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Before the
Committee on Energy and Commerce
Subcommittee on Energy
U.S. House of Representatives

On "Powering America: Examining the State of the Electric Industry through Market Participant Perspectives"

July 18, 2017

Good morning, Chairman Upton, Ranking Member Rush and members of the subcommittee. My name is Alex Glenn, and I serve as Senior Vice President, State and Federal Regulatory Legal Support for Duke Energy Corporation.

I appreciate the opportunity to provide the subcommittee with the perspective of an integrated electric utility, and our view on how we can best serve customers and enhance the economies of the communities we serve. Broadly, there are five areas where action will greatly benefit the customers we serve. First, establish a reasonable "shot clock" for actions on permit applications, as many critical infrastructure projects face unnecessary and costly delays. Second, retain the federal income tax deduction for interest expense, which helps to keep electricity rates as low as possible for customers. Third, update the Public Utility Regulatory Policies Act (PURPA) to enable utilities to serve customers at the lowest cost. Fourth, move forward on the Federal Energy Regulatory Commission (FERC) Commissioner nominees as soon as possible. And lastly, enhance cybersecurity by amending the Safety Act to expressly include cyberattacks, and improve the process to obtain a security clearance so that we can increase the information sharing capabilities between public and private entities. These five actions alone would provide substantial – and immediate – value to customers.

To put my comments in context, it may be helpful to the subcommittee to know more about Duke Energy. Duke Energy is one of the largest energy holding companies in the United States, with over $130 billion in assets. We are a driver of the economies of the states in which we operate, investing, on average, $10 billion

annually in our energy infrastructure to provide safe, affordable, highly reliable and increasingly clean energy to the people and businesses we serve. Our 30,000 employees take great pride in the work we do 24/7/365, our ranking as the safest utility in the industry, as well that we work to kepe our rates low relative to national averages. We provide electric and natural gas service to 25 million people – roughly 9 percent of the nation's population – and tens of thousands of business, small and large, across seven states. Our Commercial Renewable Energy business unit operates a large and growing portfolio of solar and wind renewable facilities in 14 states across the United States. We are one of the top five renewable energy companies in the country, having invested more than $5 billion in renewables over the last decade.

While the challenges faced by regulated electric utilities like Duke Energy are different than those faced by some of the other members of the panel, we all share the responsibility of keeping the lights on for the millions of people and businesses who rely on us every day.

The regulatory and legislative decisions made at the state and federal level have significant impacts on the lives of our customers, employees, and the many communities in which we serve. With this in mind, I would like to offer a few thoughts on the challenges before us, and the opportunities for unleashing innovation and economic growth.

Infrastructure

Investments in a strong and resilient energy system are critical to the nation's security, economy and cleaner energy future. In many ways, the energy grid is the lifeline of our economy and our way of life. To ensure we are able to continue delivering reliable, affordable, and increasingly clean energy that powers our economy – and which our customers demand – we need to make significant investments in modernizing our energy system, making it smarter, and more resilient to natural occurrences and premeditated physical attacks and cyberattacks. This is particularly important as our economy becomes increasingly dependent upon technology.

The regulated electric utility industry is one of the nation's most capital-intensive, investing more than $100 billion annually in critical infrastructure. Duke Energy operates the largest energy grid in the country, with more than 300,000 miles of transmission and distribution lines to power our communities and the lives of our customers. Over and above the $10 billion in annual investments we make to

maintain the day-to-day functioning of the grid, we plan to invest another $25 billion over the next 10 years to modernize our system and build a smarter energy future.

This transition is underpinned by natural gas infrastructure, much of which requires federal permitting. There remain challenges, particularly the siting and permitting of these vital infrastructure projects to strengthen the power grid. Too often, there are overlapping and conflicting requirements that result in higher costs for our customers. Most permitting regulations impose no time frame for agency action, and without a "shot clock" for decisions, delays put many vital projects at risk of completion. The larger the infrastructure projects, which are often measured in hundreds of millions of dollars and sometimes multibillion dollars, delays and uncertainty can affect the cost of capital and overall project costs ultimately borne by our customers. The relicensing of our Catawba-Wateree Hydro project is a good example. We submitted our application for a new license in 2006, two years before expiration as required by law, and it took more than nine years for the federal government to complete its review.

Tax reform

Hand and hand with critical infrastructure investment is tax reform. These investments are necessary to ensure that customers have safe, reliable and affordable energy, but they also create a significant source of high-quality jobs and generate local tax revenues in communities across the country. While I understand that tax reform falls outside the jurisdiction of this committee, it is worth noting here because members of this committee understand that our rates and returns on capital investments are highly regulated, unlike that of other businesses, making our industry unique. Our distinction from other businesses is evident in our need to preserve interest deductibility since our customers' electricity bills reflect our cost of service, including after-tax cost of capital. We work hard to achieve the lowest cost of capital, and the federal income tax deduction for interest expense helps to keep electricity rates as low as possible.

Unlike other industries, regulated utilities do not benefit from forgoing interest deductibility for immediate expensing. We understand why 100 percent expensing could stimulate most industries and potentially spur economic growth, but our need to preserve interest deductibility is tied to keeping rates low for our customers and continuing our significant capital investments across the Southeast and the Midwest.

Duke Energy supports the goals of comprehensive tax reform and we want to partner with you to be the energy company that will power the economic growth and expansion throughout the country that will result from a transformation of the tax code.

PURPA Reform

Just as our energy system needs to be modernized, policies should also be modernized to reflect how the electricity sector has changed and encourage innovation without burdening customers with unnecessary costs. An example of this is the Public Utility Regulatory Policies Act, or PURPA. Enacted in 1978, PURPA was intended to encourage increased system reliability and the deployment of more energy-efficient and renewable energy production by independent power producers at a time when the United States was greatly reliant on imported fuel oil. In the years since PURPA was enacted, electricity markets have significantly changed. Independent power producers are prolific, well-financed and capitalized entities. And many PURPA contracts are significantly above the market cost of electricity, which has resulted in customers paying more for electricity than they would without such contracts.

Today, renewable energy is booming and the costs of renewable technologies have dropped dramatically. State-of-the-art combined-cycle natural gas generation has increased in efficiency to surpass the operating efficiencies of cogeneration facilities. The substantial growth in renewable energy due to federal and state incentives and policies has made many of the requirements of PURPA unnecessary. Accordingly, the original principles and the needs-based application of PURPA have been overtaken by dramatic advances in the energy marketplace. With these market changes, and the widespread deployment of PURPA facilities, utilities are experiencing operational challenges and higher costs due to PURPA's mandatory must-take purchase obligation. Updating PURPA to reflect market and technology trends will enable utilities to serve customers at the lowest cost possible.

FERC

I would like to address briefly the current situation at the Federal Energy Regulatory Commission (FERC). As members of this committee are well aware, FERC has been without a quorum since February, which has prevented action on crucial energy infrastructure projects, including new natural gas pipelines and other important rate and policy matters. The electric and natural gas industries depend

strongly on a well-functioning FERC. Many of you recognized the seriousness of this issue in letters sent to the president in February and March of this year urging quick action on FERC nominations. In those letters, committee members and leadership acknowledged the importance of FERC continuing its "important regulatory oversight responsibilities to ensure American consumers have access to reliable energy."

The president has now nominated four candidates, two of whom are awaiting votes before the full Senate. Duke Energy is increasingly concerned about the lack of a quorum at FERC and strongly urges this committee to do whatever it can to encourage its Senate colleagues to take up these FERC nominations as quickly as possible.

Cybersecurity

We are well aware of the recent reports of cyber intrusions into the energy sector and certain nuclear facilities. Protecting our infrastructure, operations and customer, shareholder and employee information is a top priority for Duke Energy. When it comes to cyberthreats and potential breaches at Duke Energy, we work diligently to stay ahead of the game, using a "multilayered" defense approach to keep our energy grid secure.

We also work closely with industry and government partners. We have in place strong reporting requirements and partnerships to prevent and respond to threats. In fact, the electric sector and nuclear sector are the only critical infrastructure sectors with mandatory and enforceable cybersecurity standards. Extensive measures to safeguard our business and operational networks are necessary to prevent those with malicious intent from penetrating our systems, and to ensure we can respond appropriately to any security events.

There are areas Congress can examine to offer immediate improvements:

First is an examination of third-party liability protections by amending the Safety Act to expressly include cyberattacks (with no separate DHS declaration of an act of terror) – so that in the event of such an attack, utilities can focus on: 1) getting the lights back on, 2) rebuilding infrastructures and systems to keep the lights on and prevent more harm, and 3) enabling first responders to more effectively and efficiently do their critical work – instead of facing the crippling effects of protracted lawsuits in multiple jurisdictions.

The second area is improving the process to obtain a security clearance so that we can improve upon the information sharing capabilities between public and private entities. We have a number of individuals seeking clearances, and reducing the complexity of extending confidential information to private industry will strengthen and increase information sharing.

Workforce Transformation

As my remarks today have underscored, the energy sector is going through a significant transformation, and the needs and expectations of our customers and communities are evolving. We are modernizing our grid over the next decade and with that we will need a qualified workforce to meet these demands as we also address the challenges of a changing workforce.

About 30 percent of current Duke Energy employees are eligible for retirement today and we anticipate 52 percent of these employees to leave the company over the next six years. We anticipate nearly 9 percent of our employees will be leaving through retirement and other reasons by 2021. We determined that both the changing nature of our business and the scale of our large investments in grid modernization are creating a gap in the skills needed to continue to drive our business.

We are working with the Center for Energy Workforce Development to advance the awareness of jobs in the energy sector. We are also creating partnerships to advance workforce readiness to address the current and anticipated skills shortage that we face. Public policy impacting the regulated utilities' workforce training programs must also accurately reflect the changing industry needs. Reigniting interest in vocational jobs is a key focus for us. Working with secondary educational institutions to create curricula and funding for vocational training will help accelerate the development and employability of future workers. We are also focused on bringing veterans into our workforce. By the end of 2017 we expect about 15% of our incoming workforce to be veterans, and last year 50% of our lineworker hires were veterans. 65% of veterans pass the pre-employment aptitude test required for lineworkers – 17 points above the national average.

Finally, I would like to compliment the committee on its recent action on used nuclear fuel. While outside the jurisdiction of this subcommittee, the strong bipartisan vote in favor of Rep. Shimkus' bill shows the ability of this committee and its members to show leadership and bipartisanship in an effort to address a

long-standing problem. Our customers have waited a long time to get what they have paid for, and we appreciate your efforts on their behalf.

The pace and complexity of change facing our industry today is unparalleled since the battle between AC and DC power in the 1880s. We, as an industry, stand ready to meet these challenges while continuing to provide safe, reliable, affordable and increasingly clean energy to power our economy and improve the quality of the lives of the customers we serve every day.

Again, thank you for the opportunity to be here today and I look forward to your questions.