BEFORE
THE PUBLIC SERVICE COMMISSION
OF SOUTH CAROLINA

DOCKET NO. 2011-158-E

In the Matter of Application of Duke Energy Corporation and Progress Energy, Inc. on behalf of Their Electrical Utility Subsidiaries, Duke Energy Carolinas, LLC and Progress Energy Carolinas, Inc. to Engage in a Business Combination Transaction	)))))))))	**ADDITIONAL DIRECT TESTIMONY OF ALEXANDER J. WEINTRAUB**

Q. PLEASE STATE YOUR NAME, ADDRESS AND POSITION.

A. My name is Alexander (Sasha) J. Weintraub and my business address is 100 East Davie Street, Raleigh, North Carolina. My position is Vice President-Fuels and Power Optimization for Progress Energy Carolinas, Inc. ("PEC" or "Company").

Q. ARE YOU THE SAME SASHA WEINTRAUB THAT PREVIOUSLY SUBMITTED TESTIMONY IN THIS PROCEEDING?

A. Yes. I submitted direct, supplemental direct and rebuttal testimony and exhibits in this proceeding on September 14, 2011, November 10, 2011 and November 30, 2011 respectively.

Q. WHAT IS THE PURPOSE OF YOUR ADDITIONAL DIRECT TESTIMONY?

A. The purpose of my additional direct testimony is to: 1) explain the wholesale market power mitigation proposal ("Revised Mitigation Proposal") filed by Duke Energy Corporation and Progress Energy Corporation ("the Applicants") with the Federal Energy Regulatory Commission ("FERC") on March 26, 2012; 2) explain the Supplemental Agreement and Stipulation of Settlement entered into by the North Carolina Public Staff and the Applicants that clarify and modify the Agreement and Stipulation of Settlement entered in to by the Public Staff and the Applicants filed with the North Carolina Utilities Commission on September 2, 2011; 3) re-affirm Duke Energy Carolinas, LLC ("DEC") and Progress Energy Carolinas, Inc. ("PEC") (collectively "the Utilities") commitment to provide their retail and native load firm wholesale customers $650 million in system savings (provided the FERC and the North Carolina Utilities Commission approve the Joint Dispatch Agreement ("JDA") and the merger); and 4) explain the derivation of the total South Carolina merger savings calculated by the Office of Regulatory Staff ("ORS").

Q. PLEASE DESCRIBE AND EXPLAIN THE MARKET POWER MITIGATION PROPOSAL FILED BY THE APPLICANTS WITH THE FERC ON MARCH 26, 2012.

A. On March 26, 2012, the Applicants filed a Revised Mitigation Proposal with the FERC pursuant to an order issued by the FERC on December 14, 2011. The December 14, 2011 FERC Order rejected a previous market power mitigation proposal filed by the Applicants and allowed the Applicants to file a revised mitigation proposal. The Revised Mitigation Proposal has two elements: an interim mitigation mechanism that involves the sale of capacity and energy to third party wholesale market participants; and a permanent mitigation proposal that involves the construction of new transmission facilities. As proposed, the interim mitigation sales mechanism will terminate once all of the new transmission facilities have been constructed and placed into service.

Q. PLEASE FURTHER DESCRIBE THE INTERIM MITIGATION SALES MECHANISM.

A. In recognition of the fact that until the permanent transmission expansion projects I describe below are placed in service, the FERC's market power concerns will continue, the Applicants propose to implement an interim mitigation measure through firm sales of capacity and energy. The Applicants have entered into firm power sales agreements ("PSAs") with Cargill, EDF, and Morgan Stanley. The salient provisions of these PSAs are as follows:

Energy will be sold on a firm basis in all hours of those seasons when mitigation is required (summer and winter for DEC, summer for PEC). The amounts sold in on-peak and off-peak periods will be sufficient to fully mitigate the market power screen failures. These amounts are as follows:

In the DEC Balancing Authority Area ("BAA"):

Summer Peak – 150 MW.

Summer Off-Peak – 300 MW.

Winter Peak – 25 MW

Winter Off-Peak – 225 MW

In the PEC East BAA

Summer Peak – 325 MW

Summer Off-Peak – 500 MW

The sales will be divided among the purchasers as follows:

Cargill – all of the energy and capacity sold in the DEC BAA, and 100 MW in the Summer Peak and 100 MW in the Summer Off-Peak Periods for the PEC East BAA

EDF - 100 MW in the Summer Peak and 100 MW in the Summer Off-Peak Periods for the PEC East BAA

Morgan Stanley – 125 MW in the Summer Peak and 300 MW in the Summer Off-Peak Periods for the PEC East BAA

The energy will be sold on a “Firm LD basis”, *i.e.* the purchaser must take the full contract amount in all hours, subject to interruption only on *force majeure* grounds, which are specified in the PSAs.

The energy will be sold at a specified price, based on a fixed heat rate and the natural gas price reported in *Platts Gas Daily* for Transco Zone 5. The heat rates will be differentiated by on-peak and off-peak periods. The heat rates are as follows:

Summer Peak – 10.0 MMBtu/MWh.

Summer Off-Peak – 7.0 MMBtu/MWh.

Winter Peak – 8.95 MMBtu/MWh.

Winter Off-Peak – 7.0 MMBtu/MWh.

The capacity prices were negotiated between the Applicants and the purchasers. There are no restrictions on the use of energy by the purchasers after it is purchased. Any interruption of deliveries of energy by DEC or PEC will result in the payment of liquidated damages if the contract price of power to be sold is below the market unless that interruption is excused on *force majeure* grounds.

Sales under the PSAs will commence at the beginning of the first day after the merger is closed. The term of each of PEC's PSAs will extend through August 31, 2014. The term of DEC's PSA will extend through February 28, 2015. These dates ensure that the interim mitigation will be in place until the transmission expansion projects are expected to be completed.

Q. PLEASE DESCRIBE THE PERMANENT TRANSMISSION MITIGATION PROPOSAL.

A. The Applicants' permanent mitigation proposal consists of the construction of seven transmission expansion projects in order to increase transmission import capability into the PEC East and DEC BAAs. The projects proposed by the Applicants provide permanent structural mitigation of the FERC’s market power concerns. Set forth and summarized in the following table are the proposed transmission expansion projects, their projected cost and in-service dates.

Project	**BAA**	**Estimated Cost**	**Estimated Time**
Antioch 500/230 kV - Replace two existing transformers with larger capacity transformers.	DEC	$50 million	3 years
Lilesville-Rockingham 230 kV – Construct new third line.	PEC-East	$15.7 million	2 years
Roxboro-E Danville 230 tie –add a series reactor to one Roxboro-E Danville 230 kV line and revise operating procedures.	PEC-East	$6.6 million	2 years
Reconductor Kinston Dupont – Wommack 230 kV Line 6-1590 MCM	PEC-East	$18 million	2 years
Person - (DVP) Halifax 230 kV Line, uprate CT Ratio to 3000 amps at Person terminal end and reconductor DVP portion (20.04 Miles) of line.	PEC-East	$16 million	2.5 years
Wake – Carson 500 kV Line, replace existing wave traps with 4000 amp wave traps at both terminals and rework protective relaying	PEC-East	$1.5 million	< 2 years
Durham - E. Durham 230 kV line, Uprate CT Ratio to 3000 amps	PEC-East	$0.5 million	< 2 years

In addition to these seven projects, the Applicants are accelerating the in-service date of PEC's already-planned Greenville – Kinston Dupont 230 kV Line from 2017 to 2015.

These transmission expansion projects completely mitigate all market power issues in the DEC BAA. They also completely mitigate all market power issues in the PEC East BAA except for the Summer Off-Peak in the Base Case. In this one period, a very small market power screen failure will still exist, which does not represent a competitive concern. However, if the FERC still finds the minor screen failure an issue, the Applicants have proposed to augment the Revised Mitigation Proposal with a "stub" mitigation proposal (the "stub mitigation proposal") – namely a set-aside of a portion of the expanded transmission capacity from the DEC BAA to the PEC East BAA. Under this proposal, only unaffiliated third parties would be permitted to reserve the set-aside amount on a firm basis. This set-aside would ensure that the Applicants would not have access to the set-aside amount of transmission capacity into the PEC East BAA from the Duke BAA on a firm basis and thereby would fully mitigate the one small screen failure remaining after the transmission projects are completed.

Q. ARE THERE ANY OTHER ELEMENTS OF THE REVISED MITIGATION PROPOSAL?

A. Yes. The Applicants also proposed that three aspects of the Revised Mitigation Proposal be subject to monitoring by Potomac Economics as an independent monitor. First, Potomac Economics will monitor the PSAs to ensure they remain in effect until the transmission expansion projects are complete. If any of the PSAs terminate prior to completion of the transmission projects, Potomac Economics will monitor whether such PSA is replaced with a new PSA under materially the same terms and conditions. Second, Potomac Economics will monitor the extent to which the Applicants are pursuing the transmission expansion projects within the scope and time frame projected and will report to the FERC when the projects have been completed and placed in service. Third, if the FERC requires PEC or DEC to forego use of some of the enhanced transmission capability created by these projects via the stub mitigation proposal, Potomac Economics will monitor the Applicants' compliance with such a transmission use limitation.

Q. TURNING TO THE SUPPLEMENTAL AGREEMENT AND STIPULATION OF SETTLEMENT ENTERED INTO BY THE APPLICANTS AND THE NORTH CAROLINA PUBLIC STAFF AND FILED WITH THE NORTH CAROLINA UTILITIES COMMISSION ON MAY 8, 2012, PLEASE DESCRIBE THE RETAIL HOLD HARMLESS PROVISIONS CONTAINED IN THE AGREEMENT ASSOCIATED WITH THE REVISED MITIGATION PROPOSAL.

A. I will first address the interim mitigation sales mechanism. The Supplemental Agreement provides that the costs of the Mitigation Capacity will be allocated to the Utilities' wholesale jurisdiction, in particular the actual mitigation sales. These costs will be calculated based upon the revenue requirement associated with a utility-specific proxy for the capacity costs of the generating facilities expected to be on the margin during the months and hours the interim mitigation sales will be made, which are assumed to be between July 1, 2012 through May 31, 2015.

DEC's and PEC's North Carolina retail customers will immediately benefit from the allocation of capacity costs to these interim sales because the Supplemental Agreement requires DEC and PEC to each develop a decrement rider to their respective North Carolina retail rates that reflects the Mitigation Capacity costs I just described, calculated as follows:

a) The Mitigation Capacity MWs under contract for each period will be increased to reflect reserve margins contained in the Utilities' 2011 filed Integrated Resource Plans.

b) The Mitigation Capacity MWs, including the associated reserve margins, will be multiplied by the number of hours that the capacity is contracted for and the hourly capacity cost per MW based upon the agreed upon utility-specific proxy.

c) These capacity costs will include a rate of return on production plant, step-up transformer facilities, general plant, and associated rate base items. Additional costs to be included are fixed O&M (which includes an appropriate allocation of Administrative and General ("A&G") costs, depreciation expense, and general taxes).

d) These capacity costs will be allocated between and among jurisdictions using the production plant allocation methodology approved in DEC's and PEC's most recent general rate cases.

e) The decrement will be determined by dividing each utility's Mitigation Capacity total projected North Carolina retail capacity costs for July 1, 2012, through May 31, 2015, by each utility's projected North Carolina retail kilowatt-hour sales for the same period.

The Utilities must file the decrement riders for approval with the North Carolina Utilities Commission within 30 days after the merger closes. The decrement riders will be fixed and remain in effect and without any future true-ups until the interim mitigation sales are terminated plus the number of days between when the sales began and the time the decrement riders became effective. However, if a portion of the interim sales terminate due to the completion of the permanent mitigation, the riders will be reduced in proportion to the terminated sales. Appropriate decrement riders will continue in effect until such time as the Utilities are relieved of their respective obligations to make the interim mitigation sales.

The interim mitigation sales will be deemed to have been made using the Utilities' highest energy costs assigned to these type sales. The Supplemental Agreement prohibits the Utilities from seeking to recover from their North Carolina retail customers any of the non-fuel variable operating and maintenance costs associated with the interim mitigation sales. In addition, the Utilities cannot seek to recover from their North Carolina retail customers any revenue shortfalls resulting from, or any costs associated with, the interim mitigation sales, including but not limited to any negative capacity payments, any revenue deficiency resulting from energy revenues being less than the associated costs and any payment of liquidated damages.

Turning to the hold harmless provisions of the North Carolina Supplemental Agreement associated with the permanent transmission mitigation mechanism, DEC and PEC agreed they will not assign costs associated with permanent transmission mitigation projects into their wholesale transmission rates until the later of the expiration of the five-year

FERC hold harmless period or such time as the Utilities have received regulatory approval to assign those costs to their retail native loads, effective on the date they are first permitted to begin recovering those costs.

The Utilities further agreed that they will only seek recovery of the costs associated with the permanent transmission mitigation projects in their North Carolina retail rates upon the expiration of five (5) years following the close of the merger, and any such request shall include a showing that the requesting utility intends to pursue recovery from its wholesale customers effective on the date it is permitted to begin recovery of such costs in its North Carolina retail rates. The Utilities further agreed to support the cost recovery request with evidence sufficient to show that, absent the merger and the resulting mitigation requirement, (i) the project is needed to provide adequate and reliable retail service, and (ii) at the time the request is made, the construction of the project and the incurrence of the associated costs would have been reasonable and prudent. The Utilities may seek inclusion of only the net depreciated cost of the permanent transmission mitigation projects at the time of the request, and may not request any deferral of any costs associated with the projects for ratemaking purposes.

The North Carolina Supplemental Agreement and Stipulation of Settlement further provides that if subsequent to the inclusion of the costs associated with a permanent transmission mitigation project in North Carolina retail rates, DEC or PEC is not successful in incorporating the correct jurisdictional share of those costs into the cost-based formula rate prescribed by its FERC approved Open Access Transmission Tariffs and, therefore, is not allowed to recover all of such costs from its wholesale or firm transmission-only customers, then the corresponding proportionate share of such costs that have been approved for inclusion in retail rates will be removed and refunds made accordingly. For example, if 20% of the costs allocated to wholesale are not allowed in to DEC's or PEC's OATT rates, then 20% of the portion allocated to retail will be excluded and refunded to DEC's or PEC's North Carolina retail customers.

Because PEC is simply accelerating the construction of the Greenville-Kinston-DuPont transmission line project, the Supplemental Agreement provides that this project is not subject to the cost recovery limitations I just described. Rather, PEC may seek to include the costs associated with this line in its North Carolina retail rates any time after the line is placed in service, in accordance with normal ratemaking practice requirements.

Finally, the North Carolina Supplemental Agreement provides that the Utilities cannot recover from their North Carolina retail ratepayers any costs associated with running their generating systems on a non-economic basis as a result of their commitment in the Revised Mitigation Proposal filed with the FERC to run the Roxboro and Mayo units at full output when necessary to push back against AEP/PJM power flows into PEC in order to achieve improvement in firm import capability from PJM into PEC-East. PEC, through special operating procedures[1] maintained at its Energy Control Center ("ECC"), will (a) document each instance in which any of the Roxboro and Mayo units operate out of merit dispatch order and (b) specify each instance during which the approved procedure for implementing the this commitment was used. For each use of the procedure, PEC must include the following information in its monthly fuel report:

- the date, exact times, and duration;
- a detailed description of the order of dispatch under the joint dispatch agreement that would have occurred if the procedure had not been used;
- the incremental difference in fuel, fuel-related, and variable O&M costs, on a joint dispatch basis; and

[1] The ECC will monitor the AEP Danville/East Danville transmission line that interconnects with PEC's system north of the Roxboro and Mayo plants, and, if line-overloading issues associated with power flows from PJM into PEC are found at a time that the Roxboro and Mayo units are not operating at full power output, the ECC will direct both the Roxboro and Mayo plants to increase their output to full power, per the special operating procedures for this type of situation.

- the effect on joint dispatch savings to be split between DEC and PEC.

Q. ARE THESE THE SAME HOLD HARMLESS COMMITMENTS DESCRIBED IN DEC'S AND PEC'S COMMITMENT LETTER FILED WITH THE COMMISSION ON MAY 16, 2012?

A. Yes. In the May 16, 2012 letter DEC and PEC explained that they had made these same hold harmless commitments to the Office of Regulatory Staff for the benefit of DEC's and PEC's South Carolina retail customers. The letter stated that the total system costs of Mitigation Capacity to be allocated away from South Carolina retail and reflected in the proposed decrement rider are $10,316,657 for DEC and $2,283,121 for PEC. Just as in North Carolina these capacity costs will be allocated between and among jurisdictions using the production plant allocation methodology approved in DEC's and PEC's most recent general rate cases. For DEC and PEC, the current Commission-approved methodology is the Summer CP. The actual proposed decrement riders are shown in Appendix A to the May 16, 2012 commitment letter filed with the Commission.

Q. PLEASE DESCRIBE AND EXPLAIN THE CLARIFICATIONS TO THE NORTH CAROLINA SEPTEMBER 2, 2012 AGREEMENT AND STIPULATION OF SETTLEMENT THAT ARE ADDRESSED IN

THE SUPPLEMENTAL AGREEMENT AND STIPULATION OF SETTLEMENT.

A. The first clarification concerns how off-system purchases and sales are to be treated in determining savings realized by PEC and DEC from the joint dispatch of their generation facilities. As explained by Dr. Kalt in his direct testimony, the $364 million in joint dispatch agreement ("JDA") savings are based upon the analysis conducted by and the models used by Compass Lexecon, which did not take into account off-system sales and purchases. Because purchases by the stand-alone utilities for purposes of splitting the joint dispatch savings cannot be determined with any reasonable degree of accuracy, the proposed treatment of purchases in the JDA is the assignment of a share of actual joint dispatch purchases (i.e., megawatt hours and costs) to DEC and PEC on a stand-alone basis. Therefore, in order to properly account for the benefits of joint dispatch, for purposes of calculating the JDA savings portion of the $650 million guarantee, off-system sales and purchases will be excluded from the calculation (in both the joint dispatch generation stack and the stand alone generation stacks). Actual savings that result from purchases and the displacement of higher cost generation that results from such purchases will flow through DEC's and PEC's annual fuel charge adjustment proceedings in the same manner such lower costs/savings have been treated pre-merger.

The second clarification of the North Carolina September 2, 2011 Agreement and Stipulation of Settlement concerns the increased consumption of reagents by DEC resulting from its burning of non-traditional coals due to greater use of coal blending. Fuel blending generally refers to the exercise of fuel flexibility in electricity generation and involves the burning of coals with higher sulfur and ash contents. Such blending will result in the consumption of greater amounts of reagents than would be the case if the higher sulfur and ash content coals were not burned. The Supplemental Agreement and Stipulation of Settlement clarifies that the calculation of the guaranteed fuel and fuel-related costs system savings of $650 million will not be reduced by the increased reagent costs resulting from the increased consumption of reagents associated with fuel blending. The recovery of these increased reagent costs, if otherwise reasonable and prudently incurred, will be allowed in DEC's annual fuel charge proceedings.

Finally, Appendix B of the North Carolina Supplemental Agreement and Stipulation of Settlement clarifies section 2.(d)(ii) of the September 2, 2011 Agreement and Stipulation of Settlement which addresses how savings realized by DEC from greater use of coal blending following the merger are to be calculated for purpose of the $650 million system savings guarantee.

Q. PLEASE DESCRIBE AND EXPLAIN THE MODIFICATIONS TO THE NORTH CAROLINA SEPTEMBER AGREEMENT AND STIPULATION OF SETTLEMENT ADDRESSED IN THE SUPPLEMENTAL AGREEMENT AND STIPULATION OF SETTLEMENT.

A. Section 12 of the September 2, 2011 Agreement and Stipulation of Settlement provides that with respect to capital costs incurred by PEC and DEC to achieve merger savings, PEC and DEC may only seek to include these costs in rates in their first rate cases following the close of the merger and that rate case must be filed prior to December 31, 2013. Section 12 further provides that PEC and DEC may request recovery of employee severance costs in their first rate cases following the close of the merger, provided the rate cases are filed prior to December 31, 2013.

Both PEC and DEC intend to file general rate cases in 2012. Due to the procedural posture of the Applicants' merger application with the FERC, the close of the merger did not occur January 1, 2012 as the Applicants expected. Rather, the closing will occur in June or July, 2012, assuming all regulatory approvals are received in a timely manner. As a result, neither

PEC nor DEC will have incurred any capital costs to achieve merger savings at the time they file their 2012 rate cases. In recognition of this changed circumstance the Applicants and the Public Staff agreed that Section 12 of the September 2, 2011 Agreement and Stipulation of Settlement should be revised to allow PEC and DEC to seek recovery of any and all capital costs incurred to generate merger savings provided such costs are incurred within three years of the closing of the merger, except for capital costs to achieve fuel blending savings incurred by DEC. The Supplemental Agreement provides that there should not be any time limitation regarding DEC seeking recovery of costs to achieve coal blending savings. Additionally, the standard for recovery was changed to allow PEC and DEC to recover all capital costs incurred to generate merger savings (including fuel blending savings) in accordance with normal ratemaking practices. In consideration for the Public Staff agreeing to this modification PEC and DEC agreed to waive their right to seek recovery of employee severance costs.

Finally, the Supplemental Agreement and Stipulation of Settlement modifies the September 2, 2011 Agreement and Stipulation of Settlement to reflect the dramatic change in natural gas prices and the impact of this change on PEC's and DEC's opportunity to achieve fuel savings from coal blending. Exhibit No. 5 to the Applicants' Merger Application indicates that savings of $183.9 million during the first five years following the close of the merger were expected to be achieved through coal blending. The dramatic change in natural gas prices since the beginning of 2012 has materially reduced the amount of coal being consumed by PEC and DEC. Current forecasts of natural gas prices do not indicate any material change in the relative prices of coal and natural gas in the near term. Therefore, over the next several years, PEC's and DEC's coal consumption is expected to remain at the current relatively low levels. This reduced use of coal materially impacts DEC's forecasted ability to achieve the $183.9 million in coal blending savings during the first five years after the merger. As a result, the Public Staff and the Applicants agreed in the Supplemental Agreement and Stipulation of Settlement that if PEC and DEC can demonstrate that they are unable to achieve the $650 million of system fuel savings during the first five years following the close of the merger because the change in natural gas prices has significantly reduced their consumption of coal at the three generating plants designated for coal blending in Exhibit 5 and therefore impaired the Applicants' ability to achieve the forecasted coal blending savings, the time period allowed for PEC and DEC to achieve the $650 million of system savings will be extended eighteen months. The South Carolina Office of Regulatory Staff, which is a party to the North

Carolina proceeding, has filed a letter with the North Carolina Utilities Commission generally supporting the Supplemental Agreement and Stipulation of Settlement. In that letter, the ORS supported the eighteen month extension if needed because of the impact of low natural gas prices on coal consumption.

Q. DURING THE HEARING BEFORE THIS COMMISSION ON DECEMBER 12, 2012, DEC AND PEC COMMITTED TO PROVIDE THEIR RETAIL AND NATIVE LOAD FIRM WHOLESALE CUSTOMERS $650 MILLION IN FUEL SAVINGS DURING THE FIRST FIVE YEARS FOLLOWING THE CLOSE OF THE MERGER AS A CONDITION OF THE COMMISSION APPROVING THE JDA. ARE DEC AND PEC SEEKING TO REVISE THIS COMMITMENT TO ALLOW FOR AN ADDITIONAL EIGHTEEN MONTHS TO ACHIEVE THIS LEVEL OF SAVINGS AS AGREED TO BY THE PUBLIC STAFF IN THE NORTH CAROLINA SUPPLEMENTAL AGREEMENT AND STIPULATION OF SETTLEMENT?

A. PEC and DEC are still committed to using their best efforts to provide their South Carolina retail customers their pro rata share of $650 million in system fuel savings during the first five years following the closing of the merger: however, given certain changes that have occurred in the fuels market since the hearing, I must provide the Commission additional information regarding the commitment.

When DEC and PEC made the savings commitment to the Commission during the hearing in December we did not discuss in detail the assumptions underlying the forecasted savings upon which the commitment was based. One of the key assumptions supporting the savings forecast was that the relative prices of natural gas and coal would not materially change. This was a key assumption because $184 million of the $650 million of savings was based upon DEC burning more non-traditional coal at its Marshall, Belews Creek and Allen coal plants as a part of a coal blending initiative.

At the time of the hearing, no one foresaw the dramatic decrease in natural gas prices that has occurred in 2012 or that natural gas prices would be forecasted to remain at very low levels for the next several years. This reduction in natural gas prices has resulted in natural gas fired generation being less expensive than coal fired generation. If this situation persists then following the merger DEC will not be burning enough coal at its Marshall, Belews Creek, and Allen plants to achieve the forecasted savings of $184 million. This is not a bad turn of events because DEC's and PEC's South Carolina customers are benefitting and will benefit from these low natural gas prices. The problem, if there is one, is the changes in the fuel markets are reducing the savings DEC can achieve from coal blending. Either way DEC's and PEC's customers realize significant savings, they will just be achieved in a manner not originally contemplated. Thus, consistent with the North Carolina Supplemental Agreement, DEC and PEC need an additional eighteen months to achieve the $650 million in system savings if DEC is unable to burn as much coal as was originally forecasted. I want to emphasize that the companies have now agreed not to recover from retail ratepayers an estimated $226,000,000 in merger-related severance costs. That provision was also not part of the settlement in December 2011 but was agreed to as a part of the negotiation that led to the eighteen month extension. We ask this Commission to accept our commitment to provide a pro rata share of those same benefits to South Carolina customers as a basis for approval of the Joint Dispatch Agreement.

Q. HAVE THE UTILITIES REVIEWED THE "MERGER SAVINGS AND BENEFITS" CHART PUBLISHED BY THE ORS ON THEIR WEBSITE?

A. Yes, we are familiar with this chart. A copy of this chart is attached to my testimony as Attachment A.

Q. WOULD YOU PLEASE EXPLAIN THE CHART?

A. Yes. The chart seeks to succinctly display the merger savings and benefits on both a total system and South Carolina jurisdictional basis, when appropriate. Under the "Merger Savings and Benefits" heading, the first line shows the $650 million of guaranteed fuel savings. Regarding the second line, in the ORS's May 16, 2012 filing in the North Carolina Utilities Commission's merger docket, the ORS correctly indicated that DEC and PEC agreed to make annual community support and charitable contributions in South Carolina for four years following the close of the merger. The annual contributions would be based on the Utilities' average contributions over the time period 2006-2010. The annual amount for DEC is $1,866,862 and for PEC the annual amount is $788,000 for an annual total of $2,654,862.

The third line is also taken from the ORS' May 16, 2012 filing in the North Carolina Utilities Commission merger docket. In that filing the ORS correctly represented that DEC and PEC have committed to make a contribution in the amount of $3.75 million in the first year following the close of the merger. This contribution is to support workforce development and low income energy assistance in DEC's and PEC's South Carolina service territories. The contribution will be allocated in proportion to the number of South Carolina customers served by each utility.

Under the heading “Additional Savings and Benefits” the first line represents the total amount of capacity costs allocated away from retail customers to the interim mitigation sales over the 35 months the sales are expected to occur. Again, these dollars are presented on both a total system and South Carolina retail basis.

The second line captures the value of the Utilities’ commitment to not seek recovery of the employee severance costs they will incur in reducing their workforces to achieve merger savings. These costs are forecasted to be $226,000,000 on a system basis and $44,000,000 on a South Carolina retail basis. The lines labeled “Total” are simply the sums of the various columns of dollars.

Finally, under the heading “Savings for Residential Customers Using 1000 kWhs”, the ORS has simply taken the South Carolina jurisdictional portion of the $650 million of fuel savings ($25.4 million on an annual basis) and the annual impact of the $12.6 million associated with the Mitigation Capacity allocation and converted them to a dollar savings per 1000 kwh for both DEC and PEC.

Q. ARE DEC AND PEC RE-AFFIRMING THEIR COMMITMENT AND GUARANTEE CONTAINED IN THEIR DECEMBER 13, 2011 LETTER FILED WITH THE COMMISSION IN THIS SAME

DOCKET TO PROVIDE THEIR RETAIL SOUTH CAROLINA CUSTOMERS PRO RATA BENEFITS EQUIVALENT TO THOSE APPROVED BY THE NORTH CAROLINA UTILITIES COMMISSION IN ITS ORDER RULING UPON DUKE'S AND PROGRESS' MERGER APPLICATION.

A. Yes. Basically, the savings reflected in the ORS' Merger Savings and Benefits chart represent South Carolina's pro rata share of these expected benefits.

Q. DOES THIS CONCLUDE YOUR SUPPLEMENTAL TESTIMONY?

A. Yes.

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In the Matter of	)	
	)	
Application of Duke Energy	)	
Corporation and Progress Energy, Inc.	)	**ADDITIONAL DIRECT**
on behalf of Their Electrical Utility	)	**TESTIMONY OF**
Subsidiaries, Duke Energy Carolinas,	)	**ALEXANDER J. WEINTRAUB**
LLC and Progress Energy Carolinas,	)	
Inc. to Engage in a Business	)	
Combination Transaction	)	

ATTACHMENT A

Merger Savings and Benefits
Office of Regulatory Staff Chart

Merger Savings and Benefits

	System	South Carolina	*Notes*
Fuel Savings	$ 650,000,000	$ 127,000,000	$25.4 million annually for 5 years [1] Estimated Allocation (19.52%)
Community Support	-	$ 7,500,000	$1.86 million annually for 4 years
Charitable Contributions	-	$ 3,150,000	$788,000 annually for 4 years
Workforce Development & Low Income Energy Assistance	-	$ 3,750,000	$3.75 million for 1 year
TOTAL Savings and Benefits	**$ 650,000,000**	**$ 141,400,000**	

Additional Savings and Benefits

	System	South Carolina	*Notes*
Decrement Rider for Capacity Sales	$ 64,600,000	$ 12,600,000	$12.6 million spread over 35 months [2]
Protection Provision	$ 226,000,000	$ 44,000,000	Estimated Allocation (19.52%)
TOTAL Additional Savings and Benefits	**$ 290,600,000**	**$ 56,600,000**	

Overall Savings and Benefits to SC Ratepayers	**$ 198,000,000**

Savings for Residential Customers using 1,000 kWh:

Duke Energy Carolinas:		Progress Energy Carolinas	
[1] Fuel Savings:	$0.92	[1] Fuel Savings:	$0.92
[2] Decrement Rider:	$0.16	[2] Decrement Rider:	$0.12
TOTAL	**$1.08**	**TOTAL**	**$1.04**

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In the Matter of

Application of Duke Energy Carolinas, LLC and Progress Energy Carolinas, Inc. to Engage in a Business Combination Transaction	)))	**VERIFICATION AND SIGNATURE**

PERSONALLY APPEARED before me, Alexander J. Weintraub (Sasha) who, after first being duly sworn, said that he is Vice President, Fuels and Power Optimization of Progress Energy Carolinas, Inc., and as such is authorized to make this verification; that he has read the foregoing Additional Direct Testimony and knows the contents thereof; and that the same are true and correct to the best of his knowledge, information, and belief.

Alexander J. Weintraub

Sworn to and subscribed before me,
this the 4th day of June, 2012.

Marsha H. Manning
Notary Public

Expiration Date: 10-3-2014

STAREG2565

MARSHA H MANNING
NOTARY PUBLIC
WAKE COUNTY, NC
My Commission Expires 10-3-2014

BEFORE
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DOCKET NO. 2011-158-E

In the Matter of Application of Duke Energy Corporation and Progress Energy, Inc. on behalf of Their Electrical Utility Subsidiaries, Duke Energy Carolinas, LLC and Progress Energy Carolinas, Inc. to Engage in a Business Combination Transaction	)))))))))	**CERTIFICATE OF SERVICE**

This is to certify that I, Toni C. Hawkins, a paralegal with the law firm of Robinson, McFadden & Moore, P.C., have this day caused to be served upon the person(s) named below the **Additional Direct Testimony of Alexander J. Weintraub on behalf of Duke Energy Carolinas, LLC and Progress Energy Carolinas, Inc.** in the foregoing matter by email and/or by placing a copy of same in the United States Mail, postage prepaid, in envelopes addressed as follows:

Len S. Anthony, Esquire
Progress Energy Carolinas, Inc.
Post Office Box 1551 – MC 17A4
Raleigh, NC 27602
(Len.S.Anthony@pgnmail.com)

Kendal C. Bowman
Progress Energy Service Company, LLC
410 South Wilmington Street
Raleigh, NC 27602
(Kendal.Bowman@pgnmail.com)

Nannette S. Edwards, Esquire
Courtney D. Edwards, Esquire
Office of Regulatory Staff
1401 Main Street, Suite 900
Columbia, SC 29201
(nsedwar@regstaff.sc.gov)
(cedwards@regstaff.sc.gov)

D. Peters Wilborn, Jr., Esquire
Derfner, Altman & Wilborn
Post Office Box 600
Charleston, SC 29402
(pwilborn@dawlegal.com)

Pablo O. Nüesch, Esquire
Peter J. Hopkins, Esquire
James N. Horwood, Esquire
Spiegel & McDiarmid
1333 New Hampshire Ave. NW
Washington, DC 20036
(pablo.nuesch@spiegelmcd.com)
(peter.hopkins@spiegelmcd.com)
(james.horwood@spiegelmcd.com)

Michael K. Lavanga, Esquire
Garrett A. Stone, Esquire
Brickfield, Burchette, Ritts & Stone, P.C.
1025 Thomas Jefferson Street, NW
Eighth Floor, West Tower
Washington, D.C. 27602
(mkl@bbrslaw.com)
(gas@bbrslaw.com)

Douglas Jennings, Jr., Esquire
Post Office Box 995
Bennettsville, SC 29512
(doug@jenningslawoffice.com)

Robert R. Smith, II, Esquire
Moore & Van Allen, PLLC
100 North Tyron St., Sute 4700
Charlotte, NC 28202
(robsmith@mvalaw.com)

K. Chad Burgess, Esquire
Matthew W. Gissendanner, Esquire
SCANA Corporation
MC C222, 220 Operation Way
Cayce, SC 29033
(chad.burgess@scana.com)
(matthew.gissendanner@scana.com)

Michael N. Couick, Esquire
Christopher R. Koon, Esquire
The Electric Cooperatives of SC, Inc.
808 Knox Abbott Drive
Cayce, SC 29033
(mike.couick@ecsc.org)
(chris.koon@ecsc.org)

Scott Elliott, Esquire
Elliott & Elliott, P.A.
1508 Lady Street
Columbia, SC 29201
(selliott@elliottlaw.us)

J. Blanding Holman, IV, Esquire
Southern Environmental Law Center
43 Broad Street, Suite 300
Charleston, SC 29401
(BHolman@selcsc.org)

Jonathan D. Newman, Esquire
Sherman, Dunn, Cohen, Leifer & Yellig, P.C.
900 Seventh Street, NW, Suite 1000
Washington, D.C. 20001
(newman@shermandunn.com)

John H. Tiencken, Esquire
Paul J. Conway, Esquire
Tiencken Law Firm
234 Seven Farms Drive, Suite 114
Charleston, SC 29492
(jtiencken@tienckenlaw.com)
(pconway@tienckenlaw.com)

Jill Mara Tauber
Southern Environemtnal Law Center
122 C Street, NW, Suite 390
Washington, DC 20001
(JTauber@selcdc.org)

Gundrun Elise Thompson
Southern Environmental Law Center
601 W. Rosemary Street, Suite 220
Chapel Hill, NC 27516
(GThompson@selcnc.org)

Dated at Columbia, South Carolina this 4th day of June, 2012.

Toni C. Hawkins

Toni C. Hawkins