

As part of its 2016 approval of the merger of (1) Duke Energy Corporation, the holding company parent of Duke Energy Carolinas, LLP (DEC) and Duke Energy Progress, LLP (DEP), and (2) Piedmont Natural Gas Company, Inc. (Piedmont), the North Carolina Utilities Commission (Commission) approved Regulatory Condition No. 5.8, which requires periodic third-party independent audits to be performed, no less often than every two years, of the transactions undertaken pursuant to affiliate agreements between DEC, DEP, and/or Piedmont, on the one hand, and other affiliates or nonpublic utility operations of Duke Energy Corporation (including DEC, DEP, and/or Piedmont), on the other. The first audit defined in Regulatory Condition No. 5.8 commenced in 2019 and has been completed. The second audit required by Regulatory Condition No. 5.8 is to include whether DEC's, DEP's, and Piedmont's transactions, services, and other Affiliate dealings pursuant to the Service Company Utility Service Agreement and other Affiliate transactions other than transactions undertaken pursuant to regulated utility to regulated utility service agreements are consistent with all of the conditions related to affiliate dealings and the Code of Conduct and whether DEC, DEP, and Piedmont have operated in accordance with those conditions and Code of Conduct. This second audit does not include whether DEC's, DEP's, and Piedmont's transactions, services, and other Affiliate dealings pursuant to the regulated utility-to-regulated utility service agreement and any other utility to utility agreements are consistent with all of the conditions related to affiliate dealings and the Code of Conduct and whether DEC, DEP, and Piedmont have operated in accordance with those conditions and Code of Conduct.

Regulatory Condition No. 5.8 further provides that the Public Staff is to propose one or more independent auditor(s), and then DEC, DEP, Piedmont, and other parties will be afforded the opportunity to comment and propose additional auditors. The Commission will select the independent auditor, and it will be supervised in its duties by the Public Staff.

If you are interested in submitting a proposal, please do so by July 31, 2023. Please submit two hard copies of your proposal to Michelle Boswell, Director, Public Staff Accounting Division, 4326 Mail Service Center, Raleigh, North Carolina 27699-4300. Her telephone number is (919) 733-0918. Your proposal also should be submitted by email addressed as follows: michelle.boswell@psncuc.nc.gov and Thomas.felling@psncuc.nc.gov.

Please find attached a description of the scope of the upcoming audit. Additional information that would assist you in the development of your proposal can be found on the Commission's web site at <https://www.ncuc.net/>, through its Docket Portal and Docket Search function. (When entering docket numbers in the Docket Number field, enter in the format "e-7 sub xxxx", omitting the comma after the "e-7".) The following should be considered:

(1) The Commission's *Order Approving Merger subject to Regulatory Conditions and Code of Conduct* (Piedmont Merger Order) issued September 29, 2016, which can be found in Docket No. E-7, Sub 1100.

(2) The Commission's *Order Granting Motion to Amend Regulatory Conditions* (Amended Piedmont Merger Order) issued August 24, 2018, which can be found in Docket No. E-7, Sub 1100A.

(3) The Commission's *Order Approving Merger subject to Regulatory Conditions and Code of Conduct* (DEC-DEP Merger Order) issued June 29, 2012, which can be found in Docket No. E-7, Sub 986;

(4) The *Final Report on the Affiliate Audit of Duke Energy Carolinas and Duke Energy Progress*, submitted by Vantage Energy Consulting, LLC, and the Commission's *Order on Audit Recommendations*, both of which can be found in Docket No. E-7, Sub 986D (filed March 31, 2015, and March 29, 2016, respectively); and

(5) Other Commission orders following up on Sub 986D *Order on Audit Recommendations*.

It is requested that your proposal include the following information:

(1) A general description of the firm's background and qualifications for performing the above-described audit, with a contact person specified;

(2) A general description of the proposed work plan and the estimated time line for the audit;

(3) A statement of hourly fees to be charged and an estimate of the total fees to be charged (excluding testimony or presentations);

(4) A list of any projects done for, or involving, Duke Energy Corporation, Piedmont, or any of their affiliates during the last five years. Also, please include a description of any financing business relationship your firm has had during the last five years with Duke Energy Corporation, Piedmont, or any of their affiliates, and any other relationships with the same during the last five years; and

(5) References from past engagements.

If you have any questions, please contact Michelle Boswell at the telephone number or email address listed above. We look forward to hearing from you.

SCOPE OF 2023 INDEPENDENT AUDIT OF DUKE ENERGY CAROLINAS, LLC,
DUKE ENERGY PROGRESS, LLC, AND PIEDMONT NATURAL GAS COMPANY,
INC.

The Public Staff is seeking proposals from independent consulting firms to conduct an affiliate transactions audit of Duke Energy Carolinas, LLC (DEC), Duke Energy Progress, LLC (DEP), and Piedmont Natural Gas Company, Inc. (Piedmont), pursuant to the following general guidelines and scope.

Per the 2016 approval of the merger of Duke Energy Corporation, the holding company parent of DEC and DEP, and Piedmont by the North Carolina Utilities Commission (Commission) and the approval of Regulatory Condition No. 5.8, which requires periodic third-party independent audits to be performed, no less often than every two years, of the affiliate transactions undertaken pursuant to affiliate agreements filed in accordance with Regulatory Condition 5.4.¹ The condition provides that the scope of the audits shall include DEC's, DEP's, and Piedmont's compliance with all conditions approved by the Commission concerning Affiliate transactions, including the propriety of the transfer pricing of goods and services between or among DEC, DEP, Piedmont, other Affiliates, and all of the Nonpublic Utility Operations.

The second audit is to begin two years from the date of the Commission's order on the independent auditor's final report on the first audit or, if no such order is issued, two years from the date of such final report and shall include whether DEC's, DEP's, and Piedmont's transactions, services, and other Affiliate dealings pursuant to the Service Company Utility Service Agreement and other Affiliate transactions other than transactions undertaken pursuant to regulated utility to regulated utility service agreements are consistent with all of the conditions related to affiliate dealings and the Code of Conduct, and whether DEC, DEP, and Piedmont have operated in accordance with those conditions and Code of Conduct. More specifically, the audit will include the following with regard to DEC, DEP, and Piedmont's agreements:

- (1) Assessing the adequacy of the systems, policies, cost allocation manuals, and other processes adopted by DEC, DEP, and Piedmont to ensure compliance with Regulatory Condition Nos. 3.1, 5.2, 5.3, 5.4, 5.5, 5.6, 5.7, 5.12, 5.24, 13.1(a), 14.1, 14.2, 14.3, and 14.4 and the Code of Conduct.
- (2) Determining whether or not DEC, DEP, and Piedmont are abiding by the requirement to file, pursuant to G.S. § 62-153, proposed contracts or agreements memorializing any transactions with Affiliates or proposed Affiliates, and to

¹ On August 24, 2018, the Commission issued its Order Granting Motion to Amend Regulatory Conditions in certain dockets associated with the merger (Docket Nos. E-2, Sub 1095A, E-7, Sub 1100A, and G-9, Sub 682A). References in this document to Regulatory Conditions and Code of Conduct Sections are to the provisions of the documents as approved by and attached to that Order. The Order is available on the Commission's website at the specific address:

<https://starw1.ncuc.net/NCUC/ViewFile.aspx?Id=d859e159-8648-4445-ab89-d830cd24a82a>

The initial Order approving the merger is located here:

<https://starw1.ncuc.net/NCUC/ViewFile.aspx?Id=187c236e-b980-4eb3-ae0b-6c096d18712b>

obtain such determinations and authorizations as may be required under North Carolina law, before engaging in such transactions (Regulatory Condition No. 3.1).

- (3) Determining whether or not goods and services to and from DEC, DEP, Piedmont, their Affiliates, or Nonpublic Utility Operations are being taken and received in accordance with filed service agreements and approved lists of services (Regulatory Condition No. 5.4 and Code of Conduct Section III.D).
- (4) Determining whether or not DEC, DEP, Piedmont, and other Utility Affiliates are in compliance with the pricing for inter-utility goods and services transactions as set forth in Regulatory Condition No. 5.2 and Code of Conduct Section III.D. [excluding Subsections 3(a), 3(b), and 4].
- (5) Determining whether or not DEC, DEP, and Piedmont are currently in compliance with the requirements that, with regard to goods and services taken from or provided to other Utility Affiliates and/or Non-Utility Affiliates, (a) they have performed “comprehensive non-solicitation based assessments at a functional level of the market competitiveness of the costs for goods and services” they receive from or provide to such Utility Affiliates in a satisfactory manner, (b) they are utilizing such assessments in a satisfactory manner, and (c) they are up to date with regard to the four-year cycle required for such assessments (Regulatory Condition No. 5.2).
- (6) Determining whether or not DEC and DEP are in compliance with the requirements related to the location of core utility functions (Regulatory Condition No. 5.3).
- (7) Determining whether or not the cost allocation factors set forth in the cost allocation manual have been used and reviewing the propriety and reasonableness of each such factor (Regulatory Condition No. 5.5 and Code of Conduct Section III.D).
- (8) Determining whether direct charging has been used to the maximum extent practicable and in compliance with the Regulatory Conditions and Code of Conduct (Regulatory Condition Nos. 5.5, 5.24, and 5.26, and Code of Conduct Section III.D).
- (9) Determining whether or not DEC, DEP, and Piedmont are in compliance with the reporting and review requirements related to affiliated transactions set forth in Regulatory Condition Nos. 5.5(c), 5.7, and 5.12.
- (10) Determining whether or not DEC, DEP, and Piedmont are complying with the requirement that interim changes to the Cost Allocation Manual (CAM) or changes to lists of goods and services, for which the 15-day notice to the Commission is required, are being filed with the Commission in accordance with Regulatory Condition No. 5.6.
- (11) Determining whether or not DEC, DEP, and Piedmont are in compliance with Regulatory Condition Nos. 14.1, 14.2, 14.3, and 14.4 related to ensuring that the

structures and processes necessary to fulfill the commitments expressed in the Regulatory Conditions and the Code of Conduct in a timely, consistent, and effective manner have been established and are being maintained.

- (12) Determining whether or not DEC, DEP, and Piedmont are in compliance with Code of Conduct Sections III.A.1 (related to separation), III.A.2 (related to customer information), and III.A.3 (related to confidential systems operation information).
- (13) Determining whether or not the systems, policies and procedures, cost allocation manual(s), and other operations of DEC and DEP in place as of March 31, 2023, adequately reflect the Commission's decisions and the agreements between DEC, DEP, and the Public Staff concerning Recommendation Nos. VI-R3, VI-R4, VII-R1, VII-R2, and VIII-R4, as set forth in the Order on Audit Recommendations issued on March 29, 2016, in Docket No. E-7, Sub 986D.
- (14) Verifying through appropriate sampling that DEC, DEP and Piedmont's affiliate transactions between the merger of DEC, DEP, and Piedmont to March 31, 2023, were conducted in compliance with applicable requirements and that they are supported by appropriate and adequate documentation; and
- (15) Preparing a report containing findings and conclusions with respect to the foregoing and provide it to the Public Staff-North Carolina Utilities Commission by January 1, 2024, to be finalized and filed with the Commission by February 15, 2024.

Once the Commission has selected the auditor and the auditor has been retained, a comprehensive work plan will need to be developed by the auditor for approval by the Public Staff. In addition, the auditor must be willing, if requested, to testify in any formal proceedings with respect to the subject matter of the audit or to make presentations, if deemed necessary. The costs of any such testimony or presentations should not be included in the estimate of audit fees. Any such costs will be dealt with separately.