Duke Energy Carolinas & Duke Energy Progress Combination: "One Utility"

Allowable Ex Parte Briefing

Public Service Commission of South Carolina

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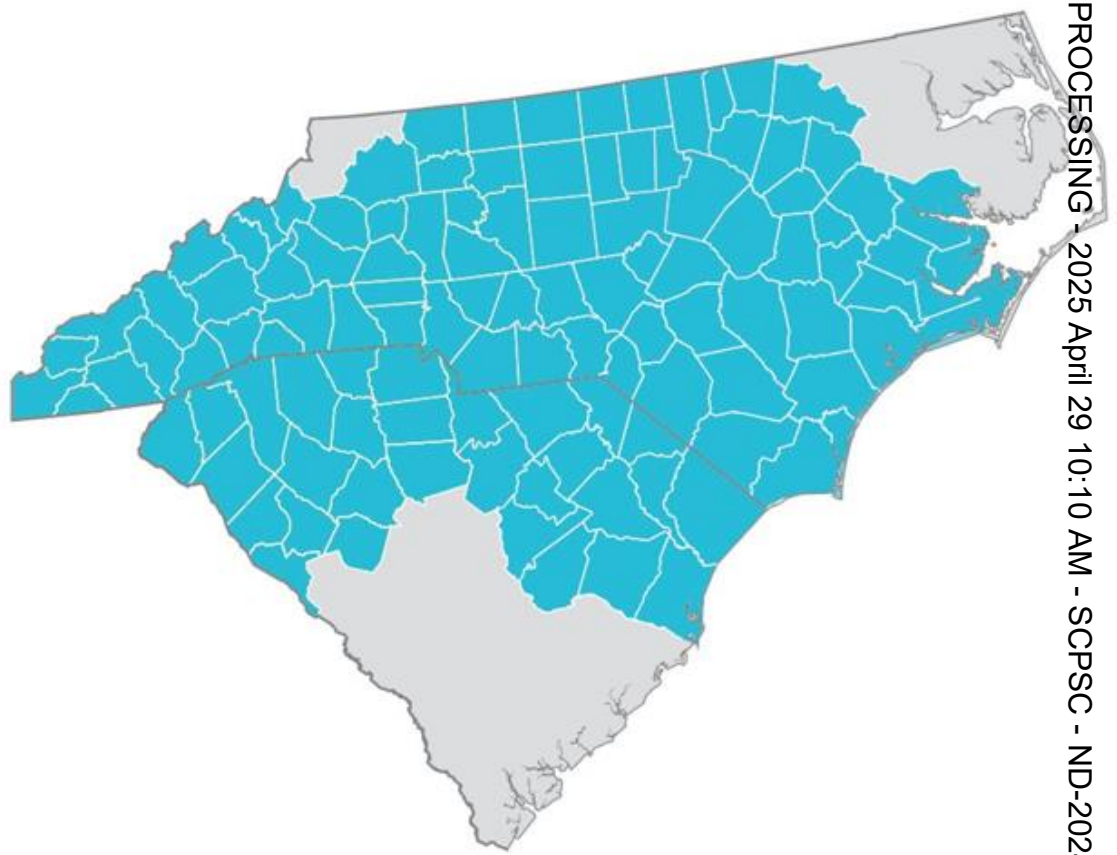

DUKE ENERGY®

BUILDING A **SMARTER** ENERGY FUTURE®

Introductions

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Agenda

- 2012 Duke Energy & Progress Energy Merger Overview
- “One Utility” Overview
- “One Utility” Benefits
- “One Utility” Timeline
- Retail Base Rates Strategy
- Next Steps

2012 Duke Energy/Progress Energy Merger

Merger Timeline:

- In 2011 Duke Energy Corp. and Progress Energy, Inc. filed for approval of the merger on behalf of their utility subsidiaries Duke Energy Carolinas, LLC (DEC) and Progress Energy Carolinas, Inc. (now DEP)
- June 8, 2012: FERC Approval[1]
- June 29, 2012: North Carolina Utilities Commission (NCUC) approved the Joint Dispatch Agreement (JDA) and the merger subject to Regulatory Conditions and Code of Conduct[2]
- July 11, 2012: PSCSC found “absence of harm to South Carolina ratepayers as a result of the proposed Merger” and approved the Joint Dispatch Agreement on a one-year trial basis[3]

Savings:

- SC retail would receive their allocable share of $650 million of total system fuel and fuel-related cost savings over five years upon close of the Merger.
- Provide retail customers with pro rata benefits equivalent to those approved by the NCUC.

[1] https://elibrary.ferc.gov/eLibrary/filedownload?fileid=01CF33F3-66E2-5005-8110-C31FAFC91712
[2] https://starw1.ncuc.gov/NCUC/ViewFile.aspx?Id=f8e805cb-8c22-4e76-9fc3-22aa572702fe
[3] https://dms.psc.sc.gov/Attachments/Order/a7868958-155d-2817-100b686199663fd7

2012 Duke Energy/Progress Energy Merger

Since 2012 Merger the Companies have achieved over $1 billion in system savings from:

Joint Dispatch Agreement (JDA)

- This agreement facilitates the combined DEC and DEP generating assets to be jointly dispatched to serve the combined load of DEC and DEP in the most cost-effective manner possible.

As-Available Capacity Sales Agreement

- Permits DEC and DEP to sell each other short-term capacity when one party has more capacity than it needs and the other party has determined that it would benefit from the acquisition of such capacity.
- Without the agreement, the parties must procure additional short-term capacity at higher, market-based prices—and often bundled with unneeded energy—or commit a generation resource that might have otherwise been offline.

One Face to the Market

- Combined approach to fuel procurement for DEC and DEP to lower costs for both utilities

Consolidated functions and streamlined operations:

- Standardization and consolidation work around customer billing, metering, and operational systems
- Aligned processes, systems, corporate support functions, regulatory processes and rate design

2012 Duke Energy/Progress Energy Merger

- Reorganization into a single legal entity was contemplated in PSCSC and NCUC orders at the time of the original Duke Energy Corporation and Progress Energy, Inc. merger in 2012.

> Subject to approval by the appropriate regulatory commissions, PEC and DEC plan to merge into a single legal entity at some point in the future; however, such merger will not occur until numerous aspects of the utilities' operations are addressed, including but not limited to determination of best business practices, operating procedures, equipment specifications, uniform rate schedules, service regulations, and computer systems.

PSCSC Order Approving JDA, Order No. 2012-517, Docket No. 2011-158-E, at 2 (July 11, 2012)[1]

> Through the application and supporting testimony, the Applicants described the process for accomplishing the merger and the holding company structure that will exist upon closing. The Applicants have indicated that the merger of DEC and PEC will not occur until a number of aspects of the utilities' operations are addressed. These include the determination of best business practices, operating procedures, equipment specifications, uniform rate schedules, service regulations, and computer systems. It is expected that the joint dispatch of generating assets and the coordination of activities related to fuel procurement and use, combined with general rate increases for DEC, will narrow the rate gap between DEC and PEC. Nevertheless, nothing in the record in this proceeding suggests that a merger between DEC and PEC is imminent. When such a business combination is proposed, it will be subject to Commission approval under G.S. 62-111(a).

NCUC Order Approving DEC/DEP Merger, Docket Nos. E-2, Sub 998 and E-7, Sub 986, at 22 (June 29, 2012)[2]

[1] https://dms.psc.sc.gov/Attachments/Order/a7868958-155d-2817-100b686199663fd7

[2] https://starw1.ncuc.gov/NCUC/ViewFile.aspx?Id=f8e805cb-8c22-4e76-9fc3-22aa572702fe

DEC/DEP Combination: “One Utility”

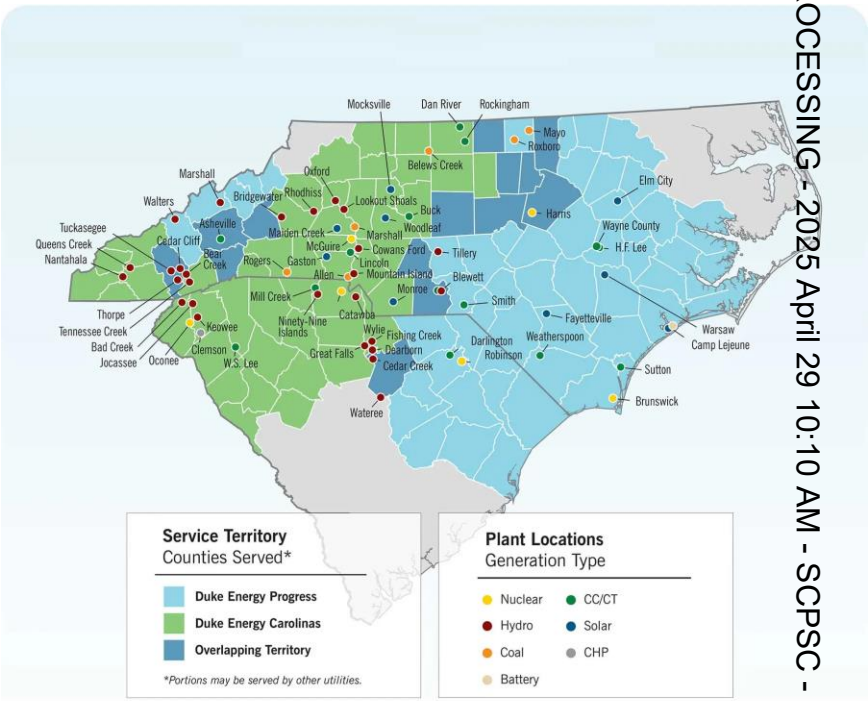
- Standardization and consolidation goals, originally identified in 2012 Orders, have been achieved.
- This is not a typical merger of separate holding companies, but rather an internal corporate reorganization within the same holding company structure.
- The proposed combination will require approval by all three jurisdictions (PSCSC, NCUC, and FERC).
- Current Status:
  - DEC and DEP remain two separate operating utilities
  - Regulatory Conditions imposed in connection with the Commission’s approval of the 2012 Duke/Progress Merger prohibits the Companies from jointly planning to meet their combined capacity needs
  - DEC and DEP operate as separate Balancing Authorities for their respective Balancing Authority Areas.
- The proposed combination is solely focused on delivering customer benefits, as it is expected to deliver substantial system efficiencies by maximizing long-term planning, reliability, and affordability.

Benefits of “One Utility”

- Significant system savings over time in capital, production, and administrative costs
  - **Capital Savings** by optimizing future investment (single resource plan) resulting in savings from avoiding or deferring new generation projects.
  - **Production cost benefits** are a result of:
    - Increased operational efficiency in an ability to commit units jointly
    - Fuel savings
    - Reduced generation fixed O&M costs
  - **Administrative cost efficiencies** result from a more simplified regulatory structure
    - Because most corporate-level synergies were realized in the 2012 Duke Energy/Progress merger, we expect limited additional corporate overhead synergies from this combination.
- These benefits are expected to generate over $1 billion in system savings through 2038.

Resource Planning Benefits of “One Utility”

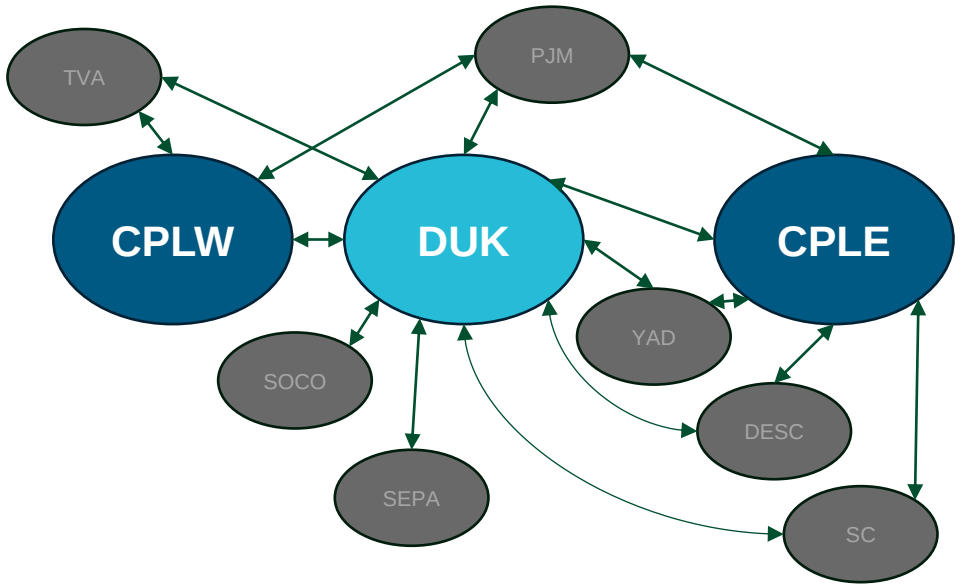
- Planning to a single reserve margin reduces lumpiness in the building of generation to meet the target, which better balances costs and reliability.
- Due to differences in the DEC and DEP peak demand timing, planning for the combined area is more efficient.
- Enables siting resources in combined balancing area that provide maximum benefit and least cost based on geography and existing infrastructure.
- Company can build generating units more efficiently.
  - Company would have an ability to build a single unit at a site (for equivalent or slightly less capacity) than two units in separate BAs.
  - The single unit might also be more efficient operationally compared to the two units.
- Absent “One Utility,” future generation resources would be built more proportionately to the load of the two companies.



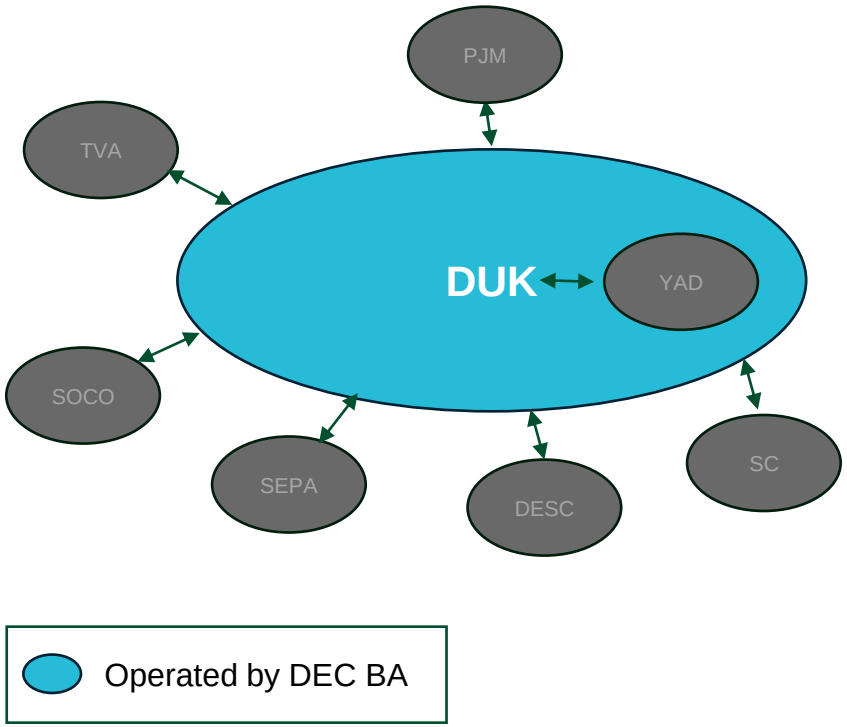
Operational Benefits of “One Utility”

- Combining the 3 Balancing Authority Areas (BAAs) and Transmission functions strengthens reliability, provides operational flexibility, and improves the balancing of intermittent resources

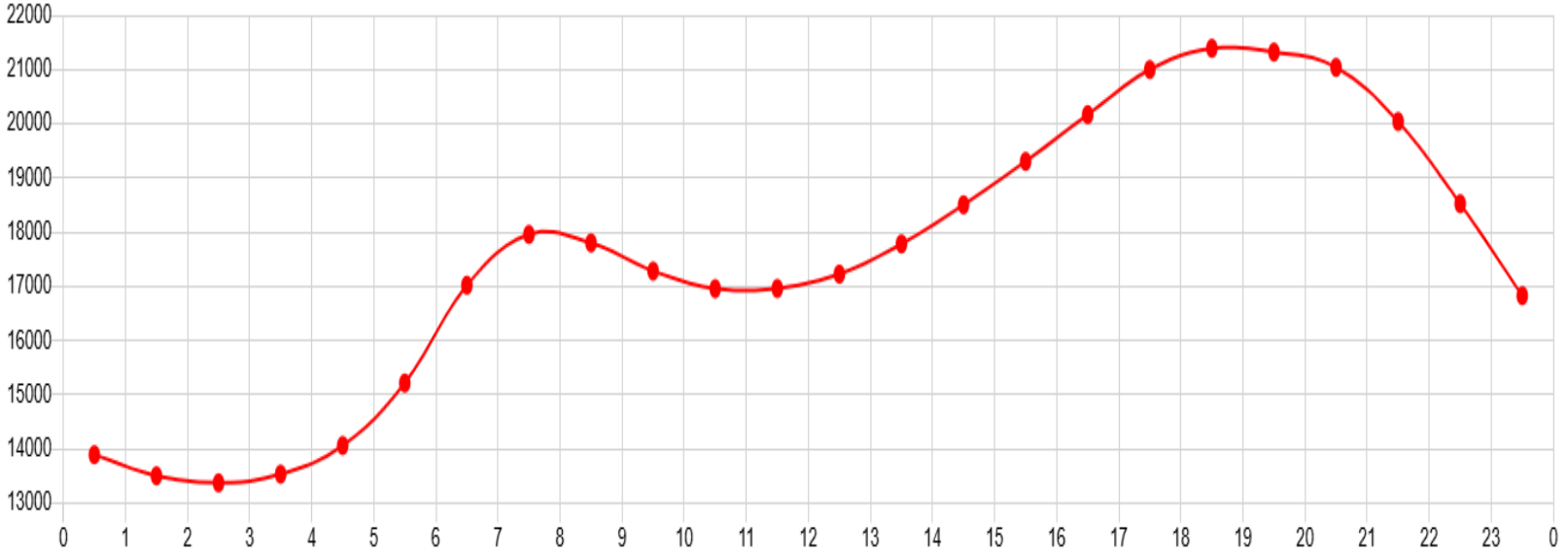
Current BAAs



Post-Merger BAAs



Balancing Operations



- System Operations and Fuels & Systems Optimization teams develop plan to meet peak load and operating reserve targets to maintain reliable operations.
  - Bring larger units (coal/CCs) online
  - CT availability
  - Purchases/Sales
- Planning and operating as a combined system creates cost savings for customers.

Operating Reserves

Largest Resource ↓

Requirement goes down because of planning for a single resource loss instead of two

Regulating Reserve ↓

Requirement goes down as load and solar changes are relatively smaller compared to overall system

Load Forecast Error ↓

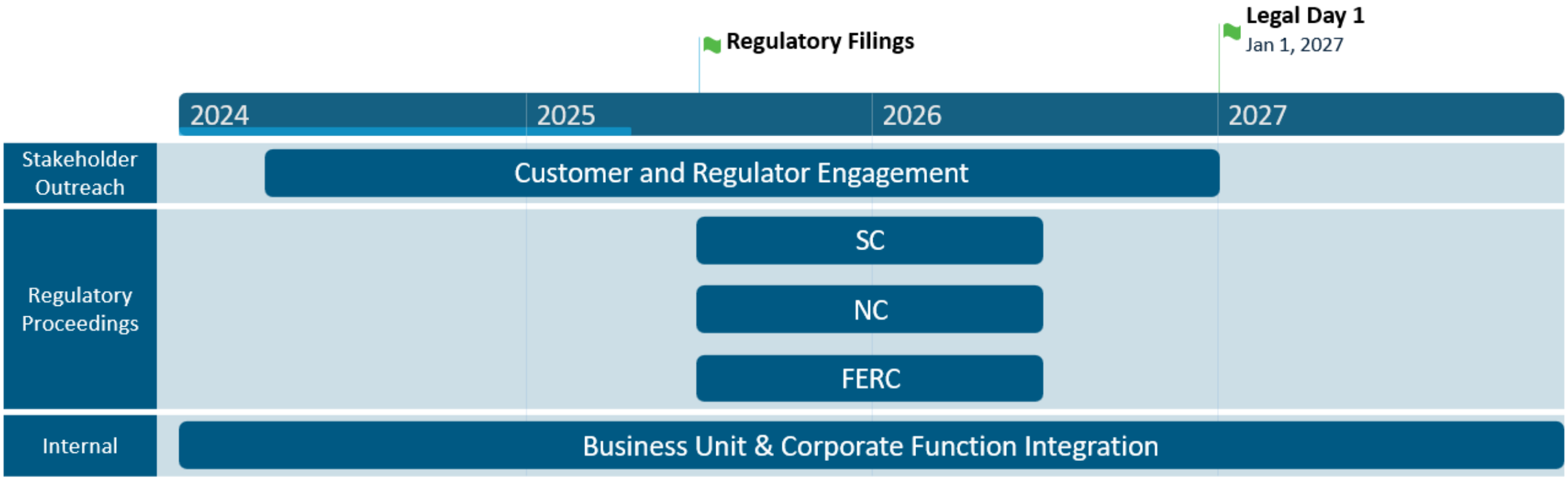
Overall error is reduced on combined system when compared to two stand-alone forecasts

→ **Savings**

Merger Comparison

Key Elements	Typical Holding Company Merger	DEC/DEP Combination
Objectives	Combining two independent utility holding companies	Streamlining operations and aligning goals under the same parent company (Duke Energy Corporation)
Ownership Structure	Typically involves merging two independent companies with separate ownership	Both operating companies are already subsidiaries under the same parent company
Governance Structure	Requires merging separate governance systems and board structures	Governance already aligned under the same parent company's existing framework
Financial Integration	Involves combining entirely separate financial systems, debts, and obligations	Consolidating financial operations already overseen by same parent company
Operational Integration	Requires integration of all systems, including grid operations, customer service, and IT	Focused on harmonizing systems and operations under existing infrastructure
Workforce Impact	Larger-scale workforce alignment	Few workforce redundancies
Cost-Saving Opportunities	Broader potential for cost savings by eliminating redundancies across all levels, particularly corporate functions	Focused cost savings through resource planning, siting and operational efficiencies and streamlined processes

DEC and DEP “One Utility” Timeline



Illustrative Retail Base Rates Transition

Core Base Rate Design

Present	*Legal Day 1*	*First Combined Rate Case*	*Future Rate Cases*
• There are separate rates for DEC and DEP customers • Recent rate cases involved driving structure alignment	• No change in customers' retail rates due to merger • Existing customers will remain on their legacy rate schedule • New customers placed on rate schedules available for their legacy service territory	• Propose one set of open rate schedules available to all customers • Freeze certain historic rate schedules • Start to converge rates to align with cost causation	• Slowly converge rates over time to align with cost causation • Combine rate schedules when open options deliver savings compared to the frozen tariffs • Request Commission approval at the appropriate time

Legend: Align | Converge | Combine

- "One Utility" would not result in a change to retail base rates on Legal Day 1. Future alignment of base rates will occur gradually and only through future rate case filings.
- First combined rate case would be sometime after Legal Day 1.
- This illustrative transition plan above does not address retail rate riders.
  - Retail rate riders will also need to be aligned and combined.
  - Transition plans for annual retail rider adjustments can be achieved in future rate filings.

Next Steps

Continue Customer Awareness and Engagement

Continue planning and preparatory work for "One Utility"

Continue discussions with SC/NC/Wholesale Stakeholders

State and Federal Filings later this year

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