ACCEPTED FOR PROCESSING - 2019 February 21 9:55 AM - SCPSC - 2017-381-A - Page 1 of 76

Before the Public Service Commission of South Carolina
Columbia, South Carolina

Proceeding Number 11757 February 19, 2019 10:00 a.m.

Allowable Ex Parte Briefing 2017-381-A, 2013-298-E, and 2016-149-E
Proposed revisions to the DEC and DEP Residential Smart $aver EE Programs and Update on the Tax Cuts and Jobs Act

TRANSCRIPT OF ALLOWABLE
PROCEEDINGS EX PARTE BRIEFING

HEARING BEFORE: Chairman Comer H. "Randy" Randall; Commissioner John E. "Butch" Howard; Commissioner Thomas J. "Tom" Ervin; Commissioner Justin T. Williams; Commissioner Swain E. Whitfield; and Commissioner Florence P. Belser;

ADVISOR TO COMMISSION: Joseph Melchers, Esq.
Legal Advisory Staff

APPEARANCES

Frank Ellerbe, Esq., Samuel Wellborn, Esq., and Heather Shirley Smith, Esq., together with Tim Duff, Lynda Shafer, Laura Bateman and Cooper Monroe, representing and presenting for Duke Energy Carolinas, LLC and Duke Energy Progress, LLC

Jeffrey M. Nelson, Esq., representing the South Carolina Office of Regulatory Staff

REPORTED BY:
Kathleen R. Tackett, CVR-M

ORIGINAL

ACCEPTED FOR PROCESSING - 2019 February 21 9:55 AM - SCPSC - 2017-381-A - Page 2 of 76

INDEX

Opening Matters 3-7
Mr. Nelson 3
Mr. Wellborn 6

Presentation on Residential Smart $aver Program
Dockets 2013-298-E, and 2016-149-E
Tim Duff 7
(General Manager Customer Regulatory Strategy & Analytics, Duke Energy Carolinas, LLC and Duke Energy Progress, LLC)
Lynda Shafer 13
(Strategy & Collaboration Manager, Duke Energy Carolinas, LLC and Duke Energy Progress, LLC)

Question(s)/Comment by Commissioner Whitfield 16
Question(s)/Comment by Commissioner Howard 19
Question(s)/Comment by Commissioner Ervin 25
Question(s)/Comment by Commissioner Williams 32
Question(s)/Comment by Commissioner Ervin 44
Question(s)/Comment by Chairman Randall 45

Introduction by Ms. Smith 47

Presentation on Tax Cuts and Jobs Act
Docket 2017-381-A
Laura Bateman 48, 51, 61
(Director of Rates and Regulatory Planning, Duke Energy Carolinas, LLC and Duke Energy Progress, LLC)
Cooper Monroe 49, 53
(Director, Tax, Duke Energy Carolinas, LLC and Duke Energy Progress, LLC)

Question(s)/Comment by Commissioner Howard 69
Question(s)/Comment by Commissioner Whitfield 70

Closing Matters 75

Please note the following inclusions/attachments to the record:

PowerPoint Presentation Slides (PDF) re: "Duke Energy Residential Smart $aver Modifications."

PowerPoint Presentation Slides (PDF) re: "Tax Cuts and Jobs Act."

ACCEPTED FOR PROCESSING - 2019 February 21 9:55 AM - SCPSC - 2017-381-A - Page 3 of 76

PROCEEDINGS

CHAIRMAN RANDALL: Please be seated. Good morning, everybody. Am I on? I just don't seem to be ringing. Okay. Yeah.

Good morning, everyone, and welcome to this ex parte briefing. I'm going to ask Mr. Melchers to read the docket.

MR. MELCHERS: Thank you, Mr. Chairman. Commissioners, we're here pursuant to a notice of request for allowable ex parte communication briefing requested by Duke Energy Carolinas, LLC, and Duke Energy Progress, LLC, scheduled for today, February 19th at 10 a.m., here in the commission hearing room. There are two subjects to be discussed at the briefing: proposed revisions to the Residential Smart $aver EE Programs concerning Docket Numbers 213-298-E and 216-149-E and also update on the Tax Cuts and Jobs Act, Docket Number 217-381-A. Thank you, Mr. Chairman.

CHAIRMAN RANDALL: Thank you, Mr. Melchers. Now I'll turn it over to Mr. Jeff Nelson from ORS to go over the rules.

MR. NELSON: Thank you, Mr. Chairman. Commissioners, thank you for having us -- or for having the Company in this morning to -- to discuss these

ACCEPTED FOR PROCESSING - 2019 February 21 9:55 AM - SCPSC - 2017-381-A - Page 4 of 76

issues. For those of you that don't know me, I'm Jeff Nelson. I'm the chief legal officer for the Office of Regulatory Staff. I'm here today as the designee for the executive director of the Office of Regulatory Staff for this allowable ex parte, which is to be presented by Duke Energy Carolinas and Duke Energy Progress in accordance with the provisions of South Carolina Code Annotated Section 58-3-260(C).

As the ORS representative, it's my duty to certify the record of this proceeding to the chief clerk, which is Ms. Jocelyn Boyd, of the Public Service Commission within the next 72 hours and to verify that this -- this -- these, I guess, allowable ex partes have been conducted in accordance with 58-3-260. The requirements of that statute are, in part, that the allowable ex parte be confined to the subject matter that has been noticed. In this case, as Mr. Melchers has just mentioned, those two topics today are, first, update on the Tax Cuts and Jobs Act and, secondly, the proposed revisions to the Residential Smart $aver EE Programs. Therefore, I ask the presenters, commissioners, and staff to refrain from going outside of the parameters of these two

ACCEPTED FOR PROCESSING - 2019 February 21 9:55 AM - SCPSC - 2017-381-A - Page 5 of 76

issues that have been noticed.

Under 58-3-260, participants, commissioners, and commission staff are prohibited from requesting or giving any commitment, predetermination, or prediction regarding any action by any commissioner as to any ultimate or penultimate issue which either is before or is likely to come before the Commission. In short, the -- the presenters can't ask the commissioners for anything, and the commissioners can't give their opinion on anything.

Finally, I would ask everyone that is in attendance today to please -- you should have signed in when you came in, and you should have picked up a form, as well, when you came in. Please make sure that you read, sign, and return the form before you leave today.

Thank you, Mr. Chairman.

CHAIRMAN RANDALL: Thank you, Mr. Nelson. Before we continue -- I almost forgot -- I just wanted to welcome our newest commissioner, Ms. Florence Belser.

COMMISSIONER BELSER: Thank you.

CHAIRMAN RANDALL: Welcome. And sitting in on our first -- first meeting, so we're glad you're here.

Okay. Is it -- who's -- who's stepping up? I

ACCEPTED FOR PROCESSING - 2019 February 21 9:55 AM - SCPSC - 2017-381-A - Page 6 of 76

1 didn't know who was the -- who was the person on --
2 on board, so . . .
3 MR. WELLBORN: Good morning, Mr. Chairman,
4 Commissioners, Commissioner Belser, and
5 Mr. Melchers. Thank you for your time this morning
6 in allow us -- allowing us to share this
7 information with you. I'm Sam Wellborn, counsel
8 for Duke Energy Carolinas and Duke Energy Progress.
9 We have two ex parte briefings scheduled for this
10 morning. The first will cover the Company's Smart
11 $aver Program modifications, and the second will
12 provide an update on the Tax Cuts and Job Acts.
13 On the Smart $aver panel are Tim Duff and
14 Lynda Shafer. Mr. Duff is general -- general
15 manager of customer solutions, regulatory strategy,
16 and evaluation. As such, he oversees our
17 regulatory strategy and approval processes related
18 to customer product and service offerings for Duke
19 Energy's eight utility operating companies,
20 including the Company's EDSM offerings.
21 Lynda Shafer is South Carolina's strategy and
22 collaboration manager for DSM EE programs, and
23 she's responsible for stakeholder engagement and
24 the regulatory filing process associated with
25 customer product and service offerings in South

ACCEPTED FOR PROCESSING - 2019 February 21 9:55 AM - SCPSC - 2017-381-A - Page 7 of 76

Carolina. We've cautioned the panelists to speak clearly and to try not to speak over each other for the benefit of the court reporter. And, again, thank you for your time. And I'll go ahead and turn things over to our panel.

CHAIRMAN RANDALL: Thank you, Mr. Wellborn. Welcome. We'll turn it over to you.

MR. TIM DUFF (DUKE): Good morning. Thanks for having us.

(Reference: Presentation Slide 1)

I really wanted to start off just by giving a little background on the energy-efficiency programs that Duke Energy Carolinas and Duke Energy Progress have offered here in the great state of South Carolina since approximately 2008. And we've really aggressively pursued offering our customers cost-effective energy-efficiency programs to both help participants save on their bills, as well as to avoid long-term system costs associated with energy. And, according to that, we've seen a lot of growth in our programs and have actually been lauded by some of the environmental groups as being the only Southeast utility -- utilities, I should say, because both of them actually exceeded the national average of 0.69 percent of retail sales

ACCEPTED FOR PROCESSING - 2019 February 21 9:55 AM - SCPSC - 2017-381-A - Page 8 of 76

energy saved in a year in 2017. So we're really proud of those accomplishments and really are -- in addition to our commitment, are really positive with respect to the regulatory framework and flexibility that we have here in South Carolina to help get programs approved and modify them in order to best meet the needs of our customers.

(Reference: Presentation Slide 2)

And, so, I'm going to start off by just giving a quick overview of our portfolio. We have both residential and nonresidential programs. We have the Energy Efficiency Appliance and Devices Program on the residential side, which really allows customers to purchase or receive lighting and other kind of low-cost energy-efficiency measures that they can purchase and install in their homes on their own.

We also have the Residential Smart $aver Program, which is the subject of the -- is -- of the ex parte briefing today, which really deals with a little bit more intensive measures: the HVAC program -- HVAC-related measures, ducts, water heaters, and pool pumps.

We have the Home Energy House Call and assessments where we actually go out and do an

ACCEPTED FOR PROCESSING - 2019 February 21 9:55 AM - SCPSC - 2017-381-A - Page 9 of 76

audit on the customer's home to provide them an idea of things that they can do within their home to become more energy efficient.

We have a multi-family program, which is directed at that little harder-to-reach segment where you have customers who may not own the property and -- but still could benefit from having energy efficiency, so it's really focused at trying to get measures installed into those hard-to-reach customer's residence.

We have the Energy Efficiency Education Program, which is designed to provide an education component to students in -- in K-12 elementary -- K-12 schools and then give them energy-efficiency tips and a kit, which allows them to see the benefits of energy efficiency in their home.

We have the My Home Energy Report program, which is really a broad-engagement program that is intended to get customers to be aware of their energy usage in comparison to both their neighbors in like homes as well as in energy-efficient homes so that they're motivated. And it provides them tips on how to actually strive to become more efficient.

And then we have the Residential New

Construction programs on the D -- on the Duke Energy Progress side, which is really designed to get measures installed to get a home to be its most efficient at being built rather than having to do a retrofit.

We also have demand-response programs on the residential side with the Energy Wise Home program and Power Manager for DEC, and these programs allow customers to participate and receive an incentive for giving the Company control of mostly their air conditioners where we are allowed to basically shed load. We give them notice, and we can press a button and shed load from those devices during critical peak events.

On the non-residential side, we have the Small Business Energy Saver, which is a program targeted at a -- again, a harder-to-reach segment, and that involves going out to small energy -- small businesses and providing an onsite audit and evaluation of efficiency projects that can be undertaken and then on -- based off of that audit, either providing financing or scheduling the actual installation of the efficiency.

We have a broad program, which is the nonresidential Smart $aver Prescriptive program,

ACCEPTED FOR PROCESSING - 2019 February 21 9:55 AM - SCPSC - 2017-381-A - Page 10 of 76

which allows customers to select from over 200 different measures that provide efficiency above the standard efficiency, and they can go out and see what the actual incentive is per unit that they would install of that efficient equipment.

We have an assessment and design assistance program, again, to give customers information up front on what efficiency capabilities are out there for their premises and what they can take advantage of.

We have the Smart $aver Custom, which is something that's a little bit more focused on the large customers who are very heterogenous in nature, meaning that they have very different operations, and so the incentive is actually calculated on a case-by-case basis for them based off of the overall efficiency installation, rather than looking at it by piece of equipment.

And then we have the performance incentive program, which is similar to the custom program but allows the Company to kind of tailor the incentive to be paid over time because there's a -- a behavioral component or operational component that's a little bit more variable than under a custom program. So if somebody puts in an energy

ACCEPTED FOR PROCESSING - 2019 February 21 9:55 AM - SCPSC - 2017-381-A - Page 11 of 76

management system, how they use that energy management system could vary over time, and so we use this program to not pay all the incentive up front until we can make sure that the original estimate is actually verified over time.

And then, finally, we have demand response programs on the non-residential side in the form of the Energy Wise for Business, Power Share, and CIG Demand Response Automation. And these are similar programs to the residential side except basically customers are receiving incentive for the right to give them notice of when they need to shed load during an event. And if they don't shed load, there's obviously a penalty associated with it.

So that's our portfolio of approved programs. And, again, Lynda's going to be talking about the Residential Smart $aver program, which is a really important program for us because, as you all know, HVAC is a really critical piece. It's almost 40 percent of the average residential customer's energy consumption, so the modifications that were proposed were really designed to help make that program as robust as possible. And, with that, I'll turn it over to Lynda.

(Reference: Presentation Slide 3)

ACCEPTED FOR PROCESSING - 2019 February 21 9:55 AM - SCPSC - 2017-381-A - Page 12 of 76

ACCEPTED FOR PROCESSING - 2019 February 21 9:55 AM - SCPSC - 2017-381-A - Page 13 of 76

MS. LYNDA SHAFER (DUKE): Thank you. Good morning, Commissioners. Thank you for letting us talk about our Residential Smart $aver program.

So we cannot talk about our energy-efficiency programs without talking about cost-effectiveness. And when we talk about cost-effectiveness, we are specifically talking about whether or not our programs pass the cost-effectiveness test. The primary ones we look at are the utility cost test and the total resource cost test: the UCT and the TRC.

Both of these tests essentially do the same thing. They measure whether or not the benefits of a program exceed its costs. In the case of the UCT, we're looking at the benefits and the costs that accrue to the utility system and then are ultimately passed along to the ratepayer. For the TRC, we're looking at the same thing, but we add in the piece that the participating customer has to pay -- has to pay to participate, specifically: What are the incremental costs of upgrading to higher-efficiency equipment?

Those incremental costs are what brings us here today. We keep a very close eye on those because, when we design a rebate or an incentive

ACCEPTED FOR PROCESSING - 2019 February 21 9:55 AM - SCPSC - 2017-381-A - Page 14 of 76

for a program, we have to find a balance between the projected lifetime kilowatt-hour savings that that equipment is likely to generate and the incremental cost to the customer. If the rebate isn't high enough, we won't push anybody over the edge, but if the rebate is too high, then we will inadvertently pass higher costs along to the ratepayer than what we should and we will make our programs less cost-effective.

So as the market changes, these incremental costs change, and it's somewhat frustrating because we don't have any control over the incremental costs. We just watch them and adjust. And that's why we requested the modifications that we did to our tariff because the incremental cost of high-efficiency HVAC equipment has dropped and so our rebate has to drop accordingly in order preserve our cost-effectiveness.

(Reference: Presentation Slide 4)

We currently have the upper limit of these rebates printed on our tariff, but our rebate has dropped and having those higher numbers on the tariff could create customer confusion. To come back and continually update those numbers would create a -- a condition of regulatory lag that

could cause us to pass on higher costs to ratepayers than we should, so we would like to remove that confusion by removing this upper limit of -- that we have printed on our tariffs. That way we can preserve the cost-effectiveness of the program and react as quickly as possible to market changes.

We also mentioned, in our filing, some other changes that we've made to the program or would like to make. One is that we need to recalculate our TRC score. We -- we calculate this frequently. We file it with the ORS as part of our annual filing, but since the incremental cost to customers has changed, the TRC score also needs to change. So we wanted to make you aware of that.

We also are working to build cost-effectiveness in another way. We have a referral channel where our trade allies -- our contractors that work with our program -- when they get a customer to purchase HVAC as a result of a lead that Duke generated for them, they pay Duke a referral fee. We take that referral free -- fee and defer program costs with it, so it makes our program more cost-effective. We also have contractors and trade allies that go through the

ACCEPTED FOR PROCESSING - 2019 February 21 9:55 AM - SCPSC - 2017-381-A - Page 15 of 76

ACCEPTED FOR PROCESSING - 2019 February 21 9:55 AM - SCPSC - 2017-381-A - Page 16 of 76

normal channel where they just have a customer that wanders into their store, and they sell them a HVAC and then file for the rebate. Over the next three years, we would like to transition all of our rebates through the referral system in order to -- to funnel those referral fees and defer our program costs.

And then, lastly, we've asked for the 90-day time frame for filing applications for rebates to be removed from the tariff and, instead, reference the time frame we have on the website because the time frame on the website is shorter and it will allow us to get rebates to the customers faster.

So the primary goal in all of these changes is to preserve this important program for our customers. We need it to remain cost-effective so we can continue to offer it and accrue these benefits for all our ratepayers. Thank you.

CHAIRMAN RANDALL: Okay. So is that -- that concludes everything. So, Commissioners, questions? Commissioner Whitfield?

COMMISSIONER WHITFIELD: Yes. Thank you, Mr. Chairman. I guess my questions might be to both of you, but perhaps a little bit more toward you, Ms. Shafer. You said -- or maybe Mr. Duff said that 40 percent

of the costs were attributed to -- I think you said that, Mr. Duff -- that were attributed to HVAC systems; is that right?

MR. TIM DUFF (DUKE): Yes. That's an approximation of the percent of energy usage and energy cost that's associated with the HVAC. That's an average.

COMMISSIONER WHITFIELD: Right. That's kind -- what I thought I heard you say.

And, Ms. Shafer, you were talking about the incremental costs falling related to HVAC and you needed to adjust your tariff accordingly, and you got -- that's what it says in your slide, as well. How much has that incremental cost fallen and could you, I guess, define accordingly a little bit more or -- what we're talking about?

MS. LYNDA SHAFER (DUKE): The incremental cost, according to our calculations, has fallen in excess of 20 percent. (To Mr. Duff) Do you want to add?

MR. TIM DUFF (DUKE): Yeah. I was just going to add that we recently had a standard change about two years ago, which increased the efficiency requirement for the baseline of a unit. And so whenever you see that standard or that technology change, you're going to see, kind of, the new technology be expensive. And then, as it's -- as

ACCEPTED FOR PROCESSING - 2019 February 21 9:55 AM - SCPSC - 2017-381-A - Page 17 of 76

it becomes kind of the standard in the manufacturing process, it does come down over time, which is why we've seen it come down as Ms. Shafer mentioned.

COMMISSIONER WHITFIELD: I know, Ms. Shafer, I think you said some of these things were on your website. But how is it, without these tariffs being published like that with -- with -- in numbers like that, how is a customer going to see -- be able to find these changes or -- or what you're proposing? How do you think -- how will it be transparent to the -- to the customer?

MS. LYNDA SHAFER (DUKE): They'll use our trade allies, which is what they already do, because the numbers that we have on the tariff now are the upper limits of the rebate, and they've already dropped. So I think right now we have $600 on there as our highest rebate, but our highest rebate currently is only 400. So the tariff captures what the upper limit is, but that could also create confusion for the customer if they think that Duke is --

COMMISSIONER WHITFIELD: Right.

MS. LYNDA SHAFER (DUKE): -- able to offer them 600 but they're only getting 400. So it's more efficient for us to communicate directly through our trade

ACCEPTED FOR PROCESSING - 2019 February 21 9:55 AM - SCPSC - 2017-381-A - Page 18 of 76

allies and to put that information on our website.

COMMISSIONER WHITFIELD: Okay. I guess, lastly, the other change you mentioned -- and it was you, Ms. Shafer -- talking about going from a 90-day application time to a shorter time. What time frame do you --

MS. LYNDA SHAFER (DUKE): Currently, we have 60 days on the website, and so we would be able to get the rebate to the customer a month faster.

COMMISSIONER WHITFIELD: Okay. I think that's your last bullet point: shortened time for customers to wait for their rebates.

MS. LYNDA SHAFER (DUKE): Yes, sir.

COMMISSIONER WHITFIELD: All right. Thank you.

That's all I have at this time, Mr. Chairman.

CHAIRMAN RANDALL: Thank you. Commissioner Howard?

COMMISSIONER HOWARD: Thank both of you.

I'm trying to think of the impact of the whole program in relationship to your total rate base. How much of the program -- do you put all the program rate base at rates or what percent of the program you put in rates?

MS. LYNDA SHAFER (DUKE): We put all of the program costs in our annual rider. And so any program that is cost-effective, then we're eligible to get

ACCEPTED FOR PROCESSING - 2019 February 21 9:55 AM - SCPSC - 2017-381-A - Page 19 of 76

reimbursement for that program through our annual rider, which will be -- our DEC rider will be filed on March 1st.

COMMISSIONER HOWARD: A lot of these programs --

MS. LYNDA SHAFER (DUKE): I mean --

COMMISSIONER HOWARD: Excuse me. A lot of these programs, to me, need the advantage of advanced metering. Do you agree with that or --

MS. LYNDA SHAFER (DUKE): I think advanced metering will help us to know how to serve our customers better. We'll have better data, and we'll be able to communicate with them better.

COMMISSIONER HOWARD: How many of your customers you can -- numbers or percentage-wise, probably better -- have advanced metering capabilities?

MS. LYNDA SHAFER (DUKE): I'll have to defer that to Mr. Duff.

MR. TIM DUFF (DUKE): I -- I really don't have the specific percentage. I would say it's -- it's likely greater than 60 percent in -- in South Carolina. Could be --

COMMISSIONER HOWARD: Sixty?

MR. TIM DUFF (DUKE): It could -- it could be higher.

COMMISSIONER HOWARD: Sixty percent?

MR. TIM DUFF (DUKE): Yeah.

ACCEPTED FOR PROCESSING - 2019 February 21 9:55 AM - SCPSC - 2017-381-A - Page 20 of 76

ACCEPTED FOR PROCESSING - 2019 February 21 9:55 AM - SCPSC - 2017-381-A - Page 21 of 76

COMMISSIONER HOWARD: That's high enough.

You got one of the bullet points: "income-qualified programs." What are income-qualified programs?

MR. TIM DUFF (DUKE): So we offer a -- a number of different programs, whether it be DEP or DEC, that are designed to help customers that are below 200 percent of the federal poverty guideline, so they provide higher incentives. In some case, measures where other customers would have to pay -- pay a percentage or a part of the cost, they'll provide the entire measure at no cost for the customer. And those programs generally won't be cost-effective because they are providing a higher incentive, but it's really the only way to help that segment of the -- of our customer base that is so much in need of energy savings and bill savings.

COMMISSIONER HOWARD: That could be a segue to my next question. It seems to me that the people that's going to probably have less advantages of this program: the low-income people, particularly those that live in, Number 1, rented mobile homes. Because mobile homes, as I understand it unless things have changed in the last couple years, are very inefficient as far as energy-efficiency

ACCEPTED FOR PROCESSING - 2019 February 21 9:55 AM - SCPSC - 2017-381-A - Page 22 of 76

1 programs. As far as, if you've got a mobile home,
2 it'd be a totally inefficient residence. And then
3 a lot of them are rented, and a landlord doesn't
4 want to spend the problem -- the money to -- to
5 make a home in efficiency, but -- however, the
6 ratepayer of that house, the renter, still has to
7 pay their rate bill. Plus, he has to pay for these
8 other programs, you know, that are in -- in the
9 rates. Can you explain this to me, or you got any
10 suggestions? Or "that's just life and just suck it
11 up and move on"?
12 MR. TIM DUFF (DUKE): I would say, in general, that we
13 do try and have programs and measures for customers
14 even in those homes that can be installed,
15 particularly lighting measures. If you can inform
16 them about behavior that they can take to try and
17 improve their efficiency, those can help them, as
18 well.
19 And then I would say, beyond your -- kind of a
20 broad -- the broader question you ask is: How does
21 it help them? Well, by having all customers
22 participate and become more efficient and -- and by
23 the very nature of the fact that the programs are
24 cost-effective, the system-avoided costs are
25 greater than the program costs that are being borne

by all customers through the energy efficiency and DSM rider.

COMMISSIONER HOWARD: You look at the system, not the individual?

MR. TIM DUFF (DUKE): We look at it -- we look at it kind of both ways. We look at a test called the "participant test" for each individual program and file those scores, as well, with our programs.

COMMISSIONER HOWARD: You're in multiple states. What, five/six states y'all are in?

MR. TIM DUFF (DUKE): Six.

COMMISSIONER HOWARD: Is this program pretty well the same in all the states?

MR. TIM DUFF (DUKE): It varies -- it varies some because we have some very different climates in some jurisdictions and some very different regulatory frameworks. But we try and have as many of the same programs, in terms of a broad structure, that we can, simply because it allows us to spread the costs out to a greater basis and find efficiencies with scale.

COMMISSIONER HOWARD: I'm trying to think how to verbalize this, and I'm going to mess it up, so I'll just go ahead anyway. Could or do we have, in South Carolina, a favored nation status? In other

ACCEPTED FOR PROCESSING - 2019 February 21 9:55 AM - SCPSC - 2017-381-A - Page 23 of 76

words -- you're in, what, Kentucky?

MR. TIM DUFF (DUKE): Yes.

COMMISSIONER HOWARD: If Kentucky has a program that's more energy efficient and saving customers more, will that program be passed onto South Carolina? I mean, I guess I'm looking for -- for the lack of a better word -- favored nation status in -- in your energy efficiency.

MR. TIM DUFF (DUKE): So what I would say is -- is there's no -- there's no doubt in my mind -- I don't know if it's a favored nation status that I would classify it as, but we always look at what we do in our other states and are constantly trying to learn. And if there are opportunities for program designs and modifications that we've seen in other states, we will try to bring those to South Carolina, as well as our other jurisdictions.

Now, sometimes it could be climate differences. Something in Ohio that might work may be different in South Carolina because there's a pretty distinct climate zone difference. But we are always looking for, not only just the general program, but how the program's administered. We're looking for best practices across our utilities to bring those to South Carolina.

ACCEPTED FOR PROCESSING - 2019 February 21 9:55 AM - SCPSC - 2017-381-A - Page 24 of 76

ACCEPTED FOR PROCESSING - 2019 February 21 9:55 AM - SCPSC - 2017-381-A - Page 25 of 76

COMMISSIONER HOWARD: You mentioned residential new construction programs, and then there was a caveat that's particularly on the Progress side. What happened? Why isn't that the same on the Duke Carolinas side?

MR. TIM DUFF (DUKE): So the Duke Energy Progress Residential New Construction Program was actually instituted prior to the Duke Carolinas and Progress merger, and so it's been in the market for a long time. Duke Energy Carolinas has evaluated it. We've had some concerns from some of the gas companies regarding the impact it could have on fuel switching, and so we've actually been -- are currently meeting with them to discuss their concerns and potentially try and bring that program to Duke Energy Carolinas, as well.

COMMISSIONER HOWARD: Thank you both very much. Enjoyed your presentations.

CHAIRMAN RANDALL: Commissioner Ervin.

COMMISSIONER ERVIN: Thank you, Mr. Chairman.

Good morning. Thank you for coming this morning. Just to follow up on prior questions about what other states are doing: I'd be interested in what other public service commissions have done as it relates to -- to these similar

ACCEPTED FOR PROCESSING - 2019 February 21 9:55 AM - SCPSC - 2017-381-A - Page 26 of 76

requests. Have -- have they been adopted, for example, in North Carolina by the PSC there?

MS. LYNDA SHAFER (DUKE): Yes, sir. The requests for DEC's changes have been approved. The requests for DEP's changes are slightly more broad than what we've talked about here today, and they are currently being considered.

COMMISSIONER ERVIN: Did they -- can you tell me: What do you mean by "slightly more broad"?

MS. LYNDA SHAFER (DUKE): DEC has a online store that is being expanded to DEP's territory, and so the filing includes that expansion. So it's not just about these changes to --

COMMISSIONER ERVIN: Okay.

MS. LYNDA SHAFER (DUKE): -- Residential Smart $aver.

COMMISSIONER ERVIN: I understand. But they -- the -- the North Carolina Public Service Commission did adopt, essentially, these changes for their ratepayers?

MS. LYNDA SHAFER (DUKE): Yes, sir.

COMMISSIONER ERVIN: Okay. Do you know about when that was done?

MS. LYNDA SHAFER (DUKE): I think we got that order in January.

MR. TIM DUFF (DUKE): Yeah. I believe it was mid -- it

was mid-January.

COMMISSIONER ERVIN: Could you make a -- a copy available to us of that order --

MS. LYNDA SHAFER (DUKE): Yes, sir.

COMMISSIONER ERVIN: -- please, to see exactly how it was filed?

MS. LYNDA SHAFER (DUKE): Yes, sir.

COMMISSIONER ERVIN: Thank you.

In terms of the programs that are available, what -- what efforts do you employ to get the word out to your customers? Do you -- do you do it by bill inserts or online on your website or both?

MS. LYNDA SHAFER (DUKE): All of the above.

COMMISSIONER ERVIN: Okay.

MS. LYNDA SHAFER (DUKE): Including mass media, radio, everything we can do.

COMMISSIONER ERVIN: And what percentage of the customers are taking advantage of these programs in South Carolina, if you know?

MS. LYNDA SHAFER (DUKE): Tim?

MR. TIM DUFF (DUKE): I don't have the percentage of customers, and it's -- it's a hard thing to measure because we count participation differently for a different program. So, for example, in the Efficient Appliance and Devices Program, a bulb is

ACCEPTED FOR PROCESSING - 2019 February 21 9:55 AM - SCPSC - 2017-381-A - Page 27 of 76

a -- is a -- is a mark of participation. For the HVAC, it's an actual customer. So it's a -- it's kind of an apples and oranges. So, unfortunately, I don't have that number for you.

MS. LYNDA SHAFER (DUKE): I -- I don't have it as a percentage, but I can tell you in 2018 we incentivized 2600 HVAC units in the Carolinas.

COMMISSIONER ERVIN: And that's in both North and South Carolina --

MS. LYNDA SHAFER (DUKE): Yes, sir.

COMMISSIONER ERVIN: -- combined?

MS. LYNDA SHAFER (DUKE): Uh-huh.

COMMISSIONER ERVIN: Okay. That seems still a fairly low number. I'm just wondering if -- is -- is there any way to -- to -- to get the word out to -- to more people on a broader basis?

MS. LYNDA SHAFER (DUKE): We -- we are constantly pursuing more participants in this program, but it's difficult because of the large capital investment that's required up front. And, generally, people don't replace their air conditioner until they break.

COMMISSIONER ERVIN: Right.

MS. LYNDA SHAFER (DUKE): So we kind of have to wait.

COMMISSIONER ERVIN: Have you tried to reach out to HVAC

ACCEPTED FOR PROCESSING - 2019 February 21 9:55 AM - SCPSC - 2017-381-A - Page 28 of 76

ACCEPTED FOR PROCESSING - 2019 February 21 9:55 AM - SCPSC - 2017-381-A - Page 29 of 76

1 providers in the -- in the area to -- to make them
2 aware of the programs?
3 MS. LYNDA SHAFER (DUKE): Yes, sir. We have. And we
4 are currently pursuing doing that even more as a
5 mid-stream channel for distribution.
6 COMMISSIONER ERVIN: Great. And -- because it would
7 seem that might be a -- a good point of entry to
8 try to -- to -- if you could educate them on what's
9 available, then they could pass on to their
10 customers --
11 MS. LYNDA SHAFER (DUKE): Yes, sir.
12 COMMISSIONER ERVIN: -- or make them aware of potential
13 rebates and savings.
14 What about home builders? Have you reached
15 out to -- for example, to South Carolina Home
16 Builders Association in -- in any way to -- to make
17 them aware of what they can do in -- in terms of
18 renovation or new construction of residential
19 ratepayers?
20 MR. TIM DUFF (DUKE): So on the DEP side, yes.
21 Definitely home builders have been reached out to
22 with respect to that Residential New Construction
23 Program, and we'd like to bring it to DEC soon --
24 as soon as we can kind of rectify some of the
25 concerns regarding the expansion into DEC. It's

ACCEPTED FOR PROCESSING - 2019 February 21 9:55 AM - SCPSC - 2017-381-A - Page 30 of 76

kind of a fortunate thing that the DE -- DEP program's already approved because they didn't raise that concern originally.

COMMISSIONER ERVIN: I'm pleased to hear that you're making that effort. It just seems that, you know, the more we can do, the better. This is the low-hanging fruit that -- that really, if we could get everyone on board, we could -- we could see significant cost savings for -- for ratepayers. And so I -- I commend your efforts. I just am wondering if there are best practices in other jurisdictions. For example, in the South, obviously, bills are going to be running a lot higher during the summer season. Have you looked at other states to see what some of their best practices are in trying to reach customers? Is there just kind of a national -- a regional standard, for example?

MR. TIM DUFF (DUKE): Yes. As I mentioned, we -- we do. We talk with other utilities, as well, that are a member of a number of kind of regional organizations that look at efficiency that's going on in other states. But I'm proud to say we're -- we've been kind of lauded as the leader in terms of what's being achieved, and again, I think it's --

it's a tribute to -- to Duke being committed to it as well as the regulatory framework that's been established here in South Carolina.

COMMISSIONER ERVIN: I know a while back some of the South Carolina co-ops were assisting their ratepayers that lived in mobile homes by going out and putting some kind of sealant on the -- on the rooftops as a way to -- to reduce the loss of air conditioning and heat. Do you -- are you familiar with their -- what they did, or is that something that you would consider?

MR. TIM DUFF (DUKE): I'm not specifically familiar with it. I -- we can definitely reach out to them. I've never heard of them, but we have talked with the South Carolina co-ops as well as other -- other utilities regarding the issue associated with mobile and manufactured housing, because it is such a tough -- a tough segment to get to because there's only so much you can do with respect to the shell.

COMMISSIONER ERVIN: That's right.

MR. TIM DUFF (DUKE): But, yeah. That'd be something we can definitely follow up with them on. But I'm not aware of that program.

COMMISSIONER ERVIN: Right.

ACCEPTED FOR PROCESSING - 2019 February 21 9:55 AM - SCPSC - 2017-381-A - Page 31 of 76

ACCEPTED FOR PROCESSING - 2019 February 21 9:55 AM - SCPSC - 2017-381-A - Page 32 of 76

MR. TIM DUFF (DUKE): Sometimes the co-ops aren't bound by the same cost-effectiveness requirements that we are.

COMMISSIONER ERVIN: Right. But it sounded like a fairly cost-effective way to -- to help those folks, who many of them are, you know, struggling financially. A lot of retirees, disabled folks that can't afford, you know, housing -- traditional housing end up in a mobile home or manufactured home.

And so I know that, I believe, Blue Ridge Electric Co-op was one that did it, and there are others. But if maybe you can look into that and just find out more about it and see if it's a possibility that we could expand it to -- to your rate base.

MR. TIM DUFF (DUKE): Great. Thank you --

COMMISSIONER ERVIN: Thank you.

MR. TIM DUFF (DUKE): -- for the suggestion and the reference.

CHAIRMAN RANDALL: Mr. Williams.

COMMISSIONER WILLIAMS: Thank you, Mr. Chairman. A couple of questions for Ms. Shafer and Mr. Duff.

Mr. Duff, you talked about house calls and assessments. Could you tell me a little bit more

about what that would entail if a customer asked for a house call and an assessment?

MR. TIM DUFF (DUKE): So the customer would -- would reach out to -- to the Company and an assessment would be scheduled in which a Duke-certified inspector would go out to the home and do a walk-through audit where they would look through the home and identify areas where there could be caulk put in; where there are, you know, air gaps; things that customers can do fairly quickly; as well as also looking at things like the age and efficiency of their existing HVAC system; you know, looking and see what kind of thermostat they have; anything that they can see that they could recommend to the customer to make a energy-efficiency improvement. And then they also will bring with them a number of LED light bulbs, some weather stripping, low-flow faucet aerators to -- that they will then install if the customer requests them to, if they don't have that efficiency equipment in their home. So there is a direct-install component as well as that education piece for those customers.

COMMISSIONER WILLIAMS: Do you have any costs for the average customer for the direct install?

MR. TIM DUFF (DUKE): There is -- there's no direct out-

ACCEPTED FOR PROCESSING - 2019 February 21 9:55 AM - SCPSC - 2017-381-A - Page 33 of 76

of-pocket costs for -- for the participant in that program.

COMMISSIONER WILLIAMS: Is a report generated?

MR. TIM DUFF (DUKE): Yes. The customer is left with a report with those recommendations.

COMMISSIONER WILLIAMS: Is there -- is there like a range? "Your -- your house is energy efficient." "Your house is" . . .

MR. TIM DUFF (DUKE): Not so much with that, just because of the heterogeneity of the homes that they're going to go into, so much difference in terms of what -- what they're seeing.

Now, we do, do that with the behavioral report, the "My Home Energy Report," because we have the data regarding the -- the home's age, size, and so we do look and try and compare like homes to each other to give customers that reference through that program. And it's -- it's been very, very successful. The program saves approximately 1 -- 1 to 2 percent, depending on which jurisdiction you're in, with customers taking efficiency tips to heart and making those improvements.

COMMISSIONER WILLIAMS: The reason I'm asking that question: Several commissioners have referenced

ACCEPTED FOR PROCESSING - 2019 February 21 9:55 AM - SCPSC - 2017-381-A - Page 34 of 76

mobile homes and manufactured housing. And I've been surprised to learn the -- the vast difference in energy bills for a mobile home versus a standard brick-and-mortar home, traditional single-family home. I've been shocked at the difference.

And if I were a consumer on the open market looking for a place to stay and I see that a mobile home is available at a much lower rent price than, say, an apartment, maybe it would be helpful for me to know that catch to that is that the energy bill is going to be four to six hundred dollars, I -- I've heard. I don't know how -- how true that is, but I've been -- I've been told that. So would it be possible for me, before I even purchase or -- or enter that rental agreement for a mobile home, to get some type of energy report or assessment to determine whether or not it's a good -- a good option to rent that mobile home or that manufactured home or even that apartment to know what the average energy bill would be for that type of housing?

MR. TIM DUFF (DUKE): I -- I -- I think that there are some customer-data issues associated with that, giving out somebody else's data without their permission. Now, if there's some sort of a

ACCEPTED FOR PROCESSING - 2019 February 21 9:55 AM - SCPSC - 2017-381-A - Page 35 of 76

ACCEPTED FOR PROCESSING - 2019 February 21 9:55 AM - SCPSC - 2017-381-A - Page 36 of 76

1 requirement for the sale or for the lease that the
2 utility would provide that data, that -- I think
3 it's something we could do, but I do think there's
4 some customer access and privacy regarding energy-
5 usage data.
6 But I think it's a very good point regarding
7 the fact that it's something that should be
8 factored into the cost-of-living equation that may
9 not be when customers are making that housing stock
10 decision.
11 COMMISSIONER WILLIAMS: Do you-all track the number of
12 mobile homes and manufactured houses you serve?
13 MR. TIM DUFF (DUKE): We have -- I think we have a
14 pretty broad idea of what it is. I can't say that
15 we would have specific ideas of what's mobile and
16 manufactured, but I think we have a pretty good
17 idea of the housing stock that -- that's being
18 served. And as we get more data through advanced
19 metering, we have a better gauge of things.
20 COMMISSIONER WILLIAMS: So it -- it may be possible at
21 some point for you to do a -- a compare -- a
22 comparison between mobile homes and manufactured
23 homes versus traditional single-family homes?
24 MR. TIM DUFF (DUKE): Yes. Yes. And to your point, the
25 other -- the other big thing on of the manufactured

ACCEPTED FOR PROCESSING - 2019 February 21 9:55 AM - SCPSC - 2017-381-A - Page 37 of 76

or mobile homes is really the type of heating that they have. In most cases, they're not going to have a heat pump. If they have -- if they have heat -- if they have electric heat, it will be strip or -- or baseboard heat, which is far more energy-consuming than a heat pump. So it -- it's -- it's not only the shell, it's also the equipment that's usually put on those manufactured or mobile homes, particularly the ones that are older in nature.

COMMISSIONER WILLIAMS: Thank you for sharing that information. I -- this -- I think this is Ms. Shafer's area of expertise. I -- I want to walk through the Residential Smart $aver energy-efficient program. I've read it here, and it's very clear. I want to thank you and really applaud you for having some foresight about customer confusion --

MS. LYNDA SHAFER (DUKE): Uh-huh.

COMMISSIONER WILLIAMS: -- because that is an issue that can cause a lot of problems. So I appreciate the proactive nature of this presentation. But I just want to make sure I understand this program correctly.

If I were a Duke customer, and I purchased an

HVAC system -- so reading -- reading this program, would I get -- here it says $600 but you said it's -- now it's four. Would I get, what, $400 off the purchase of the -- the HVAC? How -- how would I receive that incentive?

MS. LYNDA SHAFER (DUKE): Well, you would probably work that out with your contractor. Some contractors will use the rebate to lower the price of the equipment, and some customers prefer to get the rebate in the form of a check.

COMMISSIONER WILLIAMS: From?

MS. LYNDA SHAFER (DUKE): From Duke Energy.

COMMISSIONER WILLIAMS: From Duke? Okay. So how -- how would they know that? How -- how would they know their right and left limits? How does -- how does the customer know their rights when it comes to this program?

MS. LYNDA SHAFER (DUKE): Well, they would work through our trade allies and -- and, you know, our trade allies are partners with us. They're evaluated frequently. They have standards that they have to meet. And so we rely and trust our -- our trade allies. But they can also call our call center and ask our company directly.

COMMISSIONER WILLIAMS: Okay. And -- and this may be --

ACCEPTED FOR PROCESSING - 2019 February 21 9:55 AM - SCPSC - 2017-381-A - Page 38 of 76

this may touch Commissioner Ervin's question -- line of questions. So if I'm a Duke customer and my HVAC goes out and I'm in the market for an HVAC and I -- I'm a Duke customer and I contact my local HVAC man, is -- is that -- or woman -- man or woman, will that person know about this program?

MS. LYNDA SHAFER (DUKE): If -- yes. They probably will. If they're a Duke trade ally, they certainly will. Hopefully, if you're a Duke customer, before you contact any contractor, you'll log on to find-it-duke.com and get a referral directly from us. And then we advertise that very heavily because we want our trade allies to reap the benefit of being partners with us.

COMMISSIONER WILLIAMS: So this program is -- the customer has to play a pretty big role in implementing this program or accessing this program, it seems. Like if I'm just a regular person, really not concerned about Duke or their energy-efficient program, I see my bill; I pay my bill, but, other than that, I really don't spend much time thinking about Duke Energy. My HVAC goes out. Unless I contact a trade ally to replace that unit or I'm savvy enough or educated enough to go online and see whether or not there any energy-

ACCEPTED FOR PROCESSING - 2019 February 21 9:55 AM - SCPSC - 2017-381-A - Page 39 of 76

efficient programs, I could potentially fall through a loophole or a crack?

MS. LYNDA SHAFER (DUKE): Potentially, you could. We try to catch people by having an extensive trade ally network, recruiting contractors to be part of our trade ally network. And we have staff dedicated to that purpose so that the odds are greater that, if you wander into your local contractor, that contractor will be a Duke Energy trade ally.

COMMISSIONER WILLIAMS: Do you -- so do you track the number of trade allies you have in a service area?

MS. LYNDA SHAFER (DUKE): Yes, sir.

COMMISSIONER WILLIAMS: What -- and you may -- you may have already answered this question: What's the percentage of contractors that are trade allies?

MS. LYNDA SHAFER (DUKE): I don't know the answer to that question.

COMMISSIONER WILLIAMS: Is it possible to have 100 percent?

MS. LYNDA SHAFER (DUKE): It's possible. It's probably unlikely, but it's possible.

COMMISSIONER WILLIAMS: So I see that the -- the 90-day completion -- or the application must be made within 90 days of completion of the work, as noted

ACCEPTED FOR PROCESSING - 2019 February 21 9:55 AM - SCPSC - 2017-381-A - Page 40 of 76

on the Company's website. That -- that has been changed to 60 days?

MS. LYNDA SHAFER (DUKE): Yes, sir.

COMMISSIONER WILLIAMS: So if I -- if I missed that 60-day deadline, essentially, I don't get to take advantage of the program?

MS. LYNDA SHAFER (DUKE): Yes, sir. We found, though, that it's usually the contractors that are turning in the paperwork, and they were holding it for the full 90 days because they had 90 days before they had to get it back. So by shortening it to 60 days, they would be less likely to hold it as long, and it would be to the benefit of the customer.

COMMISSIONER WILLIAMS: So, I mean, that -- that sort of seems like, again, that could create another crack within the system. I mean, the customers complained about the 90 days?

MS. LYNDA SHAFER (DUKE): I don't know if they've complained about the 90 days, but I did hear from our program management that we had customers that were calling wondering where their rebate was because, as far as they were concerned, they should've had it already. And when we looked at it, we agreed: They should've have had it already.

COMMISSIONER WILLIAMS: So is there any -- is there any

ACCEPTED FOR PROCESSING - 2019 February 21 9:55 AM - SCPSC - 2017-381-A - Page 41 of 76

ACCEPTED FOR PROCESSING - 2019 February 21 9:55 AM - SCPSC - 2017-381-A - Page 42 of 76

1 responsibility that the contractor has to -- if
2 they -- if they're going to assume the -- the duty
3 of turning in the paperwork, is there -- is there
4 any responsibility that could be attached to them
5 if they failed?
6 MS. LYNDA SHAFER (DUKE): Absolutely. Yes. That would
7 be part of the ongoing evaluation we do of our
8 trade allies. If we have a trade ally that's not
9 responding and -- to our deadlines and is not
10 working to the benefit of the customer, they would
11 not remain a trade ally.
12 COMMISSIONER WILLIAMS: So if -- if I depended on one of
13 your trade allies to install the HVAC system and
14 they failed to meet the 60-day deadline, is -- is
15 there any -- any language -- and I guess you-all
16 have some type of contractual agreement that --
17 that that trade ally would have to pay the rebate
18 to the customer?
19 MS. LYNDA SHAFER (DUKE): I'm not aware of that
20 language, but I do know that our program management
21 team would do everything in their power to -- to
22 honor that customer as a Duke customer and -- and
23 that's why we run the program is to help a
24 customer, so we would do what we could for them.
25 COMMISSIONER WILLIAMS: The -- thank you for that.

ACCEPTED FOR PROCESSING - 2019 February 21 9:55 AM - SCPSC - 2017-381-A - Page 43 of 76

The numbers -- and I -- I don't know who -- who this question's for, I'm just going to ask the question: The numbers that you-all review to determine the maximum recovery amount -- the --

MS. LYNDA SHAFER (DUKE): Uh-huh.

COMMISSIONER WILLIAMS: -- maximum rebate amount, who reviews those numbers?

MS. LYNDA SHAFER (DUKE): Our program management team keeps track of those numbers, but they work with local distributors and manufacturers to gather the information and make sure it's accurate.

COMMISSIONER WILLIAMS: And -- and based off those numbers, there would -- there has been a 20 percent reduction in the cost of equipment. I don't know if I'm stating that part correctly.

MS. LYNDA SHAFER (DUKE): Yeah. The incremental cost has dropped by 20 percent.

COMMISSIONER WILLIAMS: Are those numbers assessed or reviewed by a outside entity, or is it all internal?

MS. LYNDA SHAFER (DUKE): We have evaluation measurement and verification that's done approximately every two years on our programs, and those numbers could be reviewed by that third-party evaluator.

COMMISSIONER WILLIAMS: All right. That's -- that's all

my questions. Thank you so much.

MS. LYNDA SHAFER (DUKE): Thank you.

CHAIRMAN RANDALL: Thank you, Commissioner Williams. Commissioner Ervin.

COMMISSIONER ERVIN: I wonder about LEED certification. Are you-all involved in that at all?

MR. TIM DUFF (DUKE): No. It's generally done by the -- it's generally done by builders.

COMMISSIONER ERVIN: Is there some way that you could promote it in -- in your literature for the high-end side of the market because I know that, you know, you -- you have to really prod a -- an architect or builder to talk about it. A lot of them, you know, don't ever mention it unless you, you know, know about it. But if we could get more people on the high end of the market to participate in a LEED certification, that would -- that would -- you know, either in renovation or primarily in a new housing contract/plan, that -- that would seem to be a -- a wise way to -- to try to reach that end of the market. Would you look into that and see if other states are doing it?

MR. TIM DUFF (DUKE): Yeah. We can definitely look into that.

COMMISSIONER ERVIN: I think there's a gold, silver, and

ACCEPTED FOR PROCESSING - 2019 February 21 9:55 AM - SCPSC - 2017-381-A - Page 44 of 76

ACCEPTED FOR PROCESSING - 2019 February 21 9:55 AM - SCPSC - 2017-381-A - Page 45 of 76

bronze LEED certifications, and it's hard to get the -- the gold standard, but it can be done if somebody wants to -- you know, to really go after the savings. And as I recall, are there still federal tax credits available for -- for that program? It seems like there might have been at one time.

MR. TIM DUFF (DUKE): I'm -- I'm not aware off the top of my head, but we can definitely check into that.

COMMISSIONER ERVIN: Right. Thank you.

CHAIRMAN RANDALL: Okay. Any other questions?

(No response)

CHAIRMAN RANDALL: I -- I've just got a couple.

One, on your -- where the Company does load shed or peak shaving, do you do that every -- during all peak -- peak hours, or is that just on certain events?

MR. TIM DUFF (DUKE): It's -- it's during certain events because you run the risk of having customers choosing to get off the program if you call it too much. So we give them day-ahead notice when we're expecting some sort of a system event. Extreme -- usually, it's extreme heat since the devices are really hooked up to air conditioners. So, yes. We -- we do -- we run it -- I believe we tell them up

to ten times a year, and it really depends on the system-operating pattern and what the needs are. We try not to do it two back-to-back days because, again, you get that customer where they say, "You know what, my annual incentive isn't worth -- isn't worth me having to deal with this." But we haven't had a ton of drop-off because we do try and manage it that way.

CHAIRMAN RANDALL: So it doesn't -- it's -- it's not like you cycle an air conditioning unit on and off during peak hours just as a normal -- where you don't -- you don't even really notice it -- where the customer -- the ratepayer doesn't really notice it?

MR. TIM DUFF (DUKE): No. It's not part of normal operations. It's only when we give them the notice of a -- the day ahead of an event.

CHAIRMAN RANDALL: Okay. Thank you.

One of the things y'all said was that incremental cost had fallen 20 percent, but the rate -- rebate has gone from 600 to 400, which is about 30 percent. What's -- where's the -- the difference there?

MS. LYNDA SHAFER (DUKE): Well, we balance the rebate with the projected lifetime savings. And it's just

ACCEPTED FOR PROCESSING - 2019 February 21 9:55 AM - SCPSC - 2017-381-A - Page 46 of 76

like we look at incremental cost, we look at incremental savings. So the -- the difference between the baseline and the higher-efficiency equipment has gotten more narrow.

CHAIRMAN RANDALL: Okay. Thank you. Commissioners, anything else?

(No response)

CHAIRMAN RANDALL: Okay. Mr. Wellborn, anything more for this panel?

MR. WELLBORN: No, Mr. Chairman.

CHAIRMAN RANDALL: Okay. Mr. Duff and Ms. Shafer, we appreciate y'all being here, and you can step down. And looks like Ms. Shirley Smith is up next.

MS. SMITH: Yes. We'll take just a couple of minutes to switch out our presentations and please call Laura Bateman and Cooper Monroe up to the table.

Thank you for having us today. As Mr. Wellborn said, we've also spoken with this panel of presenters, and they have also committed to speak slowly and distinctly and not to talk over one another to make sure that we don't unintentionally cause any problems for the court reporter.

Here today, we have Laura Bateman. She is our director of rates and regulatory planning, as well

ACCEPTED FOR PROCESSING - 2019 February 21 9:55 AM - SCPSC - 2017-381-A - Page 47 of 76

as Cooper Monroe, who is Duke's director of tax. And I believe we are ready to go if the Commission is ready.

CHAIRMAN RANDALL: Great. We are ready. Thank you.

MS. LAURA BATEMAN (DUKE): Thank you.

CHAIRMAN RANDALL: I'll turn it over to you.

(Reference: Presentation Slide 1)

MS. LAURA BATEMAN (DUKE): Good morning, Chairman, members of the Commission. Thank you for the opportunity to --

MS. MELCHERS: Turn on your mic.

CHAIRMAN RANDALL: Oh, yeah.

MS. LAURA BATEMAN (DUKE): Oh.

CHAIRMAN RANDALL: Yeah, sorry.

MS. LAURA BATEMAN (DUKE): Is this better? Yes.

CHAIRMAN RANDALL: Much better.

MS. LAURA BATEMAN (DUKE): Good morning, Mr. Chairman, members of the Commission. Thank you for the opportunity to speak with you this morning about the federal Tax Cuts and Jobs Act and the impact that it has on customer rates.

If we could move to Slide 2, you'll see the agenda --

(To Ms. Smith) Thank you.

MS. SMITH: Uh-huh.

ACCEPTED FOR PROCESSING - 2019 February 21 9:55 AM - SCPSC - 2017-381-A - Page 48 of 76

ACCEPTED FOR PROCESSING - 2019 February 21 9:55 AM - SCPSC - 2017-381-A - Page 49 of 76

(Reference: Presentation Slide 2)

MS. LAURA BATEMAN (DUKE): -- you'll see the agenda that we prepared for this morning. So, first of all, Mr. Monroe will cover an overview of the Federal Act and the impacts on utilities. And then I'll talk about the corporate income tax rate reduction and, at a high level, how that impacts customer rates. And then Mr. Monroe will talk about tax normalization, deferred taxes, bonus depreciation and excess deferred income taxes. And then he'll turn it back to me at the end to talk about Duke Energy Carolinas and Duke Energy Progress's specific proposal on how to implement the Tax Act in customer rates.

And, with that, I'll turn it over to Cooper.

MR. COOPER MONROE (DUKE): Thank you. Thank you, Commissioners, for having us today.

(Reference: Presentation Slide 3)

So, just quickly, on this next slide is a very summarized overview of -- of key provisions from the Tax Cuts and Jobs Act that impact utilities. Certainly, the law is much more voluminous than this, but we're just focusing on the ones that impact utilities the most. Certainly, Number 1 is the drop in the tax rate from 35 percent to 21

ACCEPTED FOR PROCESSING - 2019 February 21 9:55 AM - SCPSC - 2017-381-A - Page 50 of 76

1 percent. That's a 40 percent reduction in the tax
2 rate.
3 The next item is bonus depreciation. We'll
4 get into an example showing what bonus depreciation
5 is and its impact a little later on.
6 The third thing is normalization of excess
7 cumulative deferred income taxes. This is taking
8 the deferred income taxes that represent that 40
9 percent reduction in the tax rate, and the law
10 requires a flowback of that excess deferred taxes
11 for property-related protected excess deferreds
12 over, basically, the book life of assets they're
13 related to.
14 The retained net interest -- the general rule
15 under the Tax Cuts and Jobs Act is that corporate
16 taxpayers are limited on interest based on a
17 maximum cap of 30 percent of adjusted taxable
18 income. The law excepted out regulated utilities
19 including electric and gas utilities from that
20 rule. The offset to that is there's no more bonus
21 depreciation for utilities.
22 And then, lastly, prior to the Tax Cuts and
23 Jobs Act, there was a manufacturing deduction that
24 utilities -- electric utilities could use, and that
25 is no longer applicable after the Tax Cuts and Jobs

ACCEPTED FOR PROCESSING - 2019 February 21 9:55 AM - SCPSC - 2017-381-A - Page 51 of 76

Act. So these provisions are generally effective starting in 2018.

MS. LAURA BATEMAN (DUKE): Okay.

(Reference: Presentation Slide 4)

MS. LAURA BATEMAN (DUKE): Okay. Moving to Slide 4, I'm going to talk about how the decrease in the income tax rate impacts customer rates at a high level. And so if you look at this slide, at the top of the slide is the basic revenue requirements formula. And revenue requirements are the Company's cost to serve, which ultimately impact customer rates. And the revenue requirements equal operating expense plus rate base times cost of capital. And you may have heard this referred to in terms of a utility having the opportunity to recover its operating expenses plus a reasonable return, or cost of capital, on its investments or rate base.

So there are two components of this formula that are impacted by the drop in the federal income tax rate. The first one is that, when the rate drops, income tax expense decreases. And income tax expense is a part of operating expense, and so operating expense decreases and overall revenue requirements, and, therefore, customer rates decrease. So that's a good thing.

The second way that this formula is impacted by the drop in the income tax rate is through deferred income taxes. So deferred income taxes originate from the timing difference between when federal taxes are collected from customers and when they are paid to the IRS. And so the Company has use of this cash from the time it's collected from customers until when it needs to be paid to the IRS. And instead of -- you know, that money is not kept in a bank account somewhere, so while the money -- while the Company has use of this cash, the Company uses it to finance its investments in the utility, so poles, lines, generating plants. And since the Company can use this cash from the deferred taxes to finance its investments, that reduces the rate base that customers need to finance. And so deferred taxes are included as a reduction to rate base. So when the income tax rate drops, the deferred taxes that the Company has also decrease. And so, since this reduction to rate base decreases, rate base itself increases. And on the other side of that formula, the increase in rate base causes some upward pressure on revenue requirements. Now, fortunately, the -- the first piece, the decrease in operating expense, more than

ACCEPTED FOR PROCESSING - 2019 February 21 9:55 AM - SCPSC - 2017-381-A - Page 52 of 76

ACCEPTED FOR PROCESSING - 2019 February 21 9:55 AM - SCPSC - 2017-381-A - Page 53 of 76

offsets the increase in rate base, but there is a slight offset due to that increase in rate base.

(Reference: Presentation Slide 5)

On the next slide, now that I've talked about that high-level benefit from the decrease in the income tax rate, as you're aware the current rates that Duke Energy Progress and Duke Energy Carolinas customers in South Carolina pay -- the base rates were established when the federal income tax rate was 35 percent. And so, since January 1st of 2018, pursuant to this Commission's order, the Company has been deferring that difference between the 35 percent and what rates would have been had the tax rate been 21 percent. We've been deferring that difference in deferred revenue. We call it "deferred revenue." It's a liability and, as part of our proposal, we'll be proposing to return that to customers. And I'll talk more about that later when I get to our specific proposal, but just wanted to explain a little bit about that deferred-revenue bucket that we have to return to customers.

(Reference: Presentation Slide 6)

MR. COOPER MONROE (DUKE): Okay. So now I'm going to touch on this concept called "tax normalization," which you might've heard of before. Tax

ACCEPTED FOR PROCESSING - 2019 February 21 9:55 AM - SCPSC - 2017-381-A - Page 54 of 76

1 normalization is actually the only rule in the
2 Internal Federal -- the Internal Revenue Code,
3 which is Title 26 in the federal code, that tells
4 corporate taxpayers who are utilities how to -- how
5 to recover tax expense for ratemaking purposes.
6 And this was established over a number of years
7 starting in the '60s. It established and was --
8 came along in the '80s with further federal laws.
9 But the thrust of normalization is that there's a
10 proper allocation of tax expense between current
11 and future customers.
12 And, really, you have to think of it in two
13 different pieces here to understand normalization.
14 There's two type of taxes. There's current taxes:
15 the cash tax that a utility pays to the IRS. And
16 then there's deferred taxes, which Ms. Bateman was
17 just referring to, which are taxes that the
18 utility's going to pay to the IRS in the future.
19 When we're doing our cost-of-service component of
20 taxes, it's both those taxes added together that
21 we're recovering in our base rates as cost of
22 service.
23 And then, as Ms. Bateman pointed out, the
24 deferred taxes reduce rate base, so that represents
25 kind of a sharing. The utility gets the cash-flow

ACCEPTED FOR PROCESSING - 2019 February 21 9:55 AM - SCPSC - 2017-381-A - Page 55 of 76

1 benefit of paying less tax from accelerated
2 depreciation, but rate base is reduced by the
3 amount of that deferred tax that you're going to
4 have to pay in the future. So that's the overall
5 concept. So normalization, big concept. It's
6 required by the IRS, by the federal government.
7 FERC is also -- requires normalization, as well.
8 So . . .
9 (Reference: Presentation Slide 7)
10 So this is -- this next slide is really just
11 talking about what the sanctions are for -- if you
12 violate normalization. And "violating
13 normalization" means that a utility passes back the
14 benefits of accelerated depreciation or excess
15 deferred taxes, which we'll get to in a minute --
16 when there's a rate change, when you pass that back
17 faster than the book life of the underlying
18 property. And it's a -- it's a really Draconian
19 penalty if you violate giving back those excess
20 deferred taxes or depreciation benefits faster than
21 the underlying book life: The IRS takes away the
22 utility's ability to use accelerated depreciation
23 at all. So then we would be paying cash tax on a
24 straight-line book method. I'm going to give you a
25 numeric example here in a minute, but it would cost

ACCEPTED FOR PROCESSING - 2019 February 21 9:55 AM - SCPSC - 2017-381-A - Page 56 of 76

1 -- it would be a very large cost, increase in tax
2 expense, that would flow through to customers if
3 you didn't have depreciation.
4 So it's a -- it's a big stick. It's an
5 enforcement stick that Congress put in place, and
6 kind of the policy reason for it was to make sure
7 that, you know, there's this balancing of the cash-
8 flow benefit to utilities for these economic
9 stimulus of accelerated depreciation and lower tax
10 rates when you create excess deferred taxes,
11 balanced by the -- the rate-base impact of -- of
12 benefit to the customers as you have that reduction
13 to rate base.
14 (Reference: Presentation Slide 8)
15 Okay. So just to try to drive this home with
16 some numbers -- so this -- this slide here is just
17 -- on Slide 8, is just pointing out how there's a
18 difference between book depreciation and tax
19 depreciation, and if you'll just notice, at the
20 bottom of the page, everything comes back to zero
21 at the end of the day. Book depreciation's a
22 thousand dollars evenly spread over the ten-year
23 life.
24 The -- the next column over is the tax
25 depreciation, which is rapid, which Congress put in

so that businesses would have capital formation. Utilities are big, capital-intensive businesses. The difference between those two amounts is, in that third column, tax effect, and the fourth column to show the current year amount. And then the accumulated is -- is really just a running total of the -- the tax-effected difference through the years. You can see it -- it rises. The accumulated deferred taxes rise up until you get to Year 5, and then they start turning around and, at the end, come back to zero. So it's all timing.

(Reference: Presentation Slide 9)

So one of the changes in the Tax Cuts and Jobs Act was to eliminate bonus depreciation for utilities, and this next slide is really just showing what the effect is of bonus depreciation, what it's been in the past for utilities. The bonus depreciation is really just a, kind of, super amount of accelerated depreciation all in Year 1, which you'll see in the bonus-per-tax column there. You get -- on a thousand-dollar asset, you take $500 all in Year 1. You take the other $500, and you spread it over, still, the other rapid depreciation life, but -- so when you do the math and look at the differences and then compare it --

ACCEPTED FOR PROCESSING - 2019 February 21 9:55 AM - SCPSC - 2017-381-A - Page 57 of 76

you know, if you look at the accumulated, at the -- at the far-right column, you have a big book-tax difference in the first year, and it rapidly falls off. If you look at the current year column, it -- it turns around by the third year; everything starts turning around.

So that bonus depreciation had a big impact on our deferred taxes in the past before TCJA. In the future, this phenomena is not going to be occurring.

(Reference: Presentation Slide 10)

So Slide 10 is really just driving home how the difference, with and without bonus depreciation, is going to affect deferred taxes. It's going to affect rate base. It's also going to affect cost of service.

(Reference: Presentation Slide 11)

So, really, the next concept we want to talk is, when you have the rate change -- and you -- you have an asset that you've been depreciating at the higher rate of 35 percent. This chart just shows what happens to excess deferred taxes on a property-related asset. Years 1 through -- 1 through 3 -- 1 through 4, we're accumulating -- accumulating deferred taxes at a 35 percent rate.

ACCEPTED FOR PROCESSING - 2019 February 21 9:55 AM - SCPSC - 2017-381-A - Page 58 of 76

ACCEPTED FOR PROCESSING - 2019 February 21 9:55 AM - SCPSC - 2017-381-A - Page 59 of 76

And then, in 2017, we have the Tax Cuts and Jobs Act; the rate goes down to 21 percent. We revalue those deferred taxes, so we had built up 180 balance in deferred tax -- accumulated deferred tax, but when you reevaluate at 21, now, to 108, and we have 72 too much deferred tax that's never going to get paid to the IRS.

So what do we do with that? When the Tax Cuts and Jobs Act was enacted, there's a provision in the Act that says you have to flow that back under these normalization rules for the property-related excess deferreds over the -- generally, the remaining book life of the underlying assets. So that $72 here flows back to customers over the remaining book life. In this example, the remaining -- Years 5 through 10. So that has -- on the cost of service, it reduces the cost-of-service component, but on the deferred taxes, gradually over time, rate base will increase.

(Reference: Presentation Slide 12)

So just trying to round this whole thing out, on the excess deferred taxes, there's -- there's different kind of buckets of excess deferred taxes. There's a bucket of excess deferred taxes on protected assets, which are our property-related

assets, which is the vast majority of what Duke Energy Carolinas and Duke Energy Progress have because we, you know, run a electric utility. And that's all subject to normalization, and those have to flow back over the remaining book life.

The second bucket is unprotected excess deferred taxes that have to do with -- they're not protected under the normalization rules, but they're related to property. Kind of the classic example here is items that are considered repairs for tax purposes but have to be capitalized for regulatory book purposes. So if we get a -- here's an example: On our distribution system, if you have a pole that gets knocked down by somebody because they run off the road and knock the pole down -- one pole. For tax purposes, that is a repair, because the whole unit of property is something like 40 poles and the line in between, so that kind of whole 40 poles would have to be -- or -- or more -- a certain percentage of that 40 poles would have to be destroyed before you had to recapitalize, but, if you knock down just one pole, you're repairing that asset and you deduct the repair. For -- for book purposes, that's capitalized. That pole is capitalized and put into

ACCEPTED FOR PROCESSING - 2019 February 21 9:55 AM - SCPSC - 2017-381-A - Page 60 of 76

ACCEPTED FOR PROCESSING - 2019 February 21 9:55 AM - SCPSC - 2017-381-A - Page 61 of 76

PP&E, so we deduct the pole for tax. It's not protected under normalization rules, but it is kind of intrinsically linked to our property. So that's unprotected excess deferred for property.

And then everything else is timing differences between book and tax -- taxable income that have -- are not related to property and they're not protected by the normalization rules. So with that, I will toss it back to Ms. Bateman.

(Reference: Presentation Slide 13)

MS. LAURA BATEMAN (DUKE): Excellent. So on this next slide, this is just a review of what I talked about earlier: the revenue-requirements formula equals operating expense plus rate base times cost of capital. And the decrease in income tax expense due to the federal act decreases operating expense; however, there is -- like Mr. Monroe explained -- factors that will increase rate base as deferred taxes going forward are decreased due to the return of excess deferred income taxes to customers, the lower tax rate, the 35 to 21 percent, and also the elimination of bonus depreciation.

(Reference: Presentation Slide 14)

And so the next slide is a summary of Duke Energy's proposal on how to implement this in

ACCEPTED FOR PROCESSING - 2019 February 21 9:55 AM - SCPSC - 2017-381-A - Page 62 of 76

1 customer rates. There are two primary components,
2 and -- and I should first state this is for base
3 rates. To the extent that the Tax Act impacts the
4 energy-efficiency rider or the fuel clause, the --
5 that impact would be handled in those annual
6 proceedings.
7 However, for base rates, there are two main
8 ways that we propose to implement the Act. The
9 first is through an excess deferred income tax
10 rider or EDIT rider. In -- in this rider -- and I
11 have a more detailed slide on it coming up -- but
12 we'll propose to return the deferred revenue that I
13 talked about earlier, as well as the excess
14 deferred income taxes that Mr. Monroe described,
15 and you can see the impact of that -- oh, and
16 there's also a component for a return on that
17 increasing rate base. And you'll see the impact
18 for the Year 1 rider that we've proposed up there
19 on the screen.
20 It's 3.7 percent benefit or decrease in
21 customer rates for DEC -- for Duke Energy Carolinas
22 and a 1.7 percent benefit or decrease in customer
23 rates for Duke Energy Progress. And the primary
24 driver between the difference in those two
25 percentages is how the excess deferred income taxes

fall into those three categories that Mr. Monroe described. So Duke Energy Progress has a higher percentage of its excess deferred income taxes in the protected category, and that's the category that's prescribed over the period which you have to return that to customers, and it is a longer period.

The second component of how we plan to implement the Act in customer rates is in an adjustment to base rates, and this adjustment to base rates will reflect the decrease in the income tax rate going forward on an ongoing basis and include that benefit in customer base rates. And you'll see the percentages up there as well: 3.9 percent benefit or decrease in customer rates for Duke Energy Carolinas and a 3 percent benefit or decrease in customer rates for Duke Energy Progress.

And then you'll also see the totals down at the bottom: a 7.6 percent benefit for Duke Energy Carolinas customers and a 4.7 percent benefit for Duke Energy Progress. And I will say that these are the average benefits or decreases in customer rates. Each individual customer will be impacted differently.

ACCEPTED FOR PROCESSING - 2019 February 21 9:55 AM - SCPSC - 2017-381-A - Page 63 of 76

(Reference: Presentation Slide 15)

So the next slide has a lot of detail on it. This is the slide for the EDIT rider that the Company is proposing, and you'll see in the first column there are the categories of benefits that we are planning to return to customers or proposing to return to customers. The first one is the deferred revenue that I spoke about, and you'll see up here we have the 2018 -- January through December 31st, 2018, deferred revenue. That will be included in the Year 1 rider. We will continue to defer revenue until we actually implement the lower tax rate in customer rates, so we'll continue to defer during 2019 until we're able to implement new customer base rates and will include that additional deferred revenue starting in the second year of the rider, and the rider will be updated annually.

The next three categories are the excess deferred income taxes, the protected -- unprotected PP&E related and unprotected non-PP&E related that Mr. Monroe described.

And the next category is the North Carolina excess deferred income taxes that resulted from a decrease in the North Carolina state income tax

ACCEPTED FOR PROCESSING - 2019 February 21 9:55 AM - SCPSC - 2017-381-A - Page 64 of 76

rate. That is not related to the Federal Tax Act, but since it was excess deferred income taxes, we decided to include that in this rider, as well. And so that's the first column.

Oh, and then the return component. So as we return these excess deferred income taxes to customers, rate base will increase, and so there's a return component due to that increase in rate base in the rider as well.

The next two columns are the total deferred amounts on the Company's books as of the end of -- as of the end of 2018.

The next column over is the proposed amortization period that the Company is proposing to return these benefits to customers over. The -- under the protected category, that ARAM, average rate assumption method, that's the one that is prescribed by the Tax Act that the Company and the Commission don't -- don't have -- you know, cannot change.

The other periods are the ones that the Commission does have discretion over, and the Company is proposing a twenty-year return for the unprotected PP&E-related excess deferred income taxes, and then five-year periods for the deferred

ACCEPTED FOR PROCESSING - 2019 February 21 9:55 AM - SCPSC - 2017-381-A - Page 65 of 76

ACCEPTED FOR PROCESSING - 2019 February 21 9:55 AM - SCPSC - 2017-381-A - Page 66 of 76

revenue and the unprotected non-PP&E related.

And then those last two columns show the Year 1 benefits to customers in these riders.

And down at the bottom, it's expressed as a percentage of customer rates, so a 3.7 percent benefit for DE Carolinas customers and a 1.7 percent benefit for DE Progress customers on average.

And then I'll note, down at the bottom, there's a footnote that speaks to -- that the deferred revenue categories up at top -- up at the top, the 30 million and the 2 million, respectively for DE Carolinas and DE Progress, those have been reduced by a portion -- a portion of those revenues have been used to offset a regulatory asset that the Company has on its books for -- related to Distributed Energy Resources Program, and so the Company is proposing to use a portion of those deferred revenues to offset those regulatory assets related to the Distributed Energy Resources Program.

And that's -- has been done in some other jurisdictions where states have allowed utilities to use a portion of the benefits from the Federal Tax Act to offset some deferred costs for

regulatory assets.

(Reference: Presentation Slide 16)

The next slide goes into some more detail about how the Company calculated the deferred revenue category, that difference in current customer rates between the 35 percent and the 21 percent. So, first, the Company went to the cost of service from the test year in the last rate cases for both Duke Energy Carolinas and Duke Energy Progress. We identified the income tax expense in those cost of services, and then we restated that income tax expense at the 21 percent federal tax rate and then developed a revenue requirement using that reduced income tax expense, as well as the impact on rate base of the lower deferred income taxes. And we took that difference, developed the revenue requirement, and then developed a cents-per-kWh rate by dividing that revenue requirement by the kWh in the test year from the most recent rate cases.

So we developed that rate, and then we've taken that rate, and we've multiplied it by the kWh sales each month and then deferred that resulting revenue into the regulatory liability. And we will continue -- like I said earlier, we will continue

ACCEPTED FOR PROCESSING - 2019 February 21 9:55 AM - SCPSC - 2017-381-A - Page 67 of 76

to do that until we are able to reflect the 21 percent in customer base rates. And then the table below just kind of walks through the mechanics of that.

(Reference: Presentation Slide 17)

The next slide shows the adjustment to base rates that the Company is proposing. So this is to reflect the ongoing impact of the reduction in income tax rate from 35 percent to 21 percent, and you can see the benefit to customers that is included in this piece. It's a 3.9 percent benefit for DEC customers on average, and a 3 percent benefit for DEP customers on average.

(Reference: Presentation Slide 18)

The last slide just speaks about the impact on the cash flows of the utility of the Tax Cuts and Jobs Act. And I think we -- we've talked a little bit about this; we've talked about deferred income taxes being a source of financing for the utility, that we've been able to use that benefit/that cash to finance investments in the utility and offset rate base. So as those deferred taxes decrease due -- due to the lower income tax rate, due to the elimination of bonus depreciation, and due to the return of excess deferred income taxes to

ACCEPTED FOR PROCESSING - 2019 February 21 9:55 AM - SCPSC - 2017-381-A - Page 68 of 76

ACCEPTED FOR PROCESSING - 2019 February 21 9:55 AM - SCPSC - 2017-381-A - Page 69 of 76

1 customers, the Company no longer has that source of
2 financing and must find alternative sources of
3 financing. And this places pressure on the
4 Company's cash flows and can place pressure on the
5 Company's credit metrics. And so we just wanted to
6 include this slide because we think it's important
7 to balance the impact on credit metrics and cash
8 flows, because the credit metrics and having good
9 credit quality are important to having a low cost
10 of capital. And the cost of capital, if you
11 remember that revenue-requirements formula earlier,
12 impacts the cost of service, revenue requirements,
13 and customer rates as well. And so there's --
14 there's a balancing act.
15 And so the Company thinks that the proposal
16 that we've put forward provides that right balance
17 of immediate benefits, as well as ongoing benefits
18 to customers over time. And that is the end of our
19 prepared remarks.
20 CHAIRMAN RANDALL: Thank you. Commissioners, questions?
21 Commissioner Howard.
22 COMMISSIONER HOWARD: There's a theory in this world
23 that you should never ask a question that you don't
24 know the answer to; this is a total violation of
25 that theory because I have no clue what the answer

will be.

Would it make any difference if a utility used a test year that was a future test year or a historical test year?

MS. LAURA BATEMAN (DUKE): In terms of calculating the --

COMMISSIONER HOWARD: -- I got "deferred income" --

MS. LAURA BATEMAN (DUKE): -- that rate?

COMMISSIONER HOWARD: -- there, yeah.

MS. LAURA BATEMAN (DUKE): Yeah. That rate for the deferred revenue?

COMMISSIONER HOWARD: Uh-huh.

MS. LAURA BATEMAN (DUKE): I -- I think it would. I think the -- the test year that you use will impact the results -- or could impact the results, depending on the unique attributes of that test year. So the Company chose to look at the test years that were used to establish current customer rates and use those test years to calculate how current customer rates would have been impacted by that change in the tax rate.

COMMISSIONER HOWARD: Thank you. Now I'm much smarter.

CHAIRMAN RANDALL: Commissioner Whitfield.

COMMISSIONER WHITFIELD: Thank you, Mr. Chairman.

Thanks to both of you for this presentation.

ACCEPTED FOR PROCESSING - 2019 February 21 9:55 AM - SCPSC - 2017-381-A - Page 70 of 76

ACCEPTED FOR PROCESSING - 2019 February 21 9:55 AM - SCPSC - 2017-381-A - Page 71 of 76

I guess my question's going to be right where you ended -- where you left -- where you ended your presentation, Ms. Bateman. And, particularly with that last slide, you -- you -- you threw a lot at -- at us but, in particular, that last slide. Maybe I'm not quite following you or -- or whatever, and that -- that could be the case. But you state that this cash is used to fund investments of the utility to avoid third-party-financing debt or equity. And -- and, of course, you mentioned long-term debt or equity. Of course, I would think it would -- it would be on the shorter -- shorter-term debt. But, nonetheless, if you're able to use that cash and don't have to finance more debt and then you talk about it being a liability going forward because you have to return that money to the customers and you talk about losing that cash flow in the future because once you've -- you've gotten yourself down to the 21 percent mark, you won't -- won't have that overage or whatever you want to call it. But you talk about it being a potential negative credit impact.

Is -- why would it be negative, if you're accounting for it properly, like you're telling us

ACCEPTED FOR PROCESSING - 2019 February 21 9:55 AM - SCPSC - 2017-381-A - Page 72 of 76

-- you're here today telling us that you're doing? Is it the fact that you are not having to access the market as much? Why -- why would it be a negative impact on your credit if you're -- again, if you're properly accounting for it and -- and it's known and -- known and measurable?

MS. LAURA BATEMAN (DUKE): Yeah. Good question. And I'll -- I'll answer it at a high level, but I am not our cost-of-capital, credit-metric expert. But I'll share -- share what I do know.

In terms of the cash flows of the Company and as we think about credit metrics, the credit rating agencies look at lot at the cash flows of the Company and the amount of debt in interest expense that the Company must cover with its cash flows. And so, as we have to increase the amount of debt that we have and as our cash flows, the use of cash -- the cash benefit from the federal government decreases, it decreases our cash flows and it increases the amount of debt. And so it -- it does have a negative impact on some of those credit metrics.

COMMISSIONER WHITFIELD: Oh, I see what you're saying: In the -- in the future, you won't -- you won't have that cash flow. And -- and also, it -- as you

ACCEPTED FOR PROCESSING - 2019 February 21 9:55 AM - SCPSC - 2017-381-A - Page 73 of 76

stated -- very -- multiple times, it's creating a liability because you have to return that money to the customers. But, in the short term, if the cash -- as you said in your top bullet point, if the cash is used to fund investments of the utility to avoid third-party-financing debt or equity -- if it's used in the short term to fund capital -- to -- to fund investments, then looks like in the short term it wouldn't negatively impact the credit. Of course, I'm sure there's something I'm not seeing.

MS. LAURA BATEMAN (DUKE): No. I understand what you're saying. But this is, as we look out over time, it could have the impact of negatively impacting the Company's cash flows.

COMMISSIONER WHITFIELD: You're saying over long term, down the road?

MS. LAURA BATEMAN (DUKE): Yes. And so -- but I will say that the credit rating agencies look at it -- look over the long term in determining the credit ratings. And so shortly after this Act was passed, Moody's, one of the credit rating agencies, did change Duke Energy, along with other -- several other utilities from what they call a "stable outlook" to a "negative outlook," due to the impact

that they saw that this Act could have on regulated utilities in the future over the long term. Fortunately for Duke Energy, Moody's changed that outlook back to "stable" in August of 2018. And part of that was due to some constructive orders from --

COMMISSIONER WHITFIELD: I was --

MS. LAURA BATEMAN (DUKE): -- our regulatory commissions.

COMMISSIONER WHITFIELD: I was going to say, with the order we issued prior to that reflecting what the Company's liability would be going forward, it looked like there would be some proper and legal and accounting recognition of that. And certainly that had to attribute to the slightly positive turn in the credit outlook.

MS. LAURA BATEMAN (DUKE): Yes. I would say that was true.

COMMISSIONER WHITFIELD: Well, thank you for that discussion and that explanation.

Mr. Chairman, I don't have anything further for this panel.

(To Mr. Monroe and Ms. Bateman) But thank you for your presentation.

CHAIRMAN RANDALL: Thank you, Commissioner Whitfield.

ACCEPTED FOR PROCESSING - 2019 February 21 9:55 AM - SCPSC - 2017-381-A - Page 74 of 76

Commissioners, any other questions?

(No response)

CHAIRMAN RANDALL: Okay. We thank you for your presentation. I know questions always get a little more scarce when you start talking about taxes. And I know they do for me.

So, Ms. Shirley Smith, if you -- anything else?

MS. SMITH: That's all. We appreciate y'all letting us be here today. Also, for anyone in the audience, we also have extra copies of the presentation if you would like to have one for -- for posterity before it's posted to the Commission's website.

CHAIRMAN RANDALL: Thank you very much.

(To Mr. Monroe and Ms. Bateman) And you may be excused.

With that, if there's nothing else from Commissioners, we are adjourned.

(WHEREUPON, at 11:34 p.m. the proceedings in the above-entitled matter were adjourned.)

(*This transcript may contain quoted material. Such material is reproduced as read or quoted by the speaker. **Certificate accompanies sealed original only.)

ACCEPTED FOR PROCESSING - 2019 February 21 9:55 AM - SCPSC - 2017-381-A - Page 75 of 76

ACCEPTED FOR PROCESSING - 2019 February 21 9:55 AM - SCPSC - 2017-381-A - Page 76 of 76

STATE OF SOUTH CAROLINA)
) CERTIFICATE
COUNTY OF LEXINGTON)

Be it known that Kathleen R. Tackett, CVR-M, took the foregoing proceeding and hereby attests:

that I was then and there a notary public in and for the State of South Carolina-at-large and that by virtue thereof I was duly authorized to administer an oath;

that the deponent/witness was first duly sworn to testify to the truth, the whole truth, and nothing but the truth, concerning the matter in the controversy aforesaid;

that the foregoing transcript represents a true, accurate, and complete transcription of the testimony so given at the time and place aforesaid to the best of my skill and ability;

that I am neither a relative nor an employee of any of the parties hereto, nor of any attorney or counsel employed by the parties hereto, nor interested in the outcome of this action;

that, if a recording of an event was supplied by another party for purposes of transcription and I was not present during that event, the foregoing pages were transcribed to the best of my skill and ability; additionally, any identifications of speakers were provided to me by the party supplying the recording;

that, in the event of a nonappearance by the witness, the foregoing details for the nonappearance are accurate.

In witness thereof, I have hereunto affixed my signature and title.

Kathleen R. Tackett, CVR-M

Date: 2/20/2019

Notary public for South Carolina
My commission expires July 19, 2020.

☐ (Audio files are retained for six (6) months from the date of the deposition/proceeding or until transcript has been signed in cases where signature was not waived.)