State regulatory perspectives on utility mergers and acquisitions

March 8, 2019
Historical merger and acquisition activity

Roughly 220 utility merger and acquisition transactions announced since 1985

Completed deals — 2017 through 2019

Transactions totaling $74.5 billion completed since 2017

<table>
<thead>
<tr>
<th>Date closed</th>
<th>Buyer</th>
<th>Target</th>
<th>Transaction value ($M)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1/1/2017</td>
<td>Algonquin Power &amp; Utilities Corp.</td>
<td>Empire District Electric Co.</td>
<td>6,382</td>
</tr>
<tr>
<td>9/20/2017</td>
<td>Peoples Natural Gas Co. LLC</td>
<td>Delta Natural Gas</td>
<td>217</td>
</tr>
<tr>
<td>11/7/2017</td>
<td>Oncor Electric Delivery Co.¹</td>
<td>Sharyland Utilities¹</td>
<td>400</td>
</tr>
<tr>
<td>12/4/2017</td>
<td>Eversource Energy Inc.</td>
<td>Aquarion Water²</td>
<td>1,675</td>
</tr>
<tr>
<td>6/4/2018</td>
<td>Great Plains Energy⁴</td>
<td>Westar Energy Inc.⁴</td>
<td>14,000</td>
</tr>
<tr>
<td>7/1/2018</td>
<td>South Jersey Industries</td>
<td>Elizabethtown Gas Co./Elkton Gas Co.⁵</td>
<td>1,700</td>
</tr>
<tr>
<td>7/6/2018</td>
<td>AltaGas Ltd.</td>
<td>WGL Holdings Inc.</td>
<td>6,382</td>
</tr>
<tr>
<td>1/1/2019</td>
<td>NextEra Energy Inc.</td>
<td>Gulf Power Co.</td>
<td>5,657</td>
</tr>
<tr>
<td>1/2/2019</td>
<td>Dominion Energy Inc.</td>
<td>SCANA Corp.</td>
<td>13,469</td>
</tr>
<tr>
<td>2/1/2019</td>
<td>CenterPoint Energy Inc.</td>
<td>Vectren Corp.</td>
<td>8,130</td>
</tr>
</tbody>
</table>

As of Feb. 1, 2019
¹Asset swap.
²Owned by Macquarie Group Limited.
³Majority interest acquired.
⁴Merger of equals. New entity is Evergy Inc.
⁵Then part of Pivotal Utility Holdings, a division of Southern Company

Source: S&P Global Market Intelligence.
Merger activity — Drivers over time

**Early 1980s**
- Little activity

**Mid-1980s – early 1990s**
- Efficiencies/Industry consolidation
- Diversification opportunities

**Mid-1990s – early 2000s**
- Synergy savings
- Electric restructuring
- Public Utility Holding Company Act Repeal

**2008 financial crisis – today**
- Back to basics
- Private equity/infrastructure funds
- Foreign ownership of U.S. assets
- Electric/gas combinations
- Renewables concentration
- Energy ⇔ Water

---

**Utility mergers announced 2012—2018**

<table>
<thead>
<tr>
<th>Year</th>
<th>Transaction value ($B)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>1</td>
</tr>
<tr>
<td>2013</td>
<td>2</td>
</tr>
<tr>
<td>2014</td>
<td>3</td>
</tr>
<tr>
<td>2015</td>
<td>4</td>
</tr>
<tr>
<td>2016</td>
<td>5</td>
</tr>
<tr>
<td>2017</td>
<td>3</td>
</tr>
<tr>
<td>2018</td>
<td>2</td>
</tr>
</tbody>
</table>

---

**Pending utility mergers/acquisitions**

<table>
<thead>
<tr>
<th>Buyer/Target</th>
<th>Deal Announcement Date</th>
<th>Transaction Value ($M)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investor group/Puget Sound Energy Inc.</td>
<td>8/8/2018</td>
<td>3,150</td>
</tr>
<tr>
<td>Sempra Energy Inc./InfraREIT Inc.</td>
<td>10/18/2018</td>
<td>2,218</td>
</tr>
<tr>
<td>Sempra Energy Inc./Sharyland Utilities LP</td>
<td>10/18/2018</td>
<td>240</td>
</tr>
<tr>
<td>Aqua America Inc./PNG Companies LLC</td>
<td>10/23/2018</td>
<td>4,275</td>
</tr>
</tbody>
</table>

**TotalPending** | 9,883

---

1Minority stake, investor group includes Columbia Investment Management Corp., OMERS Administration Corp., PGGM Cooperaties UA and Alberta Investment Management Corp.

2Includes Peoples Natural Gas and its Pennsylvania subsidiaries, as well as Delta Natural Gas.

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S&P Global
Market Intelligence
Merger reviews

State regulatory commissions
- Rates
- Corporate governance
- Safety and reliability….

Federal Energy Regulatory Commission
- Vertical and horizontal market power
- Impact on rates and regulation
- Cross-subsidization
- Gas certification

Securities & Exchange Comm./Dept of Justice/Federal Trade Commission
- Antitrust waiting period

Nuclear Regulatory Commission
- Operating license transfer
- Plant safety and operations

Committee on Foreign Affairs in the U.S.
- National security

Mergers state approval authority

Utility mergers — statutory authority

[S&P Global Market Intelligence]

In Texas, commission review of mergers involving electric utilities are subject to commission review; mergers of local gas distribution companies are not.
Source: Regulatory Research Associates, an offering of S&P Global Market Intelligence
Map credit: Junaid Rahman
State merger reviews

Standards

- Public interest
- Not net harm
- Net ratepayer benefit

Merger review standards

Source: Regulatory Research Associates, a group within S&P Global market Intelligence.
State merger reviews

Issues reviewed
• Regulatory authority
• Rate impacts
• Operating performance
• Service quality
• Competition
• Corporate structure
• Financial viability
• Impact on local economy
• Credit quality
• Bankruptcy exposure

State merger reviews — conditions

Rate reductions/credits
- Allocation of merger savings
- Sharing of acquisition premium

Customer “hold harmless” provisions
- Increased capital costs
- Transaction and transition costs
- Service quality/reliability
- Goodwill excluded from rate base

Local economy
- Management/corporate presence
- Workforce headcount
- Employee salaries and benefits

Competition
- Asset divestiture

Corporate governance
- Ring fencing
- Capital structure requirements
- Capital spending requirements
- Dividend restrictions
- Maintenance of credit ratings
- Board composition/independence
- Affiliate relationships
- Maintenance of separate books/records

Public policy
- Renewables investment
- New technologies
- Demand-side management
- Customer assistance

Most-favored nations clause

S&P Global
Market Intelligence
But not all deals get done…….

State regulatory commissions are where the rubber meets the road

### Recent failed utility mergers

<table>
<thead>
<tr>
<th>Buyer/Target</th>
<th>Deal Announcement Date</th>
<th>Transaction Value ($M)</th>
</tr>
</thead>
<tbody>
<tr>
<td>NextEra Energy, Oncor Electric Delivery Company LLC</td>
<td>7/29/2016</td>
<td>18,700</td>
</tr>
<tr>
<td>Great Plains Energy/Westar Energy, Inc.</td>
<td>5/31/2016</td>
<td>11,873</td>
</tr>
<tr>
<td>Berkshire Hathaway Inc., Oncor Electric Delivery Company LLC</td>
<td>7/7/2017</td>
<td>15,998</td>
</tr>
<tr>
<td>Hydro One/Avista Corporation</td>
<td>7/19/2017</td>
<td>5,300</td>
</tr>
</tbody>
</table>

As of Jan. 31, 2019
Source: S&P Global Market Intelligence

So what happened?
- Texas regulators rejected NextEra’s acquisition of Oncor Electric Delivery
- Berkshire Hathaway walked away when other suitors came calling
- The Great Plains/Westar Energy deal was restructured and later approved
- The Hydro One/Avista Corp. transaction was rejected in two jurisdictions
A look at a failed merger — Hydro One Ltd./Avista Corp.

**Deal summary**

**Announced July 19, 2017**

**Hydro One Ltd**
Electric transmission & distribution utility
Modest generation assets
Located in Toronto, Canada
47% owned by Province of Ontario

**Avista Corp.**
Vertically integrated electric utility
Natural gas local distribution utility
Operates in:
- Alaska
- Idaho
- Oregon
- Washington
Partowner of Colstrip coal plant in Montana

**Transaction value of $5.3 billion**
Deal provided a 32% premium
Hydro One Ltd./Avista Corp.

Deal summary continued

<table>
<thead>
<tr>
<th>Avista Corp. current corporate structure</th>
<th>Post-closing corporate structure</th>
</tr>
</thead>
<tbody>
<tr>
<td>Avista Corporation (D/B/A Avista Utilities)</td>
<td>Hydro One Ltd. (Ontario Corp.)</td>
</tr>
<tr>
<td>Avista Capital</td>
<td>Hydro One Inc.</td>
</tr>
<tr>
<td>Other</td>
<td>Can Sub (Ontario Corp.)</td>
</tr>
<tr>
<td>AJT Mining Properties</td>
<td>Olympus Holding Corp. (Delaware Corp.)</td>
</tr>
<tr>
<td>AEL&amp;P</td>
<td>Olympus Equity LLC (Delaware LLC)</td>
</tr>
<tr>
<td>Snettisham Electric Co.</td>
<td>Avista Corp. (Washington Corp.)</td>
</tr>
<tr>
<td></td>
<td>Avista Corp. Subsidiaries</td>
</tr>
</tbody>
</table>

Data as of March 23, 2018. Sources: Hydro One Ltd.; Avista Corp.
## Hydro One Ltd./Avista Corp. — Regulatory reviews

### Hydro One/Avista merger proceedings

<table>
<thead>
<tr>
<th>State commission</th>
<th>Review standard</th>
<th>Time frame for decision</th>
<th>Outcome</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regulatory Commission of Alaska</td>
<td>Public interest</td>
<td>180 days</td>
<td>Approved June 4, 2018</td>
</tr>
<tr>
<td>Idaho Public Utilities Commission</td>
<td>Public interest</td>
<td>NA</td>
<td>Rejected Jan. 3, 2019</td>
</tr>
<tr>
<td>Montana Public Service Commission</td>
<td>No net harm</td>
<td>NA</td>
<td>Approved June 12, 2018</td>
</tr>
<tr>
<td>Oregon Public Utility Commission</td>
<td>Net benefit</td>
<td>NA</td>
<td>Suspended Jan. 14, 2019</td>
</tr>
<tr>
<td>Washington Utilities and Transportation Commission</td>
<td>Net benefit</td>
<td>11 months</td>
<td>Rejected Dec. 5, 2018</td>
</tr>
</tbody>
</table>

### Additional approvals

<table>
<thead>
<tr>
<th>State commission</th>
<th>Review standard</th>
<th>Time frame for decision</th>
<th>Outcome</th>
</tr>
</thead>
<tbody>
<tr>
<td>Federal Energy Regulatory Commission</td>
<td>Public interest</td>
<td>180 days</td>
<td>Approved Jan. 16, 2018</td>
</tr>
<tr>
<td>Committee on Foreign Investment in the United States</td>
<td>NA</td>
<td>NA</td>
<td>Review completed May 21, 2018</td>
</tr>
<tr>
<td>Hart-Scott-Rodino Antitrust Improvements Act</td>
<td>NA</td>
<td>NA</td>
<td>Waiting period expired April 5, 2018</td>
</tr>
<tr>
<td>Avista shareholder approval</td>
<td>NA</td>
<td>NA</td>
<td>Approved Nov. 21, 2017</td>
</tr>
</tbody>
</table>

Data as of Jan. 31, 2019.

Source: Regulatory Research Associates, a group within S&P Global Market Intelligence

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**Transaction terminated Jan. 23, 2019**
Regulatory Commission of Alaska

Approved on June 14, 2018

### Settlement commitments

- $1 million in rate credits for AEL&P customers
- No impact on capital costs for ratemaking
- Maintain 54% equity ratio
- Enhanced integrated resource planning
- Continue as separate entity
- Maintain separate books and records
- Comply with emissions standards
- Guarantee employee compensation/benefits
- Retain management team
- No impact on Snettisham Dam Hydro project

### Commissioner Terms

<table>
<thead>
<tr>
<th>Commissioner</th>
<th>Term ends</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stephen McAlpine, Chair</td>
<td>March 2021</td>
</tr>
<tr>
<td>Janis Wilson</td>
<td>March 2024</td>
</tr>
<tr>
<td>Robert Pickett</td>
<td>March 2020</td>
</tr>
<tr>
<td>Paul Lisankie</td>
<td>March 2019</td>
</tr>
<tr>
<td>Antony Scott</td>
<td>March 2022</td>
</tr>
</tbody>
</table>

### Other commission information

- **Size of staff**: 58
- **RRA ranking**: Below Average/1
- **Test year**: Historical
- **Rate base valuation**: Average
- **Rate case time frame**: 450 days
- **Merger review standard**: Public interest
- **Merger review time frame**: 180 days

Data as of Jan. 31, 2019
Montana Public Service Commission

**Approved July 10, 2018 (order)**

### Settlement commitments

- Solely related to Colstrip generation facility
- Contribute to Community Transition Fund
- Work with city to “achieve efficiencies”
- Possible acquisition of Colstrip assets
- Accelerated Colstrip depreciation
- Continued operation of Colstrip through 2034

As of Jan. 31, 2019


<table>
<thead>
<tr>
<th>Commissioners</th>
<th>Term ends</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brad Johnson, Chair</td>
<td>Jan. 2023</td>
</tr>
<tr>
<td>Bob Lake, Vice Chair</td>
<td>Jan. 2021</td>
</tr>
<tr>
<td>Roger Koopman</td>
<td>Jan. 2021</td>
</tr>
<tr>
<td>Tony O’Donnell</td>
<td>Jan. 2021</td>
</tr>
<tr>
<td>Randy Pinocci*</td>
<td>Jan. 2023</td>
</tr>
</tbody>
</table>

Other commission information

<table>
<thead>
<tr>
<th>Data as of Jan. 31, 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Size of staff</td>
</tr>
<tr>
<td>RRA ranking</td>
</tr>
<tr>
<td>Test year</td>
</tr>
<tr>
<td>Rate base valuation</td>
</tr>
<tr>
<td>Rate case time frame</td>
</tr>
<tr>
<td>Merger review standard</td>
</tr>
<tr>
<td>Merger review time frame</td>
</tr>
</tbody>
</table>

NA = not applicable

*Joined the PSC in January 2019.

The "risks and potential consequences for Avista of political interference in Hydro One's commercial operations are simply too great relative to the marginal benefits offered through the Settlement Stipulation."

**Settlement commitments**

- $30.7 million rate credit for Avista customers
- Accelerated depreciation of Colstrip
- No impact on capital costs for ratemaking
- Maintain minimum 44% equity ratio
- Retain existing management
- Maintain an independent board
- Continue existing levels of charitable contributions and economic development
- Maintain separate books and records

As of Jan. 31, 2019

Idaho Public Utilities Commission

Rejected Jan. 3, 2019

Settlement commitments

- $15.8 million in rate credits for Avista customers
- Accelerated depreciation of Colstrip
- Hold customers harmless for increased capital costs related to merger
- Maintain management team
- Independent board
- Ring-fencing provisions to protect against bankruptcy
- Adhere to PUC resource planning policies
- Funding for energy efficiency
- Funding for Avista charitable foundation

"We cannot approve the proposal if Avista's transfer to Hydro One amounts to a transfer to 'any organization acting as ... representative for, or in concert ... with, any such government ...;' or 'any company ... whose issued capital stock, or other evidence of ownership ... is owned or controlled, directly or indirectly, by any ... governmental or political unit.'"

S&P Global
Market Intelligence
Oregon Public Utility Commission

Proceeding indefinitely suspended Jan. 14, 2019

Settlement commitments

- $7.5 million rate credits for Avista customers
- Retain management for 3 years
- Refrain from selling gas business for 3 years
- Increased funding for low income customer assistance
- Hold customers harmless for increased capital costs related to merger
- Maintain safety/reliability standards
- Hold customers harmless from any risk associated with new corporate structure
- Maintain investment grade credit ratings
- Maintain local staffing levels
- Fund pension at current levels

The PUC "will hold the proceeding in abeyance until the applicants inform the commission that they have sought a reversal of these decisions through appeal or other means that would provide a justiciable issue for the commission to address."

S&P Global
Market Intelligence
A look at a completed merger — CenterPoint Energy Inc./Vectren Corp.

Deal summary

Announced April 23, 2018

Transaction value of $8.1 billion when announced

Deal provided a 17.6% premium

CenterPoint Energy

- Electric delivery operations in Texas
- Gas delivery operations in 4 states
  - Arkansas, Minnesota, Oklahoma, Texas
- Enable Midstream Partners — 54% ownership
- Competitive gas sales in 33 states

Vectren Corp.

- Gas delivery operations in 2 states
  - Indiana and Ohio
- Electric operations in Ohio
  - 1,248 MW of generation
- Energy and infrastructure services businesses
## CenterPoint Energy Corp./Vectren Corp. — Regulatory reviews

**CenterPoint Energy Inc. / Vectren Corporation regulatory reviews**

<table>
<thead>
<tr>
<th>State commission</th>
<th>Review standard</th>
<th>Time frame for decision</th>
<th>Outcome</th>
</tr>
</thead>
<tbody>
<tr>
<td>Indiana Utility Regulatory Commission</td>
<td>NA</td>
<td>NA</td>
<td>Review concluded Jan. 16, 2019</td>
</tr>
<tr>
<td>Public Utilities Commission of Ohio</td>
<td>Public interest</td>
<td>NA</td>
<td>Approved Jan. 30, 2019</td>
</tr>
</tbody>
</table>

**Additional approvals**

<table>
<thead>
<tr>
<th>State commission</th>
<th>Review standard</th>
<th>Time frame for decision</th>
<th>Outcome</th>
</tr>
</thead>
<tbody>
<tr>
<td>Federal Trade Commission/Hart-Scott Rodino Antitrust Act</td>
<td>NA</td>
<td>NA</td>
<td>Early termination of waiting period approved June 26, 2018</td>
</tr>
<tr>
<td>Federal Communications Commission</td>
<td>NA</td>
<td>NA</td>
<td>Approved July 24, 2018</td>
</tr>
<tr>
<td>Vectren Corp. shareholders</td>
<td>NA</td>
<td>NA</td>
<td>Approved Aug. 28, 2018</td>
</tr>
<tr>
<td>Federal Energy Regulatory Commission</td>
<td>Public interest</td>
<td>180 days</td>
<td>Approved Oct. 5, 2018</td>
</tr>
</tbody>
</table>

Data as of Feb. 1, 2019.
NA = not applicable
Source: Regulatory Research Associates, a group within S&P Global Market Intelligence

---

**Transaction completed Feb. 2, 2019**
Review completed Jan. 16, 2019

Conclusions

• Transaction is a merger of two holding companies that will not change the responsibilities or requirements currently imposed on Vectren; therefore commission has no jurisdiction.
• Petitioners have not requested deferred recovery of merger costs or other affirmative relief pertaining to ratemaking.
• Vectren will continue to comply with the existing affiliate and cost allocation guidelines.
• Merger savings will be addressed in Vectren’s next rate case.
• CenterPoint will maintain commission/staff access to Vectren books and records.

Indiana Utility Regulatory Commission

Commissioners Term ends
James Huston, Chair April 2021
David Ziegner April 2019
Sarah Freeman Jan. 2022
David Ober Jan. 2020
Stefanie Krevida April 2022

Other commission information
Size of staff 75
RRA ranking Average/1
Test year Historical
Rate base valuation Year-end
Rate case time frame NA
Merger review standard NA
Merger review time frame NA

Data as of Jan. 31, 2019
Source: Regulatory Research Associates, a group within S&P Global Market Intelligence

As of Feb. 1, 2019
Public Utilities Commission of Ohio

Approved Jan. 30, 2019

Conditions

- No recovery of transaction costs from Vectren ratepayers
- Recovery of transition costs only if customer benefits exceed such costs
- Maintain planned level of Vectren infrastructure investment
- Notify PUC of any accounting changes
- Meet with staff periodically regarding capital plans
- Rejected intervenor proposal to require incremental charitable contributions

As of Feb. 1, 2019

Public Utilities Commission of Ohio

Commissioners Term ends
Asim Haque, Chair April 2021
M. Beth Trombold April 2023
Thomas Johnson April 2019
Lawrence Friedeman April 2020
Daniel Conway April 2022

Other commission information
Size of staff 330
RRA ranking Average/2
Test year Historical
Rate base valuation Date certain
Rate case time frame NA
Merger review standard Public interest
Merger review time frame NA

Data as of Jan. 31, 2019
NA = not applicable
*Joined the PSC in January 2019.
A more typical experience — Dominion Energy Inc./SCANA Corp.

Deal summary

Announced Jan. 3, 2018 — all-stock transaction
Transaction value of $13.5 billion when announced
Deal provided a 31% premium

Dominion Energy
- Electric vertically integrated utility operations in Virginia/North Carolina
- Gas utility operations in Ohio and West Virginia
- Natural gas production, transmission and storage
- Merchant electric generation

SCANA Corp.
- Electric vertically integrated utility operations in South Carolina
- Gas utility operations in North and South Carolina
- Gas marketer in Georgia
## Dominion Energy Inc./SCANA Corp. — Regulatory reviews

<table>
<thead>
<tr>
<th>State commission</th>
<th>Review standard</th>
<th>Time frame for decision</th>
<th>Outcome</th>
</tr>
</thead>
<tbody>
<tr>
<td>Georgia Public Service Commission</td>
<td>NA</td>
<td>NA</td>
<td>Approved March 20, 2018</td>
</tr>
<tr>
<td>North Carolina Utilities Commission</td>
<td>No harm</td>
<td>NA</td>
<td>Approved Nov. 19, 2018</td>
</tr>
<tr>
<td>Public Service Commission of South Carolina</td>
<td>Net benefit</td>
<td>NA</td>
<td>Approved Dec. 14, 2018</td>
</tr>
</tbody>
</table>

### Additional approvals

<table>
<thead>
<tr>
<th>Review standard</th>
<th>Time frame for decision</th>
<th>Outcome</th>
</tr>
</thead>
<tbody>
<tr>
<td>NA</td>
<td>NA</td>
<td>Wating period expired Feb. 1, 2018</td>
</tr>
<tr>
<td>NA</td>
<td>NA</td>
<td>Approved Sept. 4, 2018</td>
</tr>
<tr>
<td>NA</td>
<td>NA</td>
<td>Approved March 8, 2018</td>
</tr>
<tr>
<td>NA</td>
<td>NA</td>
<td>Approved July 31, 2018</td>
</tr>
<tr>
<td>Public interest</td>
<td>180 days</td>
<td>Approved July 12, 2018</td>
</tr>
</tbody>
</table>

Data as of Feb. 1, 2019.
NA = not applicable

Source: Regulatory Research Associates, a group within S&P Global Market Intelligence

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**Transaction completed Jan. 1, 2019**
## Findings

- Approved transfer of ownership of SCANA Energy Marketing.
- There would be no negative impact Energy Marketing’s financial technical capability, the company’s customers or gas markets in the state.

### Georgia Public Service Commission

<table>
<thead>
<tr>
<th>Commissioners</th>
<th>Term ends</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lauren &quot;Bubba&quot; McDonald, Jr., Chair</td>
<td>Dec. 2020</td>
</tr>
<tr>
<td>Tim Echols, Vice Chair</td>
<td>Dec. 2022</td>
</tr>
<tr>
<td>Chuck Eaton</td>
<td>Dec. 2024</td>
</tr>
<tr>
<td>Tricia Pridemore</td>
<td>Dec. 2024</td>
</tr>
<tr>
<td>James Shaw, Jr.*</td>
<td>Dec. 2020</td>
</tr>
</tbody>
</table>

### Other commission information

<table>
<thead>
<tr>
<th>Data as of Jan. 31, 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Size of staff</td>
</tr>
<tr>
<td>RRA ranking</td>
</tr>
<tr>
<td>Test year</td>
</tr>
<tr>
<td>Rate base valuation</td>
</tr>
<tr>
<td>Rate case time frame</td>
</tr>
<tr>
<td>Merger review standard</td>
</tr>
<tr>
<td>Merger review time frame</td>
</tr>
</tbody>
</table>

*Was not serving at the time the merger decision was issued

North Carolina Utilities Commission

Approved Nov. 19, 2018

Conditions

- $3.75 million gas rate credits over 3 years
- Rate case moratorium through April 1, 2021
- Hold NC customers harmless for impact of credit downgrades for 5 years
- Maintain current capital structure and investment grade credit ratings

North Carolina Utilities Commission

<table>
<thead>
<tr>
<th>Commissioners</th>
<th>Term ends</th>
</tr>
</thead>
<tbody>
<tr>
<td>Edward Finley, Chair</td>
<td>June 2019</td>
</tr>
<tr>
<td>ToNola Brown-Bland</td>
<td>June 2023</td>
</tr>
<tr>
<td>James Patterson</td>
<td>June 2019</td>
</tr>
<tr>
<td>Jerry Dockham</td>
<td>June 2019</td>
</tr>
<tr>
<td>Lyons Gray</td>
<td>June 2021</td>
</tr>
<tr>
<td>Daniel G. Clodfelter</td>
<td>June 2023</td>
</tr>
<tr>
<td>Charlotte Mitchell</td>
<td>June 2023</td>
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</table>

Other commission information

<table>
<thead>
<tr>
<th>Size of staff</th>
<th>50</th>
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<tr>
<td>RRA ranking</td>
<td>Average/1</td>
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<td>Test year</td>
<td>Historical</td>
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<td>Rate base valuation</td>
<td>Year-end</td>
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<td>Rate case time frame</td>
<td>10 months</td>
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<td>Merger review standard</td>
<td>No harm</td>
</tr>
<tr>
<td>Merger review time frame</td>
<td>NA</td>
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</table>

As of Feb. 1, 2019


Data as of Jan. 31, 2019

NA = not applicable

Source: Regulatory Research Associates, a group within S&P Global Market Intelligence

S&P Global Market Intelligence
Conditions per company plan

- $2.04 billion of electric rate credits over 20 years
- $2.5 billion in write-offs
- $2.5 million of gas rate credits
- 20-year nuclear asset amortization period with a 9.9% ROE and a 52.91% equity ratio
- Utility operations to remain separate
- Maintain local headquarters
- Minimize workforce reductions
- Maintain employee compensation levels
- Maintain customer service quality
- Maintain investment-grade credit rating
- Hold ratepayers harmless from merger-related capital cost increases
- Rate case to be filed by May 1, 2020
Mergers — Looking ahead

**Merger activity to slow**
- Big utility mergers done for now
  - Tax reform impacts
  - Economic uncertainty
  - Rising interest rates
- Canadian deals have largely run their course

**What will deals look like?**
- Stock for stock deals rather than cash deals
- Small cap electric companies
- Gas local distribution companies
- Individual assets
- Still some activity in midstream sector
- Energy-water transactions

**Regulatory scrutiny intensifies**
- Greater concessions for ratepayers
- Eye-ball premiums
- Sharing of acquisition premiums?
- Rate credits unrelated to savings
- Maintain local control and presence
- Workforce considerations
- Guard credit quality/Ring-fencing
- Further unrelated public policy agendas
  - Advanced metering
  - Renewables
  - Battery storage
  - Electric vehicles
  - Cyber security protections
  - Environmental, social and governance considerations
- Make sure another jurisdiction does not get “a better deal”
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