

**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)	KARL W. NEWLIN
For Adjustments of Rates and Charges)	FOR DUKE ENERGY
Applicable to Electric Service in North Carolina)	CAROLINAS, LLC
and Performance-Based Regulation)	

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

3 A. My name is Karl W. Newlin. My business address is 400 South Tryon Street,
4 Charlotte, North Carolina, 28202. I am employed by Duke Energy Business
5 Services, LLC (“DEBS”) as Senior Vice President, Corporate Development and
6 Treasurer. DEBS provides various administrative and other services to Duke
7 Energy Carolinas, LLC, (“DEC,” or the “Company”) and other affiliated
8 companies of Duke Energy Corporation (“Duke Energy”).

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

11 A. I graduated from Southern Methodist University with a Bachelor of Business
12 Administration degree in 1991. I subsequently received a Master in Business
13 Administration degree from UCLA’s Anderson School of Management in 1998.
14 I am also a Chartered Financial Analyst.

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

16 A. In November 2018, I assumed the role of Senior Vice President, Corporate
17 Development and Treasurer for Duke Energy. Previously, I served as Senior
18 Vice President and Chief Commercial Officer for Duke Energy’s natural gas
19 business. In this role, I was responsible for gas commercial operations, which
20 included supply, wholesale marketing, transportation and pipeline services,
21 field customer service, sales and delivery, and business development. I was
22 named to this position following Duke Energy’s acquisition of Piedmont
23 Natural Gas (“Piedmont”) in October 2016.

1 I joined Piedmont in 2010 to manage it's strategic planning functions,
2 new business development activities and joint venture investments. In
3 November 2011, I was appointed to the position of Chief Financial Officer,
4 assuming responsibility for Piedmont's accounting, controller, finance,
5 treasurer, investor relations, insurance, credit policy, risk management and state
6 regulatory affairs areas. Prior to joining Piedmont, I served as Managing
7 Director of Investment Banking for Merrill Lynch & Co. in its New York and
8 Los Angeles offices.

9 **Q. PLEASE DESCRIBE YOUR DUTIES AS SENIOR VICE PRESIDENT,**
10 **CORPORATE DEVELOPMENT AND TREASURER.**

11 A. In my role as Treasurer, I am responsible for treasury-related services to Duke
12 Energy and its subsidiaries, including DEC. I monitor trends in the investment
13 markets and maintain key relationships with debt investors, analysts, and
14 financial institutions. Under my supervision, the Treasury Department arranges
15 and executes all capital raising and liquidity transactions, including credit
16 facilities and commercial paper, debt securities, preferred and hybrid securities,
17 and common stock, as well as daily cash management for Duke Energy and its
18 subsidiaries. My responsibilities include managing Duke Energy and its
19 subsidiaries' credit ratings and interactions with the major credit rating
20 agencies, commercial banks, and the capital markets. I am also responsible for
21 liability management and long-term investments. As head of corporate
22 development, I am responsible for the Company's corporate development
23 activities, as well as mergers and acquisitions.

1 **Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THIS COMMISSION**
2 **OR OTHER STATE PUBLIC UTILITY COMMISSIONS?**

3 A. Yes. I have testified before the North Carolina Utilities Commission on behalf
4 of DEC, Duke Energy Progress, LLC, and Piedmont.

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

7 A. My testimony will address DEC's financial objectives, capital structure, and
8 cost of capital. I will also discuss the current credit ratings and forecasted capital
9 needs of DEC. Throughout my testimony, I will emphasize the importance of
10 DEC's continued ability to meet its financial objectives.

11 **Q. PLEASE PROVIDE AN OVERVIEW OF YOUR TESTIMONY.**

12 A. As detailed in my testimony, DEC faces substantial capital needs over the next
13 several years. The Company competes for capital in the open market, and must
14 appeal to debt and Duke Energy's equity investors to attract the capital it needs.
15 As Dr. Roger Morin, a leading expert on utility finance, indicates, "[t]he ...
16 prices of debt capital and equity capital are set by supply and demand, and both
17 are influenced by the relationship between the risk and return expected for those
18 securities and the risks expected from the overall menu of available securities."
19 Morin, Roger A., *Modern Regulatory Finance* (PUR Books LLC 2021), at 27.
20 Investors have a variety of investment opportunities available to them, and
21 require a return commensurate with the risk they incur. They will invest
22 elsewhere if they feel the expected return provided by a company is inadequate,
23 and lower credit quality weakens a company's attractiveness as an investment

1 opportunity relative to companies with higher credit quality and similar return
2 profiles. For this reason, it is critically important that the Company maintain
3 strong, investment-grade credit quality to assure its financial strength and
4 flexibility and ensure access to capital on reasonable terms.

5 The Company is making significant capital investments to provide cost-
6 effective, safe, reliable, and increasingly cleaner electric service to its customers
7 well into the future. The Company's proposed rate increase will allow it to
8 recover prudently incurred costs, compete in the capital markets for needed
9 capital, and preserve its financial standing with both equity and debt investors
10 as well as the credit rating agencies, to the long-term benefit of customers.

11 **Q. WHAT ARE DEC'S FINANCIAL OBJECTIVES?**

12 A. Financial strength and access to capital are necessary for DEC to provide cost-
13 effective, safe, and reliable service to its customers. The Company, at all times,
14 seeks to maintain its financial strength and flexibility, including its strong
15 investment-grade credit ratings, ensuring reliable access to capital on
16 reasonable terms. Specific objectives that support financial strength and
17 flexibility include: (a) maintaining at least 53% common equity for DEC on a
18 financial capitalization basis; (b) ensuring timely recovery of prudently
19 incurred costs; (c) maintaining sufficient cash flows to meet obligations; and
20 (d) maintaining a sufficient return on equity to fairly compensate shareholders
21 for their invested capital. The ability to attract capital (both debt and equity) on
22 reasonable terms is vitally important to the Company and its customers, and

1 each of these specific objectives helps the Company both to maintain its
2 investment-grade credit ratings and to meet its overall financial objectives.

3 **Q. DO DEC'S CUSTOMERS BENEFIT FROM THE COMPANY'S**
4 **STRONG CREDIT RATINGS?**

5 A. Yes. To ensure reliable and cost-effective service, and to fulfill its obligations
6 to serve customers, the Company must continuously plan and execute major
7 capital projects. This is the nature of regulated, capital-intensive industries like
8 electric and gas utilities. The Company must be able to operate and maintain its
9 business without interruption and refinance maturing debt on time, regardless
10 of financial market conditions. The financial markets can experience periods of
11 volatility, and DEC must be able to finance its needs throughout such periods.
12 Strong investment-grade credit ratings provide DEC with greater access to the
13 capital markets on reasonable terms during such periods of volatility.

14 **Q. WHAT RATEMAKING TREATMENT IS BEING REQUESTED IN**
15 **THIS PROCEEDING AND HOW WILL THE COMPANY'S**
16 **FINANCIAL OBJECTIVES BE IMPACTED?**

17 A. As explained in the Company's Application and by Witness Quynh Bowman,
18 DEC is requesting a traditional base rate increase of approximately 7.1%,
19 equating to an increase in pre-tax revenue requirement of approximately \$371.5
20 million. The Company is also requesting a multiyear rate plan ("MYRP") in
21 this proceeding. Layering in capital projects associated with the MYRP, as
22 discussed by Witness Kathryn Taylor, adds an additional pre-tax revenue
23 requirement for each Rate Year. The incremental revenue requirement for each

1 Rate Year includes costs for a set of capital investments, net of operating
2 benefits, associated with the Company's proposed capital spending projects to
3 be placed in service during the Rate Year for each year. As further detailed in
4 Witness Taylor's testimony, the overall base rate revenue requirement increase
5 is \$139.8 million, \$171.5 million, and \$150.3 million in Rate Year 1, 2, and 3,
6 respectively. The proposed capitalization in this request is comprised of 47%
7 debt and 53% equity.

8 In addition, the requested increase reflects, in part, an increase in the
9 Company's cost of equity capital from the level approved by the Commission
10 in the Company's last general rate case. The testimony of the Company's Return
11 on Equity ("ROE") Witness, Dr. Robert Morin, indicates that the Company's
12 cost of equity capital is 10.4%, based upon his quantitative and qualitative
13 analyses.

14 Approval of the Company's request in this case will support its financial
15 objectives by allowing timely recovery of its investments in plant and
16 equipment, providing sufficient cash flows to fund necessary capital
17 expenditures and service debt, and providing a fair and reasonable return to
18 equity investors.

19 **Q. PLEASE EXPLAIN CREDIT QUALITY AND CREDIT RATINGS, AND**
20 **HOW THEY ARE DETERMINED.**

21 A. Credit quality (or creditworthiness) is a term used to describe a company's
22 overall financial health and its willingness and ability to repay all financial
23 obligations in full and on time. An assessment of DEC's creditworthiness is

1 performed by two major credit rating agencies, Standard & Poor's ("S&P") and
2 Moody's Investors Service ("Moody's"), and results in DEC's credit rating.

3 Many qualitative and quantitative factors go into this assessment.
4 Qualitative aspects may include DEC's regulatory climate, its track record for
5 delivering on its commitments, the strength of its management team, its
6 operating performance, and the economic vitality and customer profile of its
7 service area. Quantitative measures are primarily based on operating cash flow
8 and focus on the level at which DEC maintains debt leverage in relation to its
9 generation of cash and its ability to meet its fixed obligations (interest expense
10 in particular) based on internally-generated cash. The percentage of debt to total
11 capital is another example of a quantitative measure. Creditors and credit rating
12 agencies view both qualitative and quantitative factors in the aggregate when
13 assessing the credit quality of a company.

14 **Q. WHAT IS THE ROLE OF REGULATION IN THE DETERMINATION**
15 **OF THE FINANCIAL STRENGTH OF A UTILITY COMPANY?**

16 A. Investors, investment analysts and credit rating agencies regard constructive
17 regulation as one of the most important factors in assessing a utility company's
18 financial strength. These stakeholders want to be confident that the Company
19 operates in a stable regulatory environment that will allow the Company to
20 recover prudently incurred costs and earn a reasonable return on investments
21 necessary to meet the demand, reliability, service, and environmental
22 requirements of its customers and service area. Important considerations
23 include the allowed rate of return, the cash quality of earnings, the timely

1 recovery of capital investments, the stability of earnings, and the strength of its
2 capital structure. Positive consideration is also given for utilities operating in
3 states where the regulatory process is streamlined, the time lag in capital
4 investment recovery is minimized through cost recovery mechanisms such as
5 riders and trackers, and outcomes are equitably balanced between customers
6 and investors.

7 **Q. HOW ARE DEC'S OUTSTANDING SECURITIES CURRENTLY**
8 **RATED BY THE CREDIT RATING AGENCIES?**

9 A. As of the date of this testimony, DEC's outstanding debt is rated as follows:

Rating Agency	S&P	Moody's
Issuer / Corporate Credit Rating	BBB+	A2
Senior Secured	A	Aa3
Outlook	Stable	Stable

10 Obligations carrying a credit rating in the "A" category are considered strong,
11 investment-grade securities subject to low credit risk for the investor. "A" rated
12 debt is presumed to be somewhat susceptible to changes in circumstances and
13 economic conditions; however, the debt issuer's capacity to meet its financial
14 commitments is considered strong. By contrast, ratings in the "BBB" category
15 are considered adequate and have less assurance of access to the capital markets
16 in challenging market conditions. (AA and Aa category ratings for S&P and
17 Moody's, respectively, are stronger than A ratings.)

18 S&P may also modify its ratings with the use of a plus or minus sign to
19 further indicate the relative standing within a major rating category. An "A+"
20 credit rating is at the higher end of the "A" credit rating category and an "A-"
21 is at the lower end of the category. Moody's credit rating assignments use the

1 numbers “1”, “2” and “3”, with the numbers “1” and “3” analogous to a “+”
2 and “-”, respectively. For example, Moody’s credit ratings of “A2” and “A3”
3 would be analogous to “A” and “A-” credit ratings at S&P, respectively.

4 The ratings outlook assesses the potential direction of a long-term credit
5 rating over an intermediate term (typically six months to two years). DEC’s
6 “Stable” outlook at S&P and Moody’s means that those credit ratings are not
7 likely to change at this time; however, a change in outlook or rating could occur
8 if the Company experiences a change in its qualitative or quantitative credit
9 quality. S&P utilizes a family rating methodology, whereby the credit rating and
10 outlook of the parent company, Duke Energy Corporation, is applied to each of
11 the parent’s subsidiaries. S&P revised its outlook to “Stable” from “Negative”
12 on January 26, 2021, following the one-notch downgrade to the issuer credit
13 rating of Duke Energy Corporation and its subsidiaries. The downgrade
14 followed the coal ash settlement between DEC, Duke Energy Progress
15 (“DEP”), and other parties. S&P stated in its January 26, 2021, Duke Energy
16 Corporation report that “although the settlement resolves several complex
17 issues related to coal ash, the lack of a full recovery of its costs and the reduced
18 ROE on its future coal ash remediation demonstrates a modest increase in
19 business risk and somewhat erodes its forward-looking financial measures.”¹

¹ See S&P Global Ratings, Research Update “Duke Energy Corp. And Subsidiaries Downgraded To ‘BBB+’ On Coal Ash settlement, Outlook Stable,” January 26, 2021 (“January 2021 Duke Energy Corporation Report”).

1 **Q. WHAT STRENGTHS AND WEAKNESSES HAVE THE CREDIT**
2 **RATING AGENCIES IDENTIFIED WITH RESPECT TO DEC?**

3 A. The rating agencies believe DEC operates in a generally constructive regulatory
4 environment that supports long-term credit quality, and view the Company's
5 position within the Duke Energy corporate family as credit supportive.
6 However, the rating agencies have identified several challenges the Company
7 faces in maintaining its credit ratings. In March 2022, Moody's highlighted the
8 fact that DEC's financial metrics have fallen from the mid-to-high 20% range
9 to the low 20% range, and also identified several factors that could adversely
10 impact the Company's financial metrics (specifically, cash flow coverage
11 ratios), which, in turn, could affect its ratings.²

12 • Regulatory Lag: Moody's is particularly focused on downward pressure on
13 financial metrics due to regulatory lag, including in the recovery of coal ash
14 basin closure costs.

15 • Capital Expenditures: Moody's notes elevated capital expenditures for
16 electric distribution, new generation, modernization of the electric grid and
17 satisfying environmental compliance requirements, including coal ash basin
18 closure and remediation, will maintain pressure on credit metrics.

19 • Environmental Considerations: DEC has a higher carbon transition risk
20 profile, as a result of its current generation portfolio, than that of
21 transmission and distribution only companies. The Company is also

² See Moody's Investors Service, Credit Opinion, "Duke Energy Carolinas, LLC – Update to Credit Analysis," March 24, 2022 ("March 2022 DEC Report").

1 exposed to physical climate risks due to the location of its service territory
2 and the propensity for severe storms.

3 In addition to the risks identified by Moody's above, S&P, in its May
4 2022 research update, states that regulatory risks in South Carolina persists
5 following the 2019 rate case order denying recovery of certain coal ash costs,
6 which was affirmed by the South Carolina Supreme Court.³ As indicated
7 previously in my testimony, S&P also viewed the coal ash settlement in North
8 Carolina as negative for the company's credit quality and, as a result, revised
9 its assessment of the regulatory environment in North Carolina downward from
10 most credit supportive to highly credit supportive.

11 **Q. WHAT OUTLOOK DO THE RATING AGENCIES HAVE FOR U.S.**
12 **REGULATED UTILITIES IN 2023?**

13 A. In the Moody's outlook on U.S. regulated electric and gas utilities, published
14 on November 10, 2022, they revise their 2023 outlook on the sector from stable
15 to negative.⁴ Moody's cites that increasingly challenging business and financial
16 conditions as a result of higher natural gas prices, inflation and rising interest
17 rates will present residential customer affordability issues, which will raise the
18 level of uncertainty surrounding the timely recovery of costs. According to the
19 November 2022 Moody's Report, high natural gas prices and inflation could
20 hurt cash flow recovery in 2023 if regulators seek to limit the impact to
21 customer rates by delaying recovery or approving lower rate increases.

³ See S&P Global Ratings, "Duke Energy Carolinas LLC," May 4, 2022 ("May 2022 DEC Report").

⁴ See Moody's Investor Service, Outlook, "2023 outlook negative due to higher natural gas prices, inflation and rising interest rates" November 10, 2022 ("November 2022 Moody's Report").

1 Moody's also believes that the regulated utility sector may face additional
2 pressures on financial metrics as a result of potential delays in recovery or if
3 utilities are unable to garner strong regulatory support for overall cost recovery.
4 Financial metrics for regulated utilities have already been under pressure for the
5 past several years and have very little cushion heading into 2023 due to items
6 such as tax reform and sizeable capital plans. As utilities spend a large quantum
7 of capital to reduce carbon emissions and increase system reliability, inflation
8 and rising interest rates are factors that will negatively impact financial
9 performance. The November 2022 Moody's Report does point out that the U.S.
10 regulated utility outlook could return to stable if the sector's regulatory support
11 remains intact, natural gas prices settle at a level where full recovery of fuel and
12 purchased power costs aren't delayed beyond 12 months, overall inflation
13 moderates, interest rates stabilize and/or the sector's financial metrics remain at
14 current levels.

15 **Q. WHAT IS DEC'S PROPOSED CAPITAL STRUCTURE?**

16 A. As mentioned earlier in this testimony, DEC's proposed capital structure is 47%
17 long-term debt and 53% equity. The Company believes this proposed capital
18 structure is optimal for DEC, as it introduces an appropriate amount of risk due
19 to leverage while minimizing the weighted average cost of capital to customers.
20 Approval of the proposed capital structure will help DEC maintain its credit
21 quality. This level is also consistent with the Company's target credit ratings for
22 DEC.

1 **Q. DOES THE ACTUAL FINANCIAL CAPITAL STRUCTURE VARY**
2 **OVER TIME?**

3 A. Yes. It does. The specific debt/equity ratio will vary over time, depending on a
4 variety of factors, including, among other things, the timing and size of capital
5 investments and payments of large invoices, debt issuances, seasonality of
6 earnings, and dividend payments to the parent company. Achieving an approved
7 regulatory capital structure of 47/53 is consistent with the Company's financial
8 objectives and overall plan to maintain its ability to finance operations at rates
9 favorable for customers and DEC will manage its capital structure within
10 reasonable range of this base. As of December 31, 2021, DEC's capital structure
11 was 46.9% long-term debt and 53.1% equity.

12 **Q. WHAT IS DEC'S COST OF EQUITY?**

13 A. Witness Dr. Robert Morin, who has separately filed testimony, indicates that the
14 Company's cost of equity is 10.4%, and the Company supports Dr. Morin's
15 analysis.

16 **Q. WHAT ROLE DO EQUITY INVESTORS PLAY IN THE FINANCING**
17 **OF DEC, AND HOW WILL THE OUTCOME OF THIS CASE IMPACT**
18 **THESE INVESTORS?**

19 A. Equity investors provide the foundation of a company's capitalization by
20 providing significant amounts of capital, for which an appropriate economic
21 return is required. DEC compensates equity investors for the risk of their
22 investment in Duke Energy by targeting fair and adequate returns, a stable
23 dividend, and earnings growth – these are all necessary to preserve access to

1 equity capital. Returns to equity investors are realized only after all operating
2 expenses and fixed payment obligations (including debt principal and interest)
3 of the business have been paid. Because equity investors are the last to receive
4 surplus earnings and cash flows, their investment involves significantly more
5 risk. For this reason, equity investors require a higher return for their
6 investment. Equity investors expect utilities like DEC to recover their prudently
7 incurred costs and earn a fair and reasonable return for their investors. The
8 Company's proposal in this proceeding supports this investor requirement.

9 **Q. WHAT EFFECT DOES CAPITAL STRUCTURE AND RETURN ON**
10 **EQUITY HAVE ON CREDIT QUALITY?**

11 A. Capital structure and return on equity are important components of credit
12 quality. As mentioned in the previous answer, the greater the equity component
13 of capitalization, the safer the returns are to debt investors, which translates into
14 higher credit quality and lower borrowing costs. In addition, the allowed return
15 on equity is a key component in the generation of earnings and cash flows. An
16 adequate return on equity helps ensure equity investors receive fair
17 compensation for their investment while also helping to protect the interests of
18 debt investors.

19 A strong capital structure and an adequate return on equity provide
20 balance sheet protection and cash flow generation to support high credit quality.
21 High credit quality creates financial flexibility by providing more readily
22 available access to the capital markets on reasonable terms, and ultimately
23 lower debt financing costs. Conversely, a weak capital structure and an

1 inadequate allowed return on equity produces lower earnings and cash flows,
2 lowers credit quality, and may limit financial flexibility. As mentioned in my
3 testimony above, the coal ash settlement in North Carolina, including lower
4 authorized returns and the inability to fully recover prudently incurred costs,
5 were highlighted in S&P's Rating Action Rationale supporting their downgrade
6 for Duke Energy Corporation and its subsidiaries in January 2021⁵.

7 **Q. DO YOU BELIEVE THAT DEC'S CAPITAL STRUCTURE HAS AN**
8 **ADEQUATE EQUITY COMPONENT TO ENABLE DEP TO ACHIEVE**
9 **THE COMPANY'S FINANCIAL STRENGTH AND CREDIT QUALITY**
10 **OBJECTIVES?**

11 A. Yes. DEC's equity component, as requested in this case, enables it to maintain
12 current credit ratings and financial strength and flexibility. This level of equity
13 enables the Company to tolerate different business cycles while also providing
14 more confidence to the Company's lenders and bondholders. Like many
15 utilities, DEC is in a period of significant capital investment necessary to
16 provide cost-effective, safe, and reliable service to its customers in a time of
17 rising costs, lower load growth and rapidly evolving state and federal
18 requirements. The magnitude of its capital requirements dictates the need for a
19 strong equity component of the Company's capital structure to ensure access to
20 capital funding at reasonable terms.

⁵ See January 2021 Duke Energy Corporation Report.

1 **Q. WHAT IS DEC'S AVERAGE COST OF LONG-TERM DEBT?**

2 A. DEC's weighted average cost of long-term debt as of the end of the test year
3 (December 31, 2021) was 4.27%. The 4.31% cost of long-term debt used to
4 compute the Company's requested 7.54% weighted average cost of capital was
5 updated as of September 30, 2022. Over the last several years, DEC has been
6 taking advantage of low interest rates, steadily decreasing the weighted average
7 cost of long-term debt as older bonds are replaced with new, lower cost,
8 issuances. The Company will update the average cost of long-term debt
9 throughout the proceeding.

10 **Q. WHAT ARE DEC'S CAPITAL REQUIREMENTS OVER THE NEXT**
11 **FIVE YEARS?**

12 A. DEC faces substantial capital needs over the next several years to comply with
13 environmental requirements, refurbish, replace and upgrade aging
14 infrastructure; construct or acquire needed generation resources; strengthen and
15 modernize our energy grid; and satisfy its debt maturities. The Company's total
16 capital requirements, including MYRP projects for the next five years (2022-
17 2026) are projected to be approximately \$18.8 billion. This amount consists of
18 approximately \$16.8 billion in projected capital expenditures and
19 approximately \$2.0 billion in debt retirements.

20 **Q. HOW WILL DEC'S CAPITAL REQUIREMENTS BE FUNDED?**

21 A. DEC's capital requirements, including MYRP projects, are expected to be
22 funded from internal cash generation, the issuance of debt, and equity funding
23 from Duke Energy, as needed.

1 **Q. WHAT IS DEC FINANCING PLAN FOR THE CAPITAL SPENDING**
2 **PROJECTS FOR EACH YEAR OF THE MYRP (PBR FILING**
3 **REQUIREMENT R1-17(B)D SUB-PART I)?**

4 A. As noted above, Duke Energy Carolinas will finance projects under the MYRP
5 in the same manner it finances all of its capital needs, while maintaining the
6 Company's capital structure within a reasonable range of its regulatory
7 approved capital structure. To achieve market efficiencies and obtain the most
8 economical terms available, Duke Energy Carolinas will generally finance all
9 of its external capital needs for a given year, including capital spending projects
10 included in the MYRP, in a single long-term debt offering. During years with
11 substantially large capital requirements, the Company could raise capital via
12 multiple long-term debt offerings. Duke Energy Carolinas issues long term debt
13 securities (5 to 30 years) in the US institutional debt markets, which is an
14 efficient market for financing the Company's capital projects. While Duke
15 Energy Carolinas may and has in the past accessed the bank market for shorter
16 term, floating rate securities, these financing decisions and processes would not
17 change based on a MYRP.

18 **Q. DO YOU SUPPORT THE COMPANY'S ACCOUNTING REQUEST**
19 **RELATED TO COAL ASH BASIN CLOSURE COSTS?**

20 A. Yes. I worked with Witness Q. Bowman to evaluate the credit metric impacts
21 of joining a contemporaneous cost recovery mechanism with the Company's
22 existing "spend-defer-recover" mechanism for future coal ash basin closure
23 costs. As shown in Exhibit 5 to Witness Q. Bowman's testimony, implementing

1 a contemporaneous recovery mechanism would have a negative impact on the
2 Company's FFO/Debt credit metric while also increasing customer bills.
3 Therefore, it is in the best interest of the customers and the Company to continue
4 the accounting deferral treatment of environmental compliance costs.

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

6 A. Yes.