

Request for Quotations

*Consultant to the Public Staff on Cost of Capital and Debt,
Return on Equity, Credit Metrics, and Capital Structure*

September 29, 2022

Introduction

The Public Staff – N.C. Utilities Commission is a state agency that represents customer interests in proceedings before the North Carolina Utilities Commission. The Public Staff is independent of the Commission.

The Public Staff may, with approval, hire independent contractors to provide subject matter expertise, pursuant to N.C. General Statute 62-15(h):

The executive director is authorized to employ, subject to approval by the State Budget Director, expert witnesses and such other professional expertise as the executive director may deem necessary from time to time to assist the public staff in its participation in Commission proceedings, and the compensation and expenses therefor shall be paid by the utility or utilities participating in said proceedings. Such compensation and expenses shall be treated by the Commission, for rate-making purposes, in a manner generally consistent with its treatment of similar expenditures incurred by utilities in the presentation of their cases before the Commission. An accounting of such compensation and expenses shall be reported annually to the Joint Legislative Commission on Governmental Operations and to the Speaker of the House of Representatives and the President Pro Tempore of the Senate.

The Public Staff seeks a consultant to assist with review of the cost of capital and debt, return on equity, credit metrics, and capital structure (ROE consultant) of Duke Energy Carolinas, LLC (DEC), and Duke Energy Progress, LLC (DEP), in separate requests for base rate increases with a three-year multi-year rate plan. DEP's case will likely be filed on October 6, 2022, and DEC's case is likely to be filed on January 6, 2023, or soon thereafter.

Scope of Work

The ROE consultant will review and analyze the cost of capital and debt, return on equity, credit metrics, and capital structure of DEC and DEP, and present in testimony the Public Staff's position. In North Carolina, the Commission must make findings of fact regarding the impact of changing economic conditions on customers when determining the proper rate of return on equity for a public utility; therefore, the consultant will be required to review, analyze, and present testimony on economic conditions in North Carolina. The recent statute allowing performance-based ratemaking with a multi-year rate plan provides that the reduction in regulatory lag provided by the multi-year rate plan can be taken into account when determining ROE. Additionally, the consultant will need to review each company's credit metrics, as the Commission has in the past taken into account the impact its decisions on capital structure and flowing through tax reform would have on a company's credit metrics.

The typical general rate case timeline is approximately ten months from the filing of the application to the issuance of an order by the Utilities Commission. The Public Staff normally has approximately five months to complete its review of the application and submit written direct testimony setting forth its findings and recommendations. An evidentiary hearing is usually held approximately one month later, with settlement negotiations in between. Overlapping investigations into cost of capital and debt, return on equity, credit metrics, and capital structure of DEC and DEP will require more resources than the Public Staff has available in-house, considering current workload, including major general rate cases filed by Carolina Water Service, Inc. of North Carolina and Aqua Americas, Inc. The Public Staff seeks to hire a consultant with the appropriate expertise and resources to conduct such an investigation. Ideally, we would like to have a contract in place with the consultant ready to perform in October 2022.

The scope of work will include:

1. Reviewing and analyzing testimony and exhibits involving cost of capital and debt, return on equity, credit metrics, and capital structure filed by DEP and DEC and intervenors.
2. Preparing and presenting direct testimony and exhibits. (Commission rule do not provide for surrebuttal.)
3. Preparing and submitting bi-weekly reports on the progress of the investigation or to-date results of the investigation as appropriate.
4. Being available for weekly conference calls with the Public Staff.

As part of this scope of work, the consultant will

- Prepare written discovery questions and document requests for utility response;

- Participate with Public Staff personnel in interviews and conference calls with the utilities;
- Communicate regularly with Public Staff personnel regarding project status and planning;
- Advise the Public Staff in any settlement discussions;
- Submit a final report to the Public Staff with detailed analysis and recommendations; and
- Attend evidentiary hearings before the Commission.

Issues related to cost of capital and debt, return on equity, credit metrics, and capital structure will be governed by litigation deadlines, so the consultant must complete its duties within the time frames specified by the Public Staff. Thus, the consultant must have available sufficient staff resources to review and provide analysis of voluminous information within a few months. Time is of the essence in completing reviews for the Public Staff.

The consultant will be called upon to provide written and oral testimony in a litigated or settled proceeding before the Utilities Commission. Therefore, preference will be given for experience in testifying in legal proceedings.

The Public Staff cannot easily predict the consultant's time commitment for this project, so in addition to a not-to-exceed total contract dollar value based on an estimated one-year timeframe for the work, the Public Staff expects to receive quotes based on personnel hourly rates plus a schedule of any incidental charges (e.g., photocopying costs).

Consultant must bill at least monthly. Invoices must include a list of each consultant employee (or contractor if approved in advance by the Public Staff) who worked on the billed items, his/her hourly rates, the number of hours worked, the nature of the work, the N.C. Utilities Commission docket number of the case being worked on.

Consultant may be required to execute confidentiality agreements with the utilities or other parties whose documents are being reviewed by the Public Staff and consultant.

Consultant shall be an independent contractor. The Public Staff shall have the right to unlimited use of all work product prepared by the consultant pursuant to the contract executed under this RFQ.

Required Information in Quotation

All responses to this RFQ must be sent in written form, either electronically or hard copy. Responses should include:

- A statement of the consultant's qualifications to perform the requested work, with a focus on experience in electric utility cost of capital and debt, return on equity, credit metrics, and capital structure investigations to the extent possible.
- The consultant's experience with multi-year rate plans or other ratemaking including forecasted costs.
- A list of personnel, to the extent known, who will provide the consulting services to the Public Staff, their hourly rates, and their credentials including academic background and work experience.
- A list of possible non-personnel costs and the associated rates where applicable. (E.g., any separate charges for communications, copying, or travel time.)
- At least two references who can speak to previous work done by the consultant, with a focus on experience in cost of capital and debt, return on equity, credit metrics, and capital structure investigations to the extent possible.
- A description of similar prior projects performed by the consultant, including names of clients (if not confidential), the nature of the analysis performed, and the timeframe of that performance. If applicable, please provide weblinks to or copies of any testimony as an ROE expert or other type of expert before a regulatory body, as well as a weblink to or copy of the final order of the regulatory body for cases filed since 2015.
- A statement affirming that the consultant has not performed work for Duke Energy Progress, LLC, Duke Energy Carolinas, LLC, or any of their affiliates. If the consultant has performed any work under contract for Duke Energy Corporation, Duke Energy Progress, LLC, Duke Energy Carolinas, LLC, or their affiliates in the past, or expects to perform work in the future, it must identify all such work, indicate whether any such work is ongoing, and explain why such work would not create a conflict of interest if the consultant is retained to work on behalf of the Public Staff.
- A statement of any past or present criminal charges (state or federal), and any government debarments from contracts, made against the consulting business or its current personnel.
- The consultant's federal employer identification number.
- The name, job title, mailing address, physical address, telephone number, and email address of the person who has the legal authority to issue the quotation on behalf of the consultant and to legally bind the consultant in a contract for consulting services pursuant to this RFQ.

- A statement that the consultant accepts all the provisions, terms, and conditions of this RFQ.
- A statement of the not-to-exceed dollar amount for providing consulting services for the DEP general rate case with a multi-year rate plan (to be filed approximately October 6, 2022) and the DEC general rate case with a multi-year rate plan (to be filed approximately January 6, 2023) pursuant to this RFQ for a one-year period beginning with commencement of the contract (anticipated to begin in October 2022, but subject to change), and a statement of additional costs if completion of the investigation and presentation of testimony on the results of the investigation should take longer than one year.

Procedure

All inquiries about procedures and responses to this RFQ should be directed in writing to the Chief Counsel of the Public Staff: Lucy Edmondson, email at lucy.edmondson@psncuc.nc.gov or U.S. Mail at Lucy Edmondson, Public Staff – NC Utilities Commission, 4326 Mail Service Center, Raleigh, NC 27699-4300.

Any questions about the RFQ scope of work may be sent to the Public Staff by email to Lucy Edmondson at lucy.edmondson@psncuc.nc.gov until 5:00 pm (Eastern) on October 7, 2022. Responses will be in writing via email, and will be made available upon request.

Quotations in response to this RFQ must be received by the Public Staff no later than 5:00 p.m. (Eastern) on October 10, 2022.

All quotations will be kept confidential by the Public Staff until a contract for consulting services has been executed.

The Public Staff hopes to select a consultant from the quotation submissions in October 2022; however, the process may take longer if we have follow-up questions on the quotation, and we must also obtain approval thereafter from the State Budget Director. Acceptance of a contract for consulting services pursuant to this RFQ is subject to both the Public Staff's discretionary judgment, and also approval by the State Budget Director.

The contract for consulting services pursuant to this RFQ shall consist of this RFQ, the written quotation in response to the RFQ, and a signed acceptance letter from an authorized employee of the Public Staff to the consultant.

GENERAL CONTRACT TERMS AND CONDITIONS

1. **CONFIDENTIAL INFORMATION:** To the extent permitted by applicable statutes and rules, the State will maintain confidential trade secrets that the Consultant does not wish disclosed. As a condition to confidential treatment, each page containing trade secret information shall be identified in boldface at the top and bottom as “CONFIDENTIAL” by the Consultant, with specific trade secret information enclosed in boxes or similar indication. Cost information shall not be deemed confidential under any circumstances. Regardless of what a Consultant may label as a trade secret, the determination whether it is or is not entitled to protection will be determined in accordance with G.S. §132-1.2. Any material labeled as confidential constitutes a representation by the Consultant that it has made a reasonable effort in good faith to determine that such material is, in fact, a trade secret under G.S. §132-1.2. Consultants are urged and cautioned to limit the marking of information as a trade secret or as confidential so far as is possible.
2. **INFORMAL COMMENTS:** The Public Staff shall not be bound by informal explanations, instructions or information given at any time by anyone on behalf of the State during the competitive process or after award. The Public Staff is bound only by information provided in this RFQ and in formal Addenda issued.
3. **COST FOR QUOTE PREPARATION:** Any costs incurred by Consultant in preparing or submitting quotes are the Consultant’s sole responsibility; the Public Staff will not reimburse any Consultant for any costs incurred prior to award.
4. **DEFAULT:** If, through any cause, Consultant shall fail to fulfill in timely and proper manner the obligations under this agreement, the Public Staff shall have the right to terminate this contract by giving written notice to the Consultant and specifying the effective date thereof.

Upon the Consultant filing a petition for bankruptcy or the entering of a judgment of bankruptcy by or against the Consultant, the Public Staff may immediately terminate, for cause, this Contract.

Upon termination by the State for Consultant’s inadequate performance or bankruptcy, the Public Staff may terminate all other existing Contracts the Consultant has with the State, and debar the Consultant from doing future business with the Public Staff.

5. **SOURCE AND AVAILABILITY OF FUNDS:** Consultant invoices for services under this Contract shall be sent to the Business Officer of the Public Staff – North Carolina Utilities Commission (“Public Staff”). The Public Staff will forward the invoices to the utility(ies) responsible for payment, and payment will be made from the utility(ies) to the Consultant. Otherwise, any and all payments to the Consultant are dependent upon and subject to the availability of funds to the agency for the purpose set forth in

this agreement.

6. **SITUS**: The place of this Contract, its situs and forum, shall be North Carolina, where all matters, whether sounding in Contract or tort, relating to its validity, construction, interpretation and enforcement shall be determined.
7. **GOVERNING LAWS**: This Contract is made under and shall be governed and construed in accordance with the laws of the State of North Carolina, without regard to its conflict of laws rules.
8. **AFFIRMATIVE ACTION**: The Consultant will take affirmative action in complying with all Federal and State requirements concerning fair employment and employment of people with disabilities, and concerning the treatment of all employees without regard to discrimination by reason of race, color, religion, sex, national origin or disability.
9. **INTELLECTUAL PROPERTY INDEMNITY**: Consultant shall hold and save the Public Staff and the State, its officers, agents and employees, harmless from liability of any kind, including costs and expenses, resulting from infringement of the rights of any third party in any copyrighted material, patented or unpatented invention, articles, device or appliance delivered in connection with this contract.
10. **ADVERTISING**: Consultant agrees not to use the existence of this Contract or the name of the Public Staff or the State of North Carolina as part of any commercial advertising or marketing of products or services. A Consultant may inquire whether the Public Staff is willing to act as a reference by providing factual information directly to other prospective customers.
11. **ACCESS TO PERSONS AND RECORDS**: During and after the term hereof, the State Auditor and any using agency's internal auditors shall have access to persons and records related to this Contract to verify accounts and data affecting fees or performance under the Contract, as provided in G. S. §143-49(9).
12. **ASSIGNMENT**: No assignment of the Consultant's obligations or the Consultant's right to receive payment hereunder shall be permitted.

However, upon written request approved by the issuing purchasing authority and solely as a convenience to the Consultant, the Public Staff may:

- a. Forward the Consultant's payment check directly to any person or entity designated by the Consultant, and
- b. Include any person or entity designated by Consultant as a joint payee on the Consultant's payment check.

In no event shall such approval and action obligate the Public Staff to anyone other than the Consultant and the Consultant shall remain responsible for fulfillment of all

Contract obligations. Upon advance written request, the Public Staff may, in its unfettered discretion, approve an assignment to the surviving entity of a merger, acquisition or corporate reorganization, if made as part of the transfer of all or substantially all of the Consultant's assets. Any purported assignment made in violation of this provision shall be void and a material breach of this Contract.

13. **GENERAL INDEMNITY:** The Consultant shall hold and save the Public Staff, the State, its officers, agents, and employees, harmless from liability of any kind, including all claims and losses accruing or resulting to any other person, firm, or corporation furnishing or supplying work, services, materials, or supplies in connection with the performance of this Contract, and from any and all claims and losses accruing or resulting to any person, firm, or corporation that may be injured or damaged by the Consultant in the performance of this Contract and that are attributable to the negligence or intentionally tortious acts of the Consultant provided that the Consultant is notified in writing within 30 days that the Public Staff or the State has knowledge of such claims. The Consultant represents and warrants that it shall make no claim of any kind or nature against the Public Staff's or the State's agents who are involved in the delivery or processing of Consultant goods to the Public Staff or the State. The representation and warranty in the preceding sentence shall survive the termination or expiration of this Contract.
18. **COMPLIANCE WITH LAWS:** Consultant shall comply with all laws, ordinances, codes, rules, regulations, and licensing requirements that are applicable to the conduct of its business and performance in accordance with this contract, including those of federal, state, and local agencies having jurisdiction and/or authority.
19. **ENTIRE AGREEMENT:** This RFQ and any documents incorporated specifically by reference represent the entire agreement between the parties and supersede all prior oral or written statements or agreements. This RFQ, any Addenda hereto, and the Consultant's quotes are incorporated herein by reference as though set forth verbatim.

All promises, requirements, terms, conditions, provisions, representations, guarantees, and warranties contained herein shall survive the contract expiration or termination date unless specifically provided otherwise herein, or unless superseded by applicable Federal or State statutes of limitation.