BEFORE
THE NORTH CAROLINA UTILITIES COMMISSION

DOCKET NO. E-7, SUB 1276

In the Matter of:	)	
	)	**DIRECT TESTIMONY OF**
Application of Duke Energy Carolinas, LLC	)	**P. BRANDON LANE**
For Adjustments in Electric Rate Schedules	)	**FOR DUKE ENERGY**
And Tariffs and Performance-Based	)	**CAROLINAS, LLC**
Regulation	)	

I. INTRODUCTION

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is P. Brandon Lane and my business address is 526 South Church Street, Charlotte, North Carolina.

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

A. I am employed by Duke Energy Business Services, LLC ("DEBS"), an affiliate of Duke Energy Carolinas, LLC ("DEC" or the "Company") as Vice President of Real Estate. DEBS and DEC are subsidiaries of Duke Energy Corporation ("Duke Energy").

Q. PLEASE SUMMARIZE YOUR EDUCATION AND PROFESSIONAL QUALIFICATIONS.

A. I hold a Bachelor of Science in Civil Engineering as well as a Master of Business Administration, both from North Carolina State University. I also hold a Project Management Professional certification.

Q. PLEASE SUMMARIZE YOUR WORK EXPERIENCE.

A. I spent approximately ten years with Progress Energy at the Harris Nuclear Plant in roles of progressive responsibility in the Engineering and Major Projects organizations. Shortly following the merger with Duke Energy, I moved into a role in our Enterprise Project Management Center of Excellence, which I ultimately led. In this role, I was responsible for governance, oversight and support of projects across Duke Energy. Then, in August of 2016, I assumed a newly created position within our Project Management and Construction Department focused on efficient and effective execution of distributed energy projects across Duke Energy's regulated territories. In March 2018, I was selected to operationalize and lead a newly established organization charged with the execution of grid modernization/improvement programs across North and South Carolina. As of January 2020, I became the Managing Director of Real Estate Strategy and the Uptown Charlotte Program. I assumed my current role, Vice President of Real Estate, in December 2022, adding real estate operations to my job responsibilities.

Q. PLEASE BRIEFLY DESCRIBE YOUR DUTIES AS VICE PRESIDENT OF REAL ESTATE.

A. I am responsible for optimizing and managing Duke Energy's real estate portfolio, which includes all of the corporate managed facilities and Duke Energy-owned lands. This responsibility includes facilities management, project management, real estate strategy, transaction management, and associated functions.

Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THIS COMMISSION OR ANY OTHER REGULATORY BODIES?

A. No. I have not testified before this Commission. I prepared pre-filed direct testimony before the Indiana Utility Regulatory Commission in Cause No. 45002, but I was not called to testify.

II. <u>PURPOSE OF TESTIMONY</u>

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. The purpose of my testimony is to support the Company's investment in its new headquarters building located in Charlotte, North Carolina, referred to as the

Duke Energy Plaza and describe Duke Energy's overall real estate strategy. My testimony demonstrates the reasonableness of the costs and prudence of Duke Energy's actions related to this capital investment for inclusion in DEC's rate base in this case.

Q. PLEASE SUMMARIZE YOUR TESTIMONY.

A. My testimony describes Duke Energy's real estate strategy around the Duke Energy Plaza and how that strategy evolved during the COVID-19 pandemic. I explain how the Duke Energy Plaza will be used by Duke Energy and its affiliates and why this investment is properly included in DEC's rate base.

III. <u>CORPORATE HEADQUARTERS REAL ESTATE STRATEGY</u>

Q. PLEASE PROVIDE AN OVERVIEW OF THE DUKE ENERGY PLAZA.

A. The Duke Energy Plaza, the new headquarters for Duke Energy, is located at 525 S. Tryon Street in uptown Charlotte, North Carolina. The 41 story building has approximately one million square feet and will have the capacity to house more than 4,000 Duke Energy teammates. Subsidiaries of CGA Capital and Childress Klein Properties ("CKP", collectively with CGA Capital, are referred to as the "Landlord") are leasing the Duke Energy Plaza to DEC via a capital lease structured as a sale-leaseback transaction. This transaction was created as a financing mechanism for the capital invested in the Plaza. The Company plans to begin occupying the building starting in the first quarter of 2023 with phased "move-ins" occurring through the third quarter of 2023. Move-ins will be phased throughout the year as each of the groups of floors are completed and go in-service on a staggered basis since the fourth quarter of 2022 through the third quarter of 2023.

Q. WHAT IS THE TOTAL ESTIMATED COST FOR THE DUKE ENERGY PLAZA?

A. The estimated cost of the Duke Energy Plaza building projected to be in-service by July 31, 2023, is approximately $644 million ($439 million on a North Carolina retail basis). However, DEC will receive rent revenue from other Duke affiliates who use the building and this rent revenue will reduce the cost paid by DEC customers. This is further discussed in the testimony of Witness Quynh P. Bowman.

Q. HOW DID DUKE ENERGY DETERMINE THE NEED FOR THE DUKE ENERGY PLAZA BUILDING?

A. Duke Energy continuously reviews all aspects of its business and simultaneously looks for opportunities to operate in the most efficient way possible – the ultimate goal being to benefit and better serve our customers. The real estate strategy team evaluates Duke Energy's portfolio of leased and owned facilities on a regular basis as our business changes and the area of concentration where customers are located evolves over time. The strategy team monitors various types of data such as headcount, utilization, ongoing operating costs, and business operational requirements, to analyze scenarios, make recommendations, and inform leadership decisions.

Beginning in 2014, Duke Energy began evaluating the amount and quality of space currently owned or leased by Duke Energy and its affiliates in uptown Charlotte, North Carolina. Prior to the COVID-19 pandemic, the focus was not to replace Duke Energy's headquarters (which was in the Duke Energy Center at 550 S. Tryon Street in uptown Charlotte), but rather, to consolidate office facilities to provide costs savings and promote a more collaborative workplace environment. At the time, there were increasing pressures for office space as the workforce was growing along with fierce competition to attract, recruit, and retain top talent which persists in today's economic environment. In addition, Duke Energy's real estate portfolio included 40-45 year old facilities which were inefficient and well past their useful life, incurring millions of break/fix maintenance costs year over year. Furthermore, these facilities were not designed with workplaces that promote collaboration, productivity, or wellness for our teammates. For example, more than two-thirds of teammates were in less than optimal office space with limited lighting, inefficient heating and cooling systems, and furniture, fixtures, and equipment prone to breakage.

Based on these considerations and supporting analysis, Duke Energy determined that by constructing a new office building, it could consolidate its workforce into the new building and reduce its real estate footprint by disposing of five other facilities, and generate annual cash savings of approximately $5 million by 2026. After a competitive bid process and evaluation of various alternatives during 2016 and 2017, senior leaders committed to purchasing the proposed site in May 2017. While initially the Duke Energy Plaza was not intended to replace the existing headquarters, following the COVID-19 pandemic, the Company revised its real estate strategy and decided it was most cost-effective to fully vacate the prior headquarters, the Duke Energy Center, by year end 2021, and consolidate all uptown Charlotte-based employees in one building. Upon approval of that revised real estate strategy in the third quarter of 2020, the Duke Energy Plaza was designated as the new headquarters.

Q. PLEASE PROVIDE ADDITIONAL DETAIL ON THE COMPANY'S CURRENT REAL ESTATE STRATEGY AND HOW THE DUKE ENERGY PLAZA INVESTMENT ALIGNS WITH THAT STRATEGY.

A. In terms of the Charlotte portfolio, by consolidating our workforce into the Duke Energy Plaza, we will dispose of five facilities: 526 S. Church Street (owned), 401 S. College Street (owned), Duke Energy Center (leased), 400 S. Tryon Street (leased), and the Piedmont Town Center (leased). Building upon the lessons learned during the COVID-19 pandemic and meeting the expectation of today's workforce for greater flexibility, Duke Energy has implemented a new way of working where only about 10% of our workforce report onsite full-time for a typical work week and these onsite teammates are provided dedicated workspaces. Approximately 10% of our workforce work virtually in a non-company location or work in the field the majority of the time. The remaining approximate 80% of our workforce are considered hybrid teammates as they alternate between remote and Duke Energy facilities, where shared space is reserved, as needed. This strategy provides a cost-savings opportunity for Duke Energy by consolidating our workforce into less space, thereby reducing our real estate footprint.

During the third quarter of 2022, the real estate team pursued additional consolidation opportunities to accelerate the reduction of leased space at 400 S. Tryon Street and Piedmont Town Center to be implemented by year end 2022. Reducing our space in 400 S. Tryon Street by around 90% and Piedmont Town Center by around 60% will benefit Duke Energy and its customers as the move will result in reduced annual operating and maintenance costs. Duke Energy's strategy is to fully vacate and terminate the leases by 2024 for 400 S. Tryon Street and by 2025 for Piedmont Town Center.

Q. WHAT WAS THE INITIAL CHARLOTTE AREA REAL ESTATE STRATEGY AND WHAT CHANGED POST-COVID?

A. Prior to the COVID-19 pandemic, Duke Energy's original Charlotte area real estate strategy (approved in September 2018) was as follows:

- Construct and transact a sale/leaseback for a new office building to be constructed across from the Duke Energy Center at the 500 Block of South Tryon Street as additional office space
- Retain the Duke Energy Center, 550 S. Tryon St. (with an optimized number of floors), Tompkins Hall (Optimist Hall) 340 E. 16th Street and Mint Street Parking Deck
- Vacate and sell 526 South Church Street and 401 South College Street

- Vacate and end leases for 400 South Tryon Street, 550 S. Caldwell Street (NASCAR),[1] and 4720 Piedmont Row Dr. (Piedmont Town Center) at the effective lease termination dates.

Duke Energy's Charlotte real estate strategy post-COVID 19 (approved in September 2020) changed as follows:

- Evaluate the potential to divest of the Mint Street Parking Deck
- Vacate and early terminate the lease for Duke Energy Center, 550 S. Tryon Street by end of 2021.

Q. PLEASE EXPLAIN FURTHER HOW THE COVID-19 PANDEMIC IMPACTED DUKE ENERGY'S REAL ESTATE STRATEGY.

A. When the COVID-19 pandemic hit unexpectedly across the world during the first quarter of 2020, we were challenged to re-think how we work and interact together across the Duke Energy enterprise. Given the Company's success in maintaining efficient and reliable operations during the pandemic, the rapid adoption of new technologies that facilitate virtual work environments, and employees' desire for flexibility, Duke Energy launched an effort to brainstorm how we will work long-term in a post-COVID business environment. We sought to leverage our experience and learnings from having a large percentage of our employee population working remotely for an extended period during the pandemic.

[1] The facility located at 550 S. Caldwell, known as NASCAR, houses the Commercial Renewable Control Center and will continue to be leased. If Duke Energy decides and reaches agreement to sell the Commercial Renewable business, then the lease will transfer responsibility to the new owner.

Embracing this opportunity, a cross-functional group represented by Administrative Services, Human Resources, and Information Technology defined a post-pandemic workplace strategy known as WorkSmart that identified mobility classifications to assign to every teammate in the workforce. The classifications are as follows:

- <u>Field</u>: move freely in the service territories providing energy and delivering service to our customers while infrequently touching base in an office setting;
- <u>Virtual</u>: work from a remote location most of the time;
- <u>Onsite</u>: dedicated to work in an office setting and are assigned a workstation, and
- <u>Hybrid</u>: alternate between remote and office settings where shared space is reserved, as needed.

With this new way of working in mind, Duke Energy embarked on a comprehensive analysis of the real estate portfolio to identify opportunities to consolidate the footprint by using space more efficiently. This body of work is referred to internally as Enterprise Portfolio Optimization ("EPO"). The initial EPO efforts were focused on corporate and regional headquarter facilities because these buildings were identified as having the greatest opportunity for cost savings while considering an increase in hybrid and remote working. The EPO effort benefits the Company and its customers in that it:

- Supports the business need to consolidate by sharing our workspaces amongst our teammates which in turn reduces our real estate costs;
- Is expected to generate revenue opportunities through sub-leasing floors in buildings with space availability;

- Makes more efficient use of our space by bringing a fragmented worker population into fewer locations or floors while providing flexibility for future needs;
- Offers employees more choice to fit their desired workstyles, providing a variety of spaces in a vibrant workspace to compete for top talent and further spur innovation. Provides a more open work environment that fosters communication and enhances knowledge sharing; and
- Incorporates flexible, consistent workplace design, so future workplace solutions are less costly and faster to deliver.

Q. WHY IS DEC THE LESSEE FOR THE DUKE ENERGY PLAZA INSTEAD OF THE PARENT HOLDING COMPANY?

A. The principal reason Duke Energy designated DEC as the Tenant/Lessee of the Duke Energy Plaza is because it has a higher credit rating by the debt rating agencies than the parent holding company, Duke Energy. This resulted in a better lease rate (and lower net rents), including for DEC. Also, at the time the lease was executed (pre-COVID), the intention was that the primary occupants would be Carolinas utility employees, with some sub-leasing of space to other corporate functions (subject to asymmetrical pricing – "Higher of Cost or Market rents"). Post-COVID, we have adopted a hybrid office model and will be consolidating all Carolinas utility and corporate functions into the new building, which will also be the new headquarters. This will result in additional sub-leasing of space to non-utility functions (on favorable pricing/terms) as well as overall savings to customers from a reduction in allocated real estate costs, consistent with the Code of Conduct requirements.

Q. HOW DO THE ONGOING COSTS FOR THE DUKE ENERGY PLAZA BUILDING COMPARE TO THE COSTS THE COMPANY PREVIOUSLY PAID FOR OFFICE SPACE?

A. As I explained earlier, introducing the Duke Energy Plaza as the new headquarters in Charlotte, North Carolina provides an opportunity to vacate five facilities and consolidate our workforce into less space, in one primary facility in uptown Charlotte. In terms of ongoing costs, Duke Energy performed a financial analysis of the corporate-level cash view to compare the costs between two scenarios: 1) maintaining the status quo – *i.e.*, retain our current portfolio "as is", and 2) implementing the strategy to build the Duke Energy Plaza and divest of two owned assets and three leased facilities. The outcome of the corporate-level analysis indicates that there is an overall net positive result of approximately $5 million in annual cash savings by 2026.

IV. CONCLUSION

Q. IN SUMMARY, WHAT BENEFITS WILL THE DUKE ENERGY PLAZA PROVIDE TO DEC AND ITS AFFILIATES?

A. Some of the benefits include:

- Consolidating Duke Energy's Charlotte footprint from 2.5 million to 1.1 million square feet of space by divesting five facilities, which in turn, reduces Duke Energy's real estate footprint and supports our commitment to run the business in the most efficient way possible to benefit our customers.

- Duke Energy Plaza is a workplace designed to drive collaboration and innovation – both key to delivering the reliable, affordable, and increasingly clean energy our customers expect as we reach our goal of net-zero carbon emissions by 2050. In addition, consolidating the majority of our teammates in one facility promotes productivity with chance encounters and sharing of information while also reducing the travel time between buildings for scheduled meetings.
- Furthermore, the owned assets in uptown Charlotte, 526 S. Church Street and 401 S. College Street, are greater than 40-45 years old and well past their useful life which has resulted in an ongoing investment in break/fix maintenance year over year.
- By building and consolidating our workforce into the Duke Energy Plaza, Duke Energy will recognize total annual cash savings of approximately $5 million by 2026.

Therefore, the Company respectfully requests that the Commission approve inclusion of approximately $439 million in Duke Energy Plaza capital additions on a DEC North Carolina retail basis ($644 million total DEC system) in DEC's rate base as reasonable and prudent utility investment in this case.

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

A. Yes. It does.