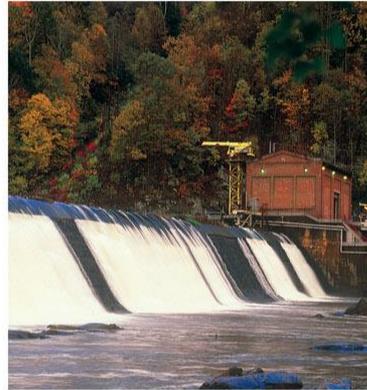
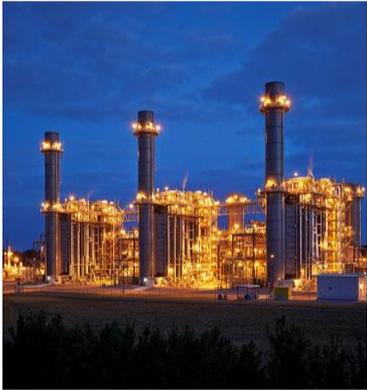


A REGULATORY ENVIRONMENT AND INNOVATION

March 12, 2018



BUILDING A *SMARTER* ENERGY FUTURESM

Objective

To provide participants with a high level understanding of a utility's regulatory structure and a general understanding of how a utility makes money.

Types of Electric Utilities

- **Investor Owned Utilities** -- Private companies that are granted a utility franchise with exclusive rights to customers within its assigned territory. Duke Energy must comply with public utility laws enacted by the state legislature and the rules of the regulatory Commissions. (examples – Piedmont Natural Gas, Duke Energy Carolinas, Duke Energy Progress, Duke Energy Ohio, Duke Energy Kentucky, Duke Energy Indiana, Duke Energy Florida, Florida Power and Light, South Carolina Gas and Electric)
- **Municipalities** -- Cities that own and operate their own distribution systems are regulated by their own elected officials. (examples – High Point, Concord, Gastonia, Seneca, Greenwood)
- **Electric Cooperatives** – Membership organizations that own their own distribution system are regulated by their board of directors. (examples – York Coop, Blue Ridge, Rutherford EMC)

The Regulatory Compact

- Public Utilities have special characteristics:
 - Services are of vital interest to the public
 - Considered natural monopolies
 - Goal of regulation is to imitate the outcome of an efficient, well-functioning competitive market.
- Legislature/Commission grants the electric utility a monopoly franchise
- In exchange, the electric utility agrees to:
 - Assume an obligation to serve all customers in its assigned territory
 - Charge only those rates allowed by the Commission
- The utility is also allowed to earn a fair return for its investors

Who Regulates? (The Deciders)

- Federal Energy Regulatory Commission (FERC)
- Each State has a Utilities Commission with Rules and Regulations
- Other
 - State Law – General Statutes
 - Approved Rate Schedules and Service Regulations (tariffs) of the utility.
 - State Attorney General
 - Internal Revenue Service
 - Generally Accepted Accounting Principles

The mission of a State Utilities Commission

The North Carolina Utilities Commission is responsible to both the public and utilities and, by law, must regulate in a manner designed to implement the policy of the State of North Carolina to:

- Provide fair regulation of public utilities in the interest of the public.
- Promote the inherent advantage of regulated public utilities.
- Promote adequate, reliable, and economical utility service.
- Promote **least cost energy** planning.
- Provide just and reasonable rates and charges for public utility services and promote conservation of energy.
- Assure that facilities necessary to meet future growth can be financed on reasonable and fair terms.
- Encourage and promote harmony between utility companies and their customers.
- Foster planned growth of public utility services.

Common Interveners (The Consumer Advocates)

North Carolina

- Public Staff - represents all retail ratepayers
- Attorney General
- Carolina Industrial Group for Fair Utility Rates (CIGFUR) represents several of our largest industrial customers.
- Carolina Utility Customers Association (CUCA) represents several large commercial and industrial customers.
- Google, Facebook, Apple

South Carolina

- Office of Regulatory Staff (ORS) - represents all retail ratepayers
- South Carolina Energy Users Committee represents several large commercial and industrial customers.

Both Jurisdictions

- Wal-Mart
- Environmental groups
- Any retail customer

Ratemaking is a statutory process that is used to determine the amounts a utility can charge its customers for utility service.

Important Terms

- **Rate Base** - the amount of investment in utility plant devoted to rendering utility service upon which a fair rate-of-return can be earned.
 - Generation plant, wires, substations etc.
- **Rate of Return** - the rate (cost of capital) determined by the Regulatory agency to be applied to rate base to provide a fair rate of return to investors.
 - Debt and Equity
- **Operating Expenses** - the costs involved in operating and maintaining utility plant, both direct and indirect, and costs involved in providing utility service.
- **Revenue Requirements – Rate Base X Rate of Return + Operating Expenses.**
- **Riders** – sometimes called trackers or pass-throughs, provide cost recovery outside of a general base rate case.

Process of Base Rate Case

- From the start of preparing a Base Rate Case until new rates take effect is normally 10 months to a year
- The initial filing includes hundreds of pages of testimony and data.
- The Company responds to thousands of questions from Interveners.
- Interveners file testimony
- Company may file supplemental and rebuttal testimony
- A Regulatory proceeding (hearing) is held before the Regulator
- Regulator issues an order approving new rates

Drivers behind timing of Base Rate Cases

1. Revenues change due to sales growth or decline
2. Costs change:
 - Additions to rate base for repair/maintenance/replacement of electric plant
 - Additions to rate base to serve new customers
 - Retirements of rate base for obsolescence
 - Inflation drives costs up
 - Technology advances drive costs down
 - New or a change in costs may be imposed (tax, other legislation)
3. The Company's return on investment is monitored by the Company and regulators. When return is insufficient, the Company seeks a rate increase through another general rate case. When returns are judged to be excessive the Company or the regulators may recommend a rate case for the purpose of reducing rates.

Riders/Trackers

- Riders, sometimes called trackers or pass-throughs, provide cost recovery outside of a general base rate case
- Usually involves non-capital costs (company normally does not earn a return)
- Usually involves a single cost item, e.g. fuel, renewables, energy efficiency,
- Usually involves a tracking mechanism and true-up to actual costs incurred
- Regulatory proceeding may be limited to a filing of proposed rates or may include a hearing
- Benefits of riders:
 - More timely cost recovery due to more frequent update of rates
 - Filings and proceedings are limited scope

Power/Forward Carolinas

- Duke Energy's Plan to strengthen the energy grid over the next 10 years
- Investment will improve power quality and reliability while enabling more options for our customers
- Will spend billions of dollars across the system
- Base Rates or Rider?



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