Output - 20yr !

**Duke Energy Carolinas
and
Duke Energy Progress
Response to
NC Public Staff Data Request
Data Request No. NCPS 9**

Docket Nos. E-7, Sub 1243 and E-2, 1262

**Date of Request: December 8, 2020
Date of Response: December 14, 2020**

☐ **CONFIDENTIAL**
☒ **NOT CONFIDENTIAL**

Confidential Responses are provided pursuant to Confidentiality Agreement

The attached response to NC Public Staff Data Request No. 9-3, was provided to me by the following individual(s): Tom Heath, Corporate Finance Director, and was provided to NC Public Staff under my supervision.

Camal O. Robinson
Associate General Counsel
Duke Energy Carolinas

North Carolina Public Staff
Data Request No. 9
DEC Docket No. E-7, Sub 1243
DEP Docket No. E-2, Sub 1262
Item No. 9-3
Page 1 of 2

Request:

3. Witness Heath Pricing Issues.

- a. Is there any yield or credit spread to benchmark pricing securities that the DEP/DEC would not accept from the underwriters after the offering is “announced” and in the market?
- b. Under what conditions should an issuer of debt securities not accept the “professional judgement of the underwriters” concerning the structure, marketing or pricing of the bonds?
- c. On what basis does DEC/DEP propose that the Commission make a determination to approve or disapprove the terms of the bonds upon DEC/DEP assurances and representations in a proposed sole DEC/DEP issuance advice letter scenario?
- d. Has any investment grade corporate debt issuer rejected the “professional judgement of the underwriters” – the interest rate and priced offered by the underwriters to purchase the bonds from the issuer – after a transaction was announced and in the market? Was there a quantifiable result to their costs or savings?
- e. The response to PS DR 5-10 indicates that all storm costs are currently funded by some form of debt, including short-term commercial paper. Why is it appropriate, then, for the proposed storm recovery bond principal amount to include accrued carrying costs at the weighted average cost of capital instead of debt alone?

Response:

DEC and DEP and their affiliates and parent company are frequent issuers in the public debt markets. Collectively, the Duke Energy organization has over \$50 billion of debt outstanding in the public debt markets, an amount equivalent to the cumulative amount of utility securitization bonds issued since the mid-1990s. The Duke Energy organization has issued an average of approximately \$6 billion annually in the public debt markets each year since 2016. Any notion that the Duke Energy organization is not a sophisticated market participant or does not know how to evaluate securities offerings and challenge its underwriting banks is without merit and baseless.

a. As market conditions are fluid and can vary greatly from one point in time to another it is not possible to state, as of today, what spread levels would be appropriate or not appropriate for an issuance that is not likely to occur until mid-2021. Through an analysis of comparable securities as the expected issuance date gets closer, the Companies in collaboration with underwriters, once selected, will develop initial pricing thoughts for the proposed transaction. Acceptance or rejection of credit spreads will be based on facts and circumstances that exist when the transaction is “announced” and in the market.

b. DEC and DEP object to this question as irrelevant and outside the scope of the Companies’ knowledge as it relates to this specific transaction and their Joint Petition. The Companies cannot speak to the actions of securities issuers generally. Notwithstanding the objection, neither DEC nor DEP will rely solely on underwriters’ professional judgment concerning the structure,

North Carolina Public Staff

Data Request No. 9
DEC Docket No. E-7, Sub 1243
DEP Docket No. E-2, Sub 1262
Item No. 9-3
Page 2 of 2

marketing or pricing of bonds but must also conduct their own due diligence related to comparable securities and market conditions. In addition, DEC and DEP will be diligent in the selection of underwriters to ensure those selected share the Companies' philosophy regarding the issuance. If the above actions are taken, instances of a disagreement or dispute over the structure, marketing or pricing of bonds will be addressed collaboratively by the Companies and underwriters, but the ultimate decision will be made by the Companies, as issuers of the securities. It is also important to understand that underwriters do not set prices for bond, it is the market that does so based on the dynamics of that market at the time the transaction is in the market.

c. DEC and DEP object to this question as irrelevant because the Companies did not "propose that the Commission make a determination to approve or disapprove the terms of the bonds upon DEC/DEP assurances and representations in a proposed sole DEC/DEP issuance advice letter scenario." Additionally, the Companies do not have knowledge to provide the basis of how the Commission itself would "make a determination to approve the terms of the bonds upon DEC/DEP assurances and representations in a proposed sole DEC/DEP issuance advice letter scenario." Moreover, the Companies object to the underlying premise of the question that the Companies would not provide "assurances or representations" to the Commission truthfully and in good faith, and note that parties to a proceeding have a statutory obligation to truthfully represent matters to the Commission. Notwithstanding the objection, the Companies' proposal related to post-Financing Order Commission involvement speaks for itself and is included in the Joint Petition.

d. DEC and DEP object to this question as it is overly broad and unduly burdensome on the Companies to research a request related to any investment grade corporate issuer.

e. All funding at a regulated utility must be done in accordance with its regulatory approved capital structure which includes both debt and equity components. While discrete transactions may be funded initially with cash from a particular source, all activities of the utility are effectively funded with debt and equity.

**Duke Energy Carolinas
and
Duke Energy Progress
Response to
NC Public Staff Data Request
Data Request No. NCPS 10**

Docket Nos. E-7, Sub 1243 and E-2, 1262

**Date of Request: December 9, 2020
Date of Response: December 15, 2020**

☐ **CONFIDENTIAL**
☒ **NOT CONFIDENTIAL**

Confidential Responses are provided pursuant to Confidentiality Agreement

The attached response to NC Public Staff Data Request No. 10-1, was provided to me by the following individual(s): Melissa Brammer Abernathy, Director Rates & Regulatory Planning, and was provided to NC Public Staff under my supervision.

Camal O. Robinson
Associate General Counsel
Duke Energy Carolinas

North Carolina Public Staff
Data Request No. 10
DEC Docket No. E-7, Sub 1243
DEP Docket No. E-2, Sub 1262
Item No. 10-1
Page 1 of 1

Request:

1. Please provide a detailed explanation and supporting documentation as to why the Companies believe the storm securitization statute supports a deferral of costs not included in the estimates provided by the Companies.

Response:

The Companies do not know what costs the Public Staff is referring to or the basis for the assertion by the Public Staff of the Companies' belief.

**Duke Energy Carolinas
and
Duke Energy Progress
Response to
NC Public Staff Data Request
Data Request No. NCPS 10**

Docket Nos. E-7, Sub 1243 and E-2, 1262

**Date of Request: December 9, 2020
Date of Response: December 15, 2020**

☐

CONFIDENTIAL

☒

NOT CONFIDENTIAL

Confidential Responses are provided pursuant to Confidentiality Agreement

The attached response to NC Public Staff Data Request No. 10-2, was provided to me by the following individual(s): Melissa Brammer Abernathy, Director Rates & Regulatory Planning, and was provided to NC Public Staff under my supervision.

Camal O. Robinson
Associate General Counsel
Duke Energy Carolinas

North Carolina Public Staff
Data Request No. 10
DEC Docket No. E-7, Sub 1243
DEP Docket No. E-2, Sub 1262
Item No. 10-2
Page 1 of 1

Request:

2. Please confirm that ADIT amortization will be extended to match the maturity of the scheduled maturity of the bonds when determined as depicted in the 20-year scenario that the Companies provided.

Response:

The ADIT amortization will align with the bond period ultimately used in the financing of the bonds.

For tax purposes, the Utility and the SPE are considered one entity. As the storm recovery property that resides on each Utility SPE is amortized, the associated ADIT will also be removed on the applicable Utility's books.

**Duke Energy Carolinas
and
Duke Energy Progress
Response to
NC Public Staff Data Request
Data Request No. NCPS 10**

Docket Nos. E-7, Sub 1243 and E-2, 1262

**Date of Request: December 9, 2020
Date of Response: December 15, 2020**

☐ **CONFIDENTIAL**
☒ **NOT CONFIDENTIAL**

Confidential Responses are provided pursuant to Confidentiality Agreement

The attached response to NC Public Staff Data Request No. 10-3, was provided to me by the following individual(s): Tom Heath, Corporate Finance Director, and was provided to NC Public Staff under my supervision.

Camal O. Robinson
Associate General Counsel
Duke Energy Carolinas

North Carolina Public Staff
Data Request No. 10
DEC Docket No. E-7, Sub 1243
DEP Docket No. E-2, Sub 1262
Item No. 10-3
Page 1 of 1

Request:

3. Please provide the specific costs intended to be recovered by the servicing fee being sought by the Companies in the application.

Response:

As stated in Witness Heath's testimony (page 29 line 20 through page 30 line 21) the servicing fee is intended to cover costs related to (i) billing, monitoring, collecting and remitting securitization charges, (ii) reporting requirements imposed by the servicing agreement, (iii) implementing the true-up mechanism, (iv) procedures required to coordinate required audits related to DEC and DEP's role as servicers, (v) servicer related legal and accounting functions related to the servicing obligation, and (vi) communication with rating agencies.

**Duke Energy Carolinas
and
Duke Energy Progress
Response to
NC Public Staff Data Request
Data Request No. NCPS 10**

Docket Nos. E-7, Sub 1243 and E-2, 1262

**Date of Request: December 9, 2020
Date of Response: December 15, 2020**

☐ **CONFIDENTIAL**
☒ **NOT CONFIDENTIAL**

Confidential Responses are provided pursuant to Confidentiality Agreement

The attached response to NC Public Staff Data Request No. 10-4, was provided to me by the following individual(s): Melissa Brammer Abernathy, Director Rates & Regulatory Planning, and was provided to NC Public Staff under my supervision.

Camal O. Robinson
Associate General Counsel
Duke Energy Carolinas

North Carolina Public Staff
Data Request No. 10
DEC Docket No. E-7, Sub 1243
DEP Docket No. E-2, Sub 1262
Item No. 10-4
Page 1 of 1

Request:

4. Please provide a detailed explanation as to why the Companies selected a 15-year period for the recovery of storm bonds. Additionally, please provide all other recovery periods the Companies considered or reviewed in the process of selecting the 15-year period, as well as an explanation as to why those periods were not selected.

Response:

As outlined in Witness Heath's testimony, DEC and DEP considered a structure of storm recovery bonds with a scheduled final payment date of approximately 15 years and approximately 20 years.

However, the Companies believe that the 15-year proposal strikes the right balance between the length of the recovery period and the length and level of the recovery charges. Additionally, the proposed 15-year structure is consistent with the longest recovery period proposed by the North Carolina Utilities Commission—Public Staff ('Public Staff') in DEP's storm deferral docket, which was 15 years.

**Duke Energy Carolinas
and
Duke Energy Progress
Response to
NC Public Staff Data Request
Data Request No. NCPS 10**

Docket Nos. E-7, Sub 1243 and E-2, 1262

**Date of Request: December 9, 2020
Date of Response: December 15, 2020**

☐ **CONFIDENTIAL**
☒ **NOT CONFIDENTIAL**

Confidential Responses are provided pursuant to Confidentiality Agreement

The attached response to NC Public Staff Data Request No. 10-5, was provided to me by the following individual(s): Tom Heath, Corporate Finance Director, and was provided to NC Public Staff under my supervision.

Camal O. Robinson
Associate General Counsel
Duke Energy Carolinas

North Carolina Public Staff
Data Request No. 10
DEC Docket No. E-7, Sub 1243
DEP Docket No. E-2, Sub 1262
Item No. 10-5
Page 1 of 1

Request:

5. Please provide a detailed explanation and supporting documentation as to why the Companies have chosen a preliminary legal maturity of approximately 24 months longer than the scheduled final payment date for each bond. Additionally, please provide the other periods the Companies have reviewed, as well as why the Companies did not select those periods.

Response:

The direct testimony of Witness Atkins explains that the “maturity cushion,” the period between the scheduled final maturity and the rated legal maturity, cannot be determined until the rating agencies review the then current data presented by the Companies and review the AAA stress scenarios based upon that data. The 24-month maturity cushion was presented for the purpose of illustrating the importance of the financing order providing flexibility. Witness Atkins strongly recommends that the financing order not specify the maturity cushion but should provide that the rated final legal maturity may be longer than the scheduled final maturity, if required to obtain AAA ratings. As discussed in a previous response to PS DR 2-3.c., the pricing considerations of investors generally focus, among other factors, on the weighted average life of each amortizing tranche, including the longest dated tranche, not the maturity cushion. The Companies do not expect maturity cushions of 12, 24 or 36 months to affect the interest rates on the bonds. See the discussion on page 30 of the direct testimony of Witness Atkins--

“The actual maturity cushion will be determined by the final “AAA” stress scenarios required by the rating agencies during the rating process for the underlying Storm Recovery Bonds and SRB Securities and may be shorter or longer than 24 months. Therefore, it is important that the Financing Order provide flexibility for the transactions to have the specific maturity cushions required to obtain AAA equivalent ratings, which cannot be determined in advance of the rating agency review process.” See also the Companies’ prior responses to PS DR 2-3.b. and 2-3.c.

**Duke Energy Carolinas
and
Duke Energy Progress
Response to
NC Public Staff Data Request
Data Request No. NCPS 10**

Docket Nos. E-7, Sub 1243 and E-2, 1262

**Date of Request: December 9, 2020
Date of Response: December 15, 2020**

☐ **CONFIDENTIAL**
☒ **NOT CONFIDENTIAL**

Confidential Responses are provided pursuant to Confidentiality Agreement

The attached response to NC Public Staff Data Request No. 10-6, was provided to me by the following individual(s): Charles Atkins, CEO, Atkins Capital Strategies, and was provided to NC Public Staff under my supervision.

Camal O. Robinson
Associate General Counsel
Duke Energy Carolinas

North Carolina Public Staff
Data Request No. 10
DEC Docket No. E-7, Sub 1243
DEP Docket No. E-2, Sub 1262
Item No. 10-6
Page 1 of 1

Request:

6. Please provide a detailed explanation and supporting documentation as to how the Companies determined a return on invested capital equal to the rate of interest payable on the longest maturity tranche of storm recovery bonds was appropriate for recovery as an ongoing financing cost in this proceeding. Additionally, please provide a detailed listing of all other options the Companies reviewed and an explanation as to why each option was not chosen by the Companies.

Response:

The Companies believe that they are entitled to earn a return on their equity capital contributions to these proposed transactions, as regulated utilities are generally eligible to earn a return on the equity capital investments. The Companies also believe that their proposal to earn a return equal to the interest rate of the longest maturity bond is reasonable and justified for the following reasons: Their cash investment deposited into the capital account is not released to the Companies until after the last payment of the longest tranche of bonds is paid in full. In fact the market interest rate on the longest tranche is based upon the weighted average of that tranche, not the market rate for a “bullet” payment that matches the final payment of the longest tranche. As a result, the return proposed to be earned by the Companies is less than a market rate for the date the equity contribution is expected to be returned to the Companies. Moreover, the Companies are aware that the DEF transaction allowed and utilized the same return as proposed by the Companies.

**Duke Energy Carolinas
and
Duke Energy Progress
Response to
NC Public Staff Data Request
Data Request No. NCPS 10**

Docket Nos. E-7, Sub 1243 and E-2, 1262

**Date of Request: December 9, 2020
Date of Response: December 15, 2020**

☐

CONFIDENTIAL

☒

NOT CONFIDENTIAL

Confidential Responses are provided pursuant to Confidentiality Agreement

The attached response to NC Public Staff Data Request No. 10-7, was provided to me by the following individual(s): Tom Heath, Corporate Finance Director, and was provided to NC Public Staff under my supervision.

Camal O. Robinson
Associate General Counsel
Duke Energy Carolinas

North Carolina Public Staff
Data Request No. 10
DEC Docket No. E-7, Sub 1243
DEP Docket No. E-2, Sub 1262
Item No. 10-7
Page 1 of 1

Request:

7. Please provide the present return the Companies earn on their capital to be set aside to support their normal issuances of debt.

Response:

The Companies do not set aside capital to support or service their “normal” debt issuances. The Companies' allowed return on equity is approved by the NCUC in base rate case proceedings and is applicable to all aspects their business.

**Duke Energy Carolinas
and
Duke Energy Progress
Response to
NC Public Staff Data Request
Data Request No. NCPS 10**

Docket Nos. E-7, Sub 1243 and E-2, 1262

**Date of Request: December 9, 2020
Date of Response: December 15, 2020**

☐

CONFIDENTIAL

☒

NOT CONFIDENTIAL

Confidential Responses are provided pursuant to Confidentiality Agreement

The attached response to NC Public Staff Data Request No. 10-8, was provided to me by the following individual(s): Shana W. Angers, Manager, Accounting II, and was provided to NC Public Staff under my supervision.

Camal O. Robinson
Associate General Counsel
Duke Energy Carolinas

North Carolina Public Staff
Data Request No. 10
DEC Docket No. E-7, Sub 1243
DEP Docket No. E-2, Sub 1262
Item No. 10-8
Page 1 of 1

Request:

8. For each up-front financing fees, please provide the following information:
- a. The actual costs incurred to date;
 - b. Comparison of actual costs to estimated costs; and
 - c. Detailed explanation as to whether the actual costs incurred to date are in-line, above, or below the Companies' estimate for the costs and why.

Response:

- a. and b. See attached Excel file "DR 10-8 Upfront Costs".



DR 10-8 Upfront
Costs.xlsx

- c. All costs are currently below estimates due to the securitization process being incomplete. Furthermore, per the testimony of Witness Heath (page 24, rows 20-22), "The total cost of the Public Staff's financial advisor and its legal counsel, if any, is not within DEC and DEP's control or influence and may not be known until closing".

**Duke Energy Carolinas
and
Duke Energy Progress
Response to
NC Public Staff Data Request
Data Request No. NCPS 10**

Docket Nos. E-7, Sub 1243 and E-2, 1262

**Date of Request: December 9, 2020
Date of Response: December 15, 2020**

☐ **CONFIDENTIAL**
☒ **NOT CONFIDENTIAL**

Confidential Responses are provided pursuant to Confidentiality Agreement

The attached response to NC Public Staff Data Request No. 10-9, was provided to me by the following individual(s): Tom Heath, Corporate Finance Director, and was provided to NC Public Staff under my supervision.

Camal O. Robinson
Associate General Counsel
Duke Energy Carolinas

North Carolina Public Staff
Data Request No. 10
DEC Docket No. E-7, Sub 1243
DEP Docket No. E-2, Sub 1262
Item No. 10-9
Page 1 of 2

Request:

9. Please provide the supporting detail for the ranges of each of the upfront financing fee included by the Companies in its overall cost estimates. Please provide the detailed analysis as to how the Companies determined the included estimates.

Response:

These fees estimated were based on DEC and DEP's review of other utility securitization transactions, including DEC and DEP affiliate DEF's 2016 transaction. All of these amounts represent DEC and DEP's best estimate at the time Heath Exhibit 1 was prepared. It is the Companies' intention to update all of these expenses through the IAL process and the Companies will only seek to recover actual costs incurred. See file "Estimated Fees in Utility Securitization" for a summary of expenses related to recent utility securitization transactions.



Estimated Fees in
Utility Securitization.d

Underwriting expenses – based on structuring advisor RFP responses and review of recent, similar transactions. Refer to RFP response previously provided in the response to PS DR 2-2.c.

Servicer set-up fees (including IT Programming Costs) – amount presented in Heath Exhibit 1 was simply a very rough estimate developed at the time the exhibit was prepared, the primary basis of this estimate was the actual cost incurred by DEC and DEP affiliate DEF in its 2016 transaction. As mentioned in Witness Heath's testimony (page 21 line 2-3) this amount will be updated through the IAL process and the Companies will only seek to recover actual costs incurred.

Legal fees – as stated in Witness Heath's testimony (page 22 lines 22-23) "these estimated expenses are based on discussion with our internal legal counsel and estimates from external counsel." Further these estimates were based on information available at the time Heath Exhibit 1 was prepared. Witness Heath's testimony (page 23 lines 4-11) states "[t]he legal fees (over and above those incurred to date) will be affected by events between the date of the filing of the Joint Petition and the date of bond issuance, including the extent to which this proceeding is contested by intervenors, the scope of any appeals, the extent of any comments received during the SEC review, the requirements of underwriters, trustees, rating agencies, regulators or the Commission's Designated Member, if applicable, for any requested revisions to documents, the use of additional credit enhancements, and other factors that cannot be foreseen." As a result, these amounts will be updated through the IAL

North Carolina Public Staff
Data Request No. 10
DEC Docket No. E-7, Sub 1243
DEP Docket No. E-2, Sub 1262
Item No. 10-9
Page 2 of 2

process and the Companies will only seek to recover actual costs incurred. See attached file “legal fee estimates.”



legal fee estimates
(1).pdf

Rating agency fees – Refer to Witness Heath testimony (page 24 lines 2-14) which states “[t]he amounts shown on line 4 of Heath Exhibit 1 reflect an estimate of the rating agencies fees to be incurred for a transaction of the size contemplated by DEC and DEP. The low end of the range presented is estimated at 7.5 basis points (or 0.075 percent) on the principal amount of bonds issued, which represents Moody’s Investor Service’s pricing guidance, payable to two rating agencies. This estimate assumes no additional fees charged for the Trust Issuer. The high end of the range includes a full 7.5 basis point fee charged for the Trust Issuer by two rating agencies. Accordingly, the possibility of a change due to either the size of the offering, or modification of the agencies’ fee requirements must be taken into account in determining the level of rating agency fees, and any increase in these fees should be recoverable by DEC and DEP, pursuant to the issuance advice letter procedure.” Also see prior responses to PS DR 2-7.m, 2-7.n., and 2-7.o. See attached file “Moody fee schedule.”



Moody's fee
schedule.pdf

Public Staff Financial Advisor Fee & Public Staff Financial Advisor Counsel Fees – Refer to Witness Heath testimony (page 24 line 15 through page 25 line 2).

DEC/DEP Structuring Advisor Fees – Refer to Witness Heath testimony (page 25 line 3 through page 26 line 12). Also refer to prior response to PS DR 2-2.f. for engagement letters with Guggenheim and Atkins Capital.

All others (Heath Exhibit 1 lines 8-13) – estimates are based on other utility securitization transaction estimates and actual expenses incurred for DEC and DEP affiliated DEF’s 2016 transaction. All of these amounts will be updated through the IAL process and the Companies will only seek to recover actual costs incurred.

**Duke Energy Carolinas
and
Duke Energy Progress
Response to
NC Public Staff Data Request
Data Request No. NCPS 10**

Docket Nos. E-7, Sub 1243 and E-2, 1262

**Date of Request: December 9, 2020
Date of Response: December 15, 2020**

☐ **CONFIDENTIAL**
☒ **NOT CONFIDENTIAL**

Confidential Responses are provided pursuant to Confidentiality Agreement

The attached response to NC Public Staff Data Request No. 10-10, was provided to me by the following individual(s): Tom Heath, Corporate Finance Director, and was provided to NC Public Staff under my supervision.

Camal O. Robinson
Associate General Counsel
Duke Energy Carolinas

North Carolina Public Staff
Data Request No. 10
DEC Docket No. E-7, Sub 1243
DEP Docket No. E-2, Sub 1262
Item No. 10-10
Page 1 of 1

Request:

10. Please provide the “recent, similar transactions” the Companies reviewed in determining the underwriting expenses were consistent.

Response:

See file provided in the response to PS DR 10-9.

**Duke Energy Carolinas
and
Duke Energy Progress
Response to
NC Public Staff Data Request
Data Request No. NCPS 10**

Docket Nos. E-7, Sub 1243 and E-2, 1262

**Date of Request: December 9, 2020
Date of Response: December 15, 2020**

☐

CONFIDENTIAL

☒

NOT CONFIDENTIAL

Confidential Responses are provided pursuant to Confidentiality Agreement

The attached response to NC Public Staff Data Request No. 10-11, was provided to me by the following individual(s): Tom Heath, Corporate Finance Director, and was provided to NC Public Staff under my supervision.

Camal O. Robinson
Associate General Counsel
Duke Energy Carolinas

North Carolina Public Staff
Data Request No. 10
DEC Docket No. E-7, Sub 1243
DEP Docket No. E-2, Sub 1262
Item No. 10-11
Page 1 of 1

Request:

11. Please provide verification that the Companies will provide the actual upfront financing fee for each category of expenses included in the Companies' estimates in detail to be audited by the Public Staff.

Response:

Upfront financing costs are paid from proceeds of the bond issuance. Prior to formally launching the transaction, the Companies will solicit final invoices, including from any advisors and counsel to the Commission and Public Staff so the aggregate principal amounts of the bonds may be sized appropriately to ensure recovery of the upfront financing costs. After the bonds are priced, and in accordance with the proposed financing orders filed with the Joint Petition, the upfront financing costs will be identified in the issuance advice letter which will be filed with the Commission. At the same time, the Companies will provide Public Staff with the amounts and access to the Companies' books and records to verify such amounts. While there is a reconciliation process in the financing orders to address any differences between the upfront financing costs identified in the issuance advice letter and actual upfront financing costs paid in connection with the transaction, the statute does not permit upfront financing costs which are included as part of the authorized storm recovery charge to be altered after the bonds are issued.

**Duke Energy Carolinas
and
Duke Energy Progress
Response to
NC Public Staff Data Request
Data Request No. NCPS 10**

Docket Nos. E-7, Sub 1243 and E-2, 1262

**Date of Request: December 9, 2020
Date of Response: December 15, 2020**

☐

CONFIDENTIAL

☒

NOT CONFIDENTIAL

Confidential Responses are provided pursuant to Confidentiality Agreement

The attached response to NC Public Staff Data Request No. 10-12, was provided to me by the following individual(s): Jonathan L. Byrd, Development Assignment Leader, and was provided to NC Public Staff under my supervision.

Camal O. Robinson
Associate General Counsel
Duke Energy Carolinas

North Carolina Public Staff
Data Request No. 10
DEC Docket No. E-7, Sub 1243
DEP Docket No. E-2, Sub 1262
Item No. 10-12
Page 1 of 1

Request:

12. Please provide a detailed explanation and any supporting documentation as to all information technology system modifications the Companies intend or have undertaken in order to bill, monitor, collect, and remit securitization charges.

Response:

The Companies must make the following system modifications in order to bill, monitor, collect, and remit securitization charges. Duke's IT team is presently working on, but has not completed, specific requirements and modification plans.

- For DEC, storm securitization charges will be implemented after implementation of Customer Connect, the Company's new billing and customer information system. The billing system will be modified to:
 - calculate the applicable securitization charge for each customer/account,
 - represent the charge separately and clearly on customers' bills, and
 - account for funds received appropriately given the 3rd party collection nature of the charges.
- For DEP, storm securitization charges will be implemented prior to Customer Connect implementation. Accordingly, the Company's legacy billing system will need to be modified in a similar fashion to the list above.

**Duke Energy Carolinas
and
Duke Energy Progress
Response to
NC Public Staff Data Request
Data Request No. NCPS 10**

Docket Nos. E-7, Sub 1243 and E-2, 1262

**Date of Request: December 9, 2020
Date of Response: December 15, 2020**

☐ **CONFIDENTIAL**
☒ **NOT CONFIDENTIAL**

Confidential Responses are provided pursuant to Confidentiality Agreement

The attached response to NC Public Staff Data Request No. 10-13, was provided to me by the following individual(s): Shana Angers, Manager Accounting II, and was provided to NC Public Staff under my supervision.

Camal O. Robinson
Associate General Counsel
Duke Energy Carolinas

North Carolina Public Staff
Data Request No. 10
DEC Docket No. E-7, Sub 1243
DEP Docket No. E-2, Sub 1262
Item No. 10-13
Page 1 of 1

Request:

13. For each ongoing financing cost, please provide the following information:
- a. The actual costs incurred to date;
 - b. Comparison of actual costs to estimated costs; and
 - c. Detailed explanation as to whether the actual costs incurred to date are in-line, above, or below the Companies' estimate for the costs and why.

Response:

Ongoing financing costs are only incurred after the bonds are issued. Therefore, no ongoing financing costs have been incurred.

**Duke Energy Carolinas
and
Duke Energy Progress
Response to
NC Public Staff Data Request
Data Request No. NCPS 10**

Docket Nos. E-7, Sub 1243 and E-2, 1262

**Date of Request: December 9, 2020
Date of Response: December 15, 2020**

☐

CONFIDENTIAL

☒

NOT CONFIDENTIAL

Confidential Responses are provided pursuant to Confidentiality Agreement

The attached response to NC Public Staff Data Request No. 10-14, was provided to me by the following individual(s): Tom Heath, Corporate Financial Director, and was provided to NC Public Staff under my supervision.

Camal O. Robinson
Associate General Counsel
Duke Energy Carolinas

North Carolina Public Staff
Data Request No. 10
DEC Docket No. E-7, Sub 1243
DEP Docket No. E-2, Sub 1262
Item No. 10-14
Page 1 of 1

Request:

14. Please provide the supporting detail for the ranges of each of the ongoing financing fees included by the Companies in its overall cost estimates. Please provide the detailed analysis as to how the Companies determined the included estimates.

Response:

These fees estimated were based on DEC and DEP's review of other utility securitization transactions, including DEC and DEP affiliate DEF's 2016 transaction. All of these amounts represent DEC and DEP's best estimate at the time Heath Exhibit 1 was prepared. It is the Companies' intention to update all of these expenses through the IAL process and the Companies will only seek to recover actual costs incurred. See file provided in response to PS DR 10-9.

**Duke Energy Carolinas
and
Duke Energy Progress
Response to
NC Public Staff Data Request
Data Request No. NCPS 10**

Docket Nos. E-7, Sub 1243 and E-2, 1262

**Date of Request: December 9, 2020
Date of Response: December 15, 2020**

☐ **CONFIDENTIAL**
☒ **NOT CONFIDENTIAL**

Confidential Responses are provided pursuant to Confidentiality Agreement

The attached response to NC Public Staff Data Request No. 10-15, was provided to me by the following individual(s): Shana W. Angers, Manager, Accounting II, and was provided to NC Public Staff under my supervision.

Camal O. Robinson
Associate General Counsel
Duke Energy Carolinas

North Carolina Public Staff
Data Request No. 10
DEC Docket No. E-7, Sub 1243
DEP Docket No. E-2, Sub 1262
Item No. 10-15
Page 1 of 1

Request:

15. Please provide verification that the Companies will provide the actual ongoing financing fees for each category of expenses included in the Companies' estimates in detail to be audited by the Public Staff.

Response:

Public Staff will be provided access to DEC and DEP's books and records to verify that the actual ongoing financing costs were incurred. That being said, all ongoing financing costs are to be approved in the financing orders and issuance advice letter.

**Duke Energy Carolinas
and
Duke Energy Progress
Response to
NC Public Staff Data Request
Data Request No. NCPS 10**

Docket Nos. E-7, Sub 1243 and E-2, 1262

**Date of Request: December 9, 2020
Date of Response: December 15, 2020**

☐

CONFIDENTIAL

☒

NOT CONFIDENTIAL

Confidential Responses are provided pursuant to Confidentiality Agreement

The attached response to NC Public Staff Data Request No. 10-16, was provided to me by the following individual(s): Shana W. Angers, Manager Accounting II, and was provided to NC Public Staff under my supervision.

Camal O. Robinson
Associate General Counsel
Duke Energy Carolinas

North Carolina Public Staff
Data Request No. 10
DEC Docket No. E-7, Sub 1243
DEP Docket No. E-2, Sub 1262
Item No. 10-16
Page 1 of 1

Request:

16. For all expenses included in the financing fees, both upfront and ongoing, please provide a detailed explanation and supporting documentation verifying the costs and/or expenses were not included in the cost of service amounts included in either of the Companies' last general rate cases. Additionally, for internal costs, such as salaries, benefits, outside services, etc., please provide a detailed costing of the total Company expenses for each employee, the amounts included in the last general rate case, and the amounts being estimated in the current application.

Response:

There were no financing fees incurred during the 2018 test year and as such no costs were not included in the Cost of Service. There we no internal costs included in the last rate case that are being estimated in the current application.

**Duke Energy Carolinas
and
Duke Energy Progress
Response to
NC Public Staff Data Request
Data Request No. NCPS 10**

Docket Nos. E-7, Sub 1243 and E-2, 1262

**Date of Request: December 9, 2020
Date of Response: December 15, 2020**

☐

CONFIDENTIAL

☒

NOT CONFIDENTIAL

Confidential Responses are provided pursuant to Confidentiality Agreement

The attached response to NC Public Staff Data Request No. 10-17, was provided to me by the following individual(s): Charles Atkins, CEO, Atkins Capital Strategies, and was provided to NC Public Staff under my supervision.

Camal O. Robinson
Associate General Counsel
Duke Energy Carolinas

North Carolina Public Staff
Data Request No. 10
DEC Docket No. E-7, Sub 1243
DEP Docket No. E-2, Sub 1262
Item No. 10-17
Page 1 of 1

Request:

17. In the application, the Companies have requested In summarizing prior securitized utility bond issuances, page 8 of Witness Atkins' testimony states:

"In some cases, customer charges are further mitigated through extending the securitization payment period longer than the recovery period under a traditional ratemaking approach." N.C. Gen. Stat. § 62-172(b)(3)b.3. requires the Commission's Financing Order to include a "finding 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 such financing order."

- a. Whether tested on each annual period, or on an absolute net present value basis, won't "the lowest storm recovery charges" be achieved on a present value basis to ratepayers by the longest possible weighted average maturity? If not, please explain why not.
- b. Will not net present value savings for customers also be maximized by a longer scheduled final maturity and longer weighted average maturity? If not, please explain why not.

Response:

Generally, during interest rate environments with a relatively flat or not very steep yield curve, longer dated transactions would typically have an annual revenue requirement for debt service and ongoing financing costs that is lower than the annual revenue requirement for shorter transactions of the same size. Longer dated transactions typically pay less principal on an annual basis than shorter transactions of the same size, and the smaller amount of principal paid may outweigh the higher interest rates that may result from a longer dated transaction

**Duke Energy Carolinas
and
Duke Energy Progress
Response to
NC Public Staff Data Request
Data Request No. NCPS 10**

Docket Nos. E-7, Sub 1243 and E-2, 1262

**Date of Request: December 9, 2020
Date of Response: December 15, 2020**

☐ **CONFIDENTIAL**
☒ **NOT CONFIDENTIAL**

Confidential Responses are provided pursuant to Confidentiality Agreement

The attached response to NC Public Staff Data Request No. 10-18, was provided to me by the following individual(s): Tom Heath, Corporate Finance Director, and was provided to NC Public Staff under my supervision.

Camal O. Robinson
Associate General Counsel
Duke Energy Carolinas

North Carolina Public Staff
Data Request No. 10
DEC Docket No. E-7, Sub 1243
DEP Docket No. E-2, Sub 1262
Item No. 10-18
Page 1 of 2

Request:

18. On page 7 of his testimony, Witness Heath proposes a 15-year scheduled final maturity. Page 8 adds:

“DEC and DEP also considered a structure of storm recovery bonds with a scheduled final payment date of approximately 20 years. However, the Companies believe that the 15-year proposal strikes the right balance between the length of the recovery period and the length and level of the recovery charges. Additionally, the proposed 15-year structure is consistent with the longest recovery period proposed by the North Carolina Utilities Commission—Public Staff (‘Public Staff’) in DEP’s storm deferral docket, which was 15 years.”

Page 22 of Witness Abernathy’s testimony states that the NPV customer savings analysis assumes that under traditional ratemaking, current expenses for storms would be amortized over 15 years, and capital expenses for storms would be amortized over 40 years.

Abernathy Exhibit DEC 2 appears to show that approximately 11.4% of SRBs issued for DEC will finance capital expenditures, and Abernathy Exhibit DEP 2 appears to show that approximately 12.8% of SRBs issued for DEP will finance capital expenditures. If scheduled final maturity of the SRB Securities is weighted 12% by 40 years and 88% by 15 years, the result would be 18.0 years.

a. Given the above, would it be more appropriate for the Commission to approve SRB Securities with a scheduled final maturity of at least 18 years? If not, please explain why not.

N.C. Gen. Stat. § 62-172(b)(3)b.3. requires the Commission’s Financing Order to include a “finding 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 such financing order.”

N.C. Gen. Stat. § 62-172(b)(3)b.3. is similar to the recently enacted California wildfire cost securitization statute (California Public Utilities Code § 850.1(a)(1)(A)(ii)(III)), which requires financing orders to find that the securitized bonds will “reduce, to the maximum extent possible, the rates on a present value basis that consumers within the electrical corporation’s service territory would pay as compared to the use of traditional utility financing mechanisms”. (Emphasis supplied.)

b. Do DEP and DEC agree that “the lowest storm recovery charges” also should be tested on a present value basis? Please confirm if you are using after-tax WACC to calculate customer savings in alternative bond maturity scenarios? If not, please explain why not, and how they should alternatively be evaluated.

c. Whether tested on each annual period, or on an overall net present value basis, do DEP and DEC agree that “the lowest storm recovery charges” be achieved by the longest possible weighted average maturity? If not, please explain why not.

North Carolina Public Staff
Data Request No. 10
DEC Docket No. E-7, Sub 1243
DEP Docket No. E-2, Sub 1262
Item No. 10-18
Page 2 of 2

Response:

a. The Companies stand by their prior response that the 15-year proposal (i) strikes the right balance between the length of the recovery period and the length and level of the recovery charges and (ii) is consistent with the longest recovery period proposed by the North Carolina Utilities Commission—Public Staff (‘Public Staff’) in DEP’s storm deferral docket, which was 15 years.”

b. Yes, the customer savings calculations are done on a net present value basis using the after-tax WACC. The Companies designed the proposal to comply with the requirements of North Carolina’s storm securitization statute, and therefore the reference to California is not applicable.

c. In general, the longer the recovery period the greater the customer savings on a net present value basis. The general reason for this is that under the traditional recovery method customers would be paying the utility’s WACC on the unrecovered balance over a longer period of time.

**Duke Energy Carolinas
and
Duke Energy Progress
Response to
NC Public Staff Data Request
Data Request No. NCPS 10**

Docket Nos. E-7, Sub 1243 and E-2, 1262

**Date of Request: December 9, 2020
Date of Response: December 15, 2020**

☐

CONFIDENTIAL

☒

NOT CONFIDENTIAL

Confidential Responses are provided pursuant to Confidentiality Agreement

The attached response to NC Public Staff Data Request No. 10-19, was provided to me by the following individual(s): Tom Heath, Corporate Financial Director, and was provided to NC Public Staff under my supervision.

Camal O. Robinson
Associate General Counsel
Duke Energy Carolinas

North Carolina Public Staff
Data Request No. 10
DEC Docket No. E-7, Sub 1243
DEP Docket No. E-2, Sub 1262
Item No. 10-19
Page 1 of 1

Request:

19. On page 28 of his testimony, Witness Heath states:

“If the actual up-front financing costs are in excess of the amount appearing in the issuance advice letter, then DEC and DEP will have the right to collect such prudently incurred excess amounts through the establishment of a regulatory asset.”

There is no provision for a post-Financing Order review of Up-front Financing Costs identified in the issuance advice letter to determine whether they were prudently incurred or otherwise.

Both Florida utility securitization statutes require a 120-day post-issuance Commission review to ensure that Financing Costs in fact were as low as possible. Should the Financing Order require such a post-issuance Commission review within 120 days to ensure that Financing Costs in fact were as low as possible? If not, please explain why not.

Response:

See response to DR 10-11. N.C. Gen. Stat. Sec. 62-172 does not have a provision permitting a post-issuance review of upfront financing costs, so references to the Florida statutes are not relevant to this transaction. The citation to Witness Heath’s testimony leaves out the other half of the reconciliation process to ensure that customers are not over charged for upfront financing costs. To the extent actual upfront financing costs paid in connection with the offering are less than collected through the issuance of the SRB Securities (or storm recovery bonds), those amounts are factored into the next true-up resulting in lower storm recovery charges for customers. If actual upfront financing costs exceed the amounts collected, the transaction is structured to minimize costs to customers which means the SPEs will not have excess funds to pay the difference. Therefore, DEC or DEP, as applicable, will be required to pay the difference to avoid negatively impacting the SRB Securities and DEC and DEP should be entitled to recover prudently incurred costs through normal rate making processes.

**Duke Energy Carolinas
and
Duke Energy Progress
Response to
NC Public Staff Data Request
Data Request No. NCPS 11**

Docket Nos. E-7, Sub 1243 and E-2, 1262

**Date of Request: December 11, 2020
Date of Response: December 18, 2020**

☐

CONFIDENTIAL

☒

NOT CONFIDENTIAL

Confidential Responses are provided pursuant to Confidentiality Agreement

The attached response to NC Public Staff Data Request No. 11-1, was provided to me by the following individual(s): Charles Atkins, CEO, Atkins Capital Strategies, and was provided to NC Public Staff under my supervision.

Camal O. Robinson
Associate General Counsel
Duke Energy Carolinas

North Carolina Public Staff
Data Request No. 11
DEC Docket No. E-7, Sub 1243
DEP Docket No. E-2, Sub 1262
Item No. 11-1
Page 1 of 1

Request:

1. Please provide a detailed explanation and supporting documentation as to whether the funds remaining in the excess funds subaccount and general subaccount, as described on page 24 of Atkins' testimony include funds collected from customers after the final payment in full has been made of the storm recovery bonds. If it does not, please explain why it does not.

Response:

Pursuant to the proposed Financing Orders, the Companies are authorized to impose storm recovery charges "until the related storm recovery bonds are paid in full and all related financing costs and other costs of the bonds have been recovered in full" (Proposed Financing Order, Ordering Paragraph 15). The Companies do not intend to continue to impose storm recovery charges after the storm recovery bonds and all related financing costs are paid in full.

**Duke Energy Carolinas
and
Duke Energy Progress
Response to
NC Public Staff Data Request
Data Request No. NCPS 11**

Docket Nos. E-7, Sub 1243 and E-2, 1262

**Date of Request: December 11, 2020
Date of Response: December 18, 2020**

☐ **CONFIDENTIAL**
☒ **NOT CONFIDENTIAL**

Confidential Responses are provided pursuant to Confidentiality Agreement

The attached response to NC Public Staff Data Request No. 11-2, was provided to me by the following individual(s): Tom Heath, Corporate Finance Director, and was provided to NC Public Staff under my supervision.

Camal O. Robinson
Associate General Counsel
Duke Energy Carolinas

North Carolina Public Staff
Data Request No. 11
DEC Docket No. E-7, Sub 1243
DEP Docket No. E-2, Sub 1262
Item No. 11-2
Page 1 of 1

Request:

2. Do the Companies intend to refund ratepayers monies remaining in the general subaccount and excess funds subaccount as well as the excess servicing and administrative fee as discussed in response to DR 2 and 8 at each of the Companies next general rate case proceeding? Do the Companies believe they may only return the ratepayers monies remaining in the storm recovery subaccounts during a general rate case proceeding? If so, please provide a detailed explanation and supporting documentation as to why. As for the excess servicing and administrative fees as discussed in response to DR 2 and 8, will the customers receive a refund for all the previous years prior to the test year for the general rate case?

Response:

With respect to the questions related to the general subaccount and excess funds subaccount, please refer to Witness Atkins testimony (page 21 line 1 through page 24 line 11) for a discussion of the subaccounts of the collection account. During the time the bonds are outstanding, all funds in the general subaccount and excess funds subaccount may only be used to service the bonds (i.e. pay bond principal and interest and ongoing financing expenses). Once funds are deposited into either of the subaccounts they are the property of the SPEs and cannot be used for any purpose other than servicing the bonds and paying the legitimate expense of the SPEs. Customers will receive the benefit of all funds in these subaccounts as they will be taken into consideration when calculating storm recovery charges in each true-up adjustment. All funds remaining in these subaccounts after the bonds, financing costs and other required amounts are paid in full will be returned to DEC and DEP and will be credited to customers' electricity bills as part of their next base rate proceedings unless another mechanism for crediting these funds to customers is established by the Commission.

**Duke Energy Carolinas
and
Duke Energy Progress
Response to
NC Public Staff Data Request
Data Request No. NCPS 11**

Docket Nos. E-7, Sub 1243 and E-2, 1262

**Date of Request: December 11, 2020
Date of Response: December 18, 2020**

☐ **CONFIDENTIAL**
☒ **NOT CONFIDENTIAL**

Confidential Responses are provided pursuant to Confidentiality Agreement

The attached response to NC Public Staff Data Request No. 11-3, was provided to me by the following individual(s): Melissa Brammer Abernathy, Director, Rates & Regulatory Planning, and was provided to NC Public Staff under my supervision.

Camal O. Robinson
Associate General Counsel
Duke Energy Carolinas

North Carolina Public Staff
Data Request No. 11
DEC Docket No. E-7, Sub 1243
DEP Docket No. E-2, Sub 1262
Item No. 11-3
Page 1 of 1

Request:

3. Please provide supporting documentation for the following decreases in storm expenses included in witness Abernathy's testimony of (a) \$11 million for DEP incremental O&M estimate, and (b) \$31,000 for DEC incremental O&M estimate.

Response:

(a) For DEP, please see attached PS DR 11-3_DEP.xlsx with support for the approximate \$11 million decrease in incremental storm expenses. Please note that the final 2018 and 2019 storm summary is being provided in the same format as PS DR 27-1 in Docket No. E-2 Sub 1219. The updates are attributed to the true-up and finalization of actual costs and remaining invoices since the capital cutoff in the rate case where much of the incremental O&M was estimated.



PS DR 11-3_DEP.xlsx

(b) For DEC, please see attached PS DR 11-3_DEC.xlsx with support for the approximate \$32,000 decrease in incremental storm expenses. Please note that the final 2018 storm summary is being provided in the same format as PS DR 46-1 in Docket No. E-7 Sub 1214. The updates are attributed to final cleanup and closing of the 2018 storm projects.



PS DR 11-3_DEC.xlsx

**Duke Energy Carolinas
and
Duke Energy Progress
Response to
NC Public Staff Data Request
Data Request No. NCPS 11**

Docket Nos. E-7, Sub 1243 and E-2, 1262

**Date of Request: December 11, 2020
Date of Response: December 18, 2020**

☐ **CONFIDENTIAL**
☒ **NOT CONFIDENTIAL**

Confidential Responses are provided pursuant to Confidentiality Agreement

The attached response to NC Public Staff Data Request No. 11-4, was provided to me by the following individual(s): Melissa Brammer Abernathy, Director, Rates & Regulatory Planning, and was provided to NC Public Staff under my supervision.

Camal O. Robinson
Associate General Counsel
Duke Energy Carolinas

North Carolina Public Staff
Data Request No. 11
DEC Docket No. E-7, Sub 1243
DEP Docket No. E-2, Sub 1262
Item No. 11-4
Page 1 of 1

Request:

4. Please provide verification the Company will provide the Public Staff with final storm amounts for both O&M and rate base accounts as the storm projects are closed to be audited by the Public Staff. Additionally, please provide verification as to whether the Companies plan to adjust the storm amounts included in the present securitization filings for any future adjustments to the estimated costs. If not, please provide an explanation as to why not.

Response:

As noted in witness Abernathy's testimony, there were "small adjustments related to the 2018 Storms as the actual costs and remaining invoices were finalized". As such, the Companies confirm there are no more costs associated with these storms after June 30, 2020.

Also noted in witness Abernathy's testimony is the description of the estimates surrounding DEP's incremental costs associated with 2019's Hurricane Dorian at the time of the original rate case cutoff (February 29, 2020). Hurricane Dorian happened in close proximity to the rate case cutoff and as the actual costs and remaining invoices were finalized, there was an approximate \$11 million decrease in Hurricane Dorian incremental costs that were included in DEP's storm securitization filing.

Witness Abernathy also states in her testimony that "no further adjustments to incremental O&M or capital costs included in this securitization financing are expected."

Refer to PS DR 11-3 for more details.

**Duke Energy Carolinas
and
Duke Energy Progress
Response to
NC Public Staff Data Request
Data Request No. NCPS 11**

Docket Nos. E-7, Sub 1243 and E-2, 1262

**Date of Request: December 11, 2020
Date of Response: December 18, 2020**

☐

CONFIDENTIAL

☒

NOT CONFIDENTIAL

Confidential Responses are provided pursuant to Confidentiality Agreement

The attached response to NC Public Staff Data Request No. 11-5, was provided to me by the following individual(s): Tom Heath, Corporate Finance Director, and was provided to NC Public Staff under my supervision.

Camal O. Robinson
Associate General Counsel
Duke Energy Carolinas

North Carolina Public Staff
Data Request No. 11
DEC Docket No. E-7, Sub 1243
DEP Docket No. E-2, Sub 1262
Item No. 11-5
Page 1 of 1

Request:

5. For up-front financing costs that are below the amounts appearing in the issuance advice letter, please provide a detailed explanation and supporting calculations and examples as to how the monies will be credited/refunded back to ratepayers.

Response:

As stated in the draft Financing Order (page 21), the Companies are proposing that any up-front costs that are below amounts appearing in the final Issuance Advice Letter be factored into the next true-up adjustment. All other things being equal, this will result in lower storm recovery charges than would otherwise be required.

**Duke Energy Carolinas
and
Duke Energy Progress
Response to
NC Public Staff Data Request
Data Request No. NCPS 11**

Docket Nos. E-7, Sub 1243 and E-2, 1262

**Date of Request: December 11, 2020
Date of Response: December 18, 2020**

☐

CONFIDENTIAL

☒

NOT CONFIDENTIAL

Confidential Responses are provided pursuant to Confidentiality Agreement

The attached response to NC Public Staff Data Request No. 11-6, was provided to me by the following individual(s): Shana Angers, Manager, Accounting II, and was provided to NC Public Staff under my supervision.

Camal O. Robinson
Associate General Counsel
Duke Energy Carolinas

North Carolina Public Staff
Data Request No. 11
DEC Docket No. E-7, Sub 1243
DEP Docket No. E-2, Sub 1262
Item No. 11-6
Page 1 of 1

Request:

6. For on-going actual financing costs that are below the amounts estimated in the Companies' filings, please provide a detailed explanation and supporting calculations and examples as to (a) whether the Companies intend to credit or refund the ratepayers for the excess, (b) how the Companies would credit or refund the ratepayers for the excess, and (c) if the Companies do not intend to credit or refund the ratepayers, why not?

Response:

Actual ongoing financing costs are paid when they become due and are recovered through the collection of storm recovery charges. The storm recovery charges will be adjusted through the true-up mechanism, as listed in Witness Angers' Exhibit 1. Per the testimony of Witness Angers (page 6, rows 6-10), "This true-up mechanism will help to ensure that customers pay no more or less than what is required to pay the debt service on the storm recovery bonds and all on-going financing costs." The calculation will take into account total financing costs (including debt service) for the forecasted upcoming two periods and prior period adjustments. To the extent there is an over-collection of ongoing financing costs, the excess collections will be held in the excess funds subaccount and factored into the next true-up adjustment. To the extent there are under-collections of ongoing financing costs, the difference will similarly be factored in to the next true-up.

**Duke Energy Carolinas
and
Duke Energy Progress
Response to
NC Public Staff Data Request
Data Request No. NCPS 11**

Docket Nos. E-7, Sub 1243 and E-2, 1262

**Date of Request: December 11, 2020
Date of Response: December 18, 2020**

☐

CONFIDENTIAL

☒

NOT CONFIDENTIAL

Confidential Responses are provided pursuant to Confidentiality Agreement

The attached response to NC Public Staff Data Request No. 11-7, was provided to me by the following individual(s): Shana Angers, Manager, Accounting II, and was provided to NC Public Staff under my supervision.

Camal O. Robinson
Associate General Counsel
Duke Energy Carolinas

North Carolina Public Staff
Data Request No. 11
DEC Docket No. E-7, Sub 1243
DEP Docket No. E-2, Sub 1262
Item No. 11-7
Page 1 of 1

Request:

7. Please provide estimates of actual ongoing expenses (administration and servicing costs) for DEC and DEP, not the special purpose entity. For any revenues above these expenses, please provide a detailed explanation and supporting calculations and examples as to (a) whether the Companies intend to credit or refund the ratepayers for the excess, (b) how the Companies would credit or refund the ratepayers for the excess, and (c) if the Companies do not intend to credit or refund the ratepayers, why not?

Response:

See Witness Heath's Exhibit 1 for estimated ongoing expenses (administration and servicing costs) for DEC and DEP. As proposed in the Financing Orders, the servicing and administration fees collected by DEC and DEP, acting as either the servicer or the administrator, will be included in the applicable Company's cost of service such that each company will credit back all periodic servicing and administration fees in excess of such Company's incremental costs of performing servicing and administration functions. The expenses incurred by each of DEC and DEP to perform obligations under the applicable Servicing Agreement or Administration Agreement not otherwise recovered through the storm recovery charges will likewise be included in the applicable Company's cost of service.

**Duke Energy Carolinas
and
Duke Energy Progress
Response to
NC Public Staff Data Request
Data Request No. NCPS 11**

Docket Nos. E-7, Sub 1243 and E-2, 1262

**Date of Request: December 11, 2020
Date of Response: December 18, 2020**

☐

CONFIDENTIAL

☒

NOT CONFIDENTIAL

Confidential Responses are provided pursuant to Confidentiality Agreement

The attached response to NC Public Staff Data Request No. 11-8, was provided to me by the following individual(s): Tom Heath, Corporate Finance Director, and was provided to NC Public Staff under my supervision.

Camal O. Robinson
Associate General Counsel
Duke Energy Carolinas

North Carolina Public Staff
Data Request No. 11
DEC Docket No. E-7, Sub 1243
DEP Docket No. E-2, Sub 1262
Item No. 11-8
Page 1 of 1

Request:

8. Please provide a current estimate for an expected yield for DEC's and DEP's unsecured debt instrument or first mortgage bonds within a hypothetical scenario that the Company's issued long-term debt to fund the proposed storm expenses. If available, this response should provide estimates for the yields over 15-year, 20-year, and 30-year terms for each utility.

Response:

See attached file "DEC and DEP indicative FMB rates as of 12-02-2020.xlsx."



DEC and DEP
indicative FMB rates a

**Duke Energy Carolinas
and
Duke Energy Progress
Response to
NC Public Staff Data Request
Data Request No. NCPS 11**

Docket Nos. E-7, Sub 1243 and E-2, 1262

**Date of Request: December 11, 2020
Date of Response: December 18, 2020**

☐

CONFIDENTIAL

☒

NOT CONFIDENTIAL

Confidential Responses are provided pursuant to Confidentiality Agreement

The attached response to NC Public Staff Data Request No. 11-9, was provided to me by the following individual(s): Shana W. Angers, Manager, Accounting II, and was provided to NC Public Staff under my supervision.

Camal O. Robinson
Associate General Counsel
Duke Energy Carolinas

North Carolina Public Staff
Data Request No. 11
DEC Docket No. E-7, Sub 1243
DEP Docket No. E-2, Sub 1262
Item No. 11-9
Page 1 of 1

Request:

9. For all other costs included in the securitization filing that are below the amounts estimated in the Companies' filings, please provide a detailed explanation and supporting calculations and examples as to (a) whether the Companies intend to credit or refund the ratepayers for the excess, (b) how the Companies would credit or refund the ratepayers for the excess, and (c) if the Companies do not intend to credit or refund the ratepayers, why not?

Response:

It is unclear what "other costs" the question is referring to. Other than financing costs, the only other costs being recovered from the issuance of the bonds are NCUC approved storm recovery costs.

**Duke Energy Carolinas
and
Duke Energy Progress
Response to
NC Public Staff Data Request
Data Request No. NCPS 11**

Docket Nos. E-7, Sub 1243 and E-2, 1262

**Date of Request: December 11, 2020
Date of Response: December 18, 2020**

☐

CONFIDENTIAL

☒

NOT CONFIDENTIAL

Confidential Responses are provided pursuant to Confidentiality Agreement

The attached response to NC Public Staff Data Request No. 11-10, was provided to me by the following individual(s): Tom Heath, Corporate Finance Director, and was provided to NC Public Staff under my supervision.

Camal O. Robinson
Associate General Counsel
Duke Energy Carolinas

North Carolina Public Staff
Data Request No. 11
DEC Docket No. E-7, Sub 1243
DEP Docket No. E-2, Sub 1262
Item No. 11-10
Page 1 of 1

Request:

10. In the Companies response to DR 8-1(e), the Companies response was as follows: “e. No. The Companies do not expect fees for the proposed transaction, with or without the SRB Structure, to be eligible for inclusion in the general or “umbrella” arrangements for Duke Energy and its subsidiaries.”

- a. Why is the SRB not eligible for inclusion under the umbrella if the statute anticipates potential securitizations for future storms?
- b. And should this not be an issue to be discussed and negotiated with the rating agencies to lower ratepayer costs?

Response:

DEC and DEP affiliate DEF requested the rating agencies to include its 2016 transaction under the Duke Energy umbrella arrangement. The request was not successful. For example, Moody’s requires that for an umbrella structure to be applied the entities being rated must share “common credit characteristics” and they also exclude Project Finance and Structured Transaction from their umbrella arrangements. Moody’s considers utility securitization transactions to be Structured Transactions. The Companies do not share common credit characteristics with the SRB Issuer or the SPEs.

**Duke Energy Carolinas
and
Duke Energy Progress
Response to
NC Public Staff Data Request
Data Request No. NCPS 11**

Docket Nos. E-7, Sub 1243 and E-2, 1262

**Date of Request: December 11, 2020
Date of Response: December 18, 2020**

☐ **CONFIDENTIAL**
☒ **NOT CONFIDENTIAL**

Confidential Responses are provided pursuant to Confidentiality Agreement

The attached response to NC Public Staff Data Request No. 11-11, was provided to me by the following individual(s): Tom Heath, Corporate Finance Director, and was provided to NC Public Staff under my supervision.

Camal O. Robinson
Associate General Counsel
Duke Energy Carolinas

North Carolina Public Staff
Data Request No. 11
DEC Docket No. E-7, Sub 1243
DEP Docket No. E-2, Sub 1262
Item No. 11-11
Page 1 of 1

Request:

11. The Companies response to DR 8-2c.i, refers to response to PS DR 2-4.e, though a response to the question was not located there. Please review again and respond.

Response:

The reference to DR 2-4.e. was unintended and was not needed to add to the completeness of the response to DR 8-2.c.i.

**Duke Energy Carolinas
and
Duke Energy Progress
Response to
NC Public Staff Data Request
Data Request No. NCPS 12**

Docket Nos. E-7, Sub 1243 and E-2, 1262

**Date of Request: December 11, 2020
Date of Response: December 18, 2020**

☐ **CONFIDENTIAL**
☒ **NOT CONFIDENTIAL**

Confidential Responses are provided pursuant to Confidentiality Agreement

The attached response to NC Public Staff Data Request No. 12-1, was provided to me by the following individual(s): Charles Atkins, CEO, Atkins Capital Strategies, and was provided to NC Public Staff under my supervision.

Camal O. Robinson
Associate General Counsel
Duke Energy Carolinas

North Carolina Public Staff
Data Request No. 12
DEC Docket No. E-7, Sub 1243
DEP Docket No. E-2, Sub 1262
Item No. 12-1
Page 1 of 1

Request:

1. Does DEC/DEP plan to use the same descriptive disclosure of the reasons why the DEF bonds were corporate securities in addition to being “not asset backed securities” under SEC regulation AB?

a. If not, though the nominal issuers are different, what descriptions do DEC/DEP wish to exclude, and what are the reasons to depart from the disclosure and marketing materials describing those aspects of the DEP/DEC transaction that are substantively the same in structure as the 2016 DEF transaction? Please provide a detailed explanation and supporting documentation as to whether the funds remaining in the excess funds subaccount and general subaccount, as described on page 24 of Atkins’ testimony include funds collected from customers after the final payment in full has been made of the storm recovery bonds. If it does not, please explain why it does not.

Response:

DEC and DEP refer to the discussion in response to questions PS DR 2-3(k) through (m) regarding the definition of “asset backed securities” under Item 1101 of SEC Regulation AB as it relates to the SRB Securities. DEC and DEP’s disclosure will comply with the relevant requirements under applicable securities laws. DEC and DEP expect that storm recovery charges will be collected from customers until the principal, interest and all financing costs have been paid in full. As proposed in the Joint Petition, after the storm recovery bonds and all financing costs have been repaid, each SPE shall distribute the final balance of its Collection Account to DEP and DEP, as applicable, and each Company shall credit other electric rates and charges by a like amount, less the amount of the relevant Capital Subaccount and any unpaid return on invested capital.