



Kendrick C. Fentress
Associate General Counsel

Mailing Address:
NCRH 20 / P.O. Box 1551
Raleigh, NC 27602

o: 919.546.6733
f: 919.546.2694

Kendrick.Fentress@duke-energy.com

February 2, 2016

VIA ELECTRONIC FILING

Ms. Gail L. Mount
Chief Clerk
North Carolina Utilities Commission
4325 Mail Service Center
Raleigh, North Carolina 27699-4300

**Re: Memorandum of Understanding by and between Duke Energy Carolinas, LLC, Duke Energy Progress, LLC, Dominion North Carolina Power and the Public Staff of the North Carolina Utilities Commission in Support of Recalculation of Avoided Cost Rates
Docket No. E-100, Sub 140**

Dear Ms. Mount:

In its *Order Establishing Standard Rates and Contract Terms for Qualifying Facilities*, issued on December 17, 2015, in the aforementioned docket ("Order"), the Commission directed Duke Energy Carolinas, LLC ("DEC"), Duke Energy Progress, LLC ("DEP"), and Dominion North Carolina Power ("DNCP") (collectively, "the Utilities") to recalculate the value of their current hedging programs using the Black-Scholes Model or a similar method that values the added fuel price stability gained through each year of the entire term of the QF power purchase agreement. Order at 7. The Commission also directed the Utilities to file new versions of their rate schedules and standard contracts to become effective 15 days after the filing date unless specific objections as to the accuracy of the calculations and conformity to the decisions in the Order are filed. To that end, attached for filing please find a Memorandum of Understanding ("MOU") by and between DEC, DEP, DNCP, and the Public Staff of the North Carolina Utilities Commission ("Public Staff"). As explained in the MOU, the Utilities have accepted the Public Staff's determination of a hedge value of 0.028 cents

OFFICIAL COPY

Feb 02 2016

per kWh for use in recalculating their avoided cost rates (Order at 29), which are reflected on the new versions of their rate schedules, filed concurrently with this MOU.

Please do not hesitate to contact me if you have any questions.

Sincerely yours,

A handwritten signature in dark ink, appearing to read "Kendrick C. Fentress". The signature is written in a cursive, flowing style.

Kendrick C. Fentress

Enclosure

cc: Parties of Record

**MEMORANDUM OF UNDERSTANDING BETWEEN AND AMONG
DOMINION NORTH CAROLINA POWER, DUKE ENERGY CAROLINAS,
LLC, DUKE ENERGY PROGRESS, LLC, AND THE PUBLIC STAFF OF THE
NORTH CAROLINA UTILITIES COMMISSION**

This Memorandum of Understanding is entered into as of February 2, 2016, by and between Duke Energy Carolinas, LLC (“DEC”), Duke Energy Progress, LLC, (“DEP”), Dominion North Carolina Power (“DNCP”), and the Public Staff of the North Carolina Utilities Commission (“Public Staff”), hereinafter referred to as the Parties. This Memorandum of Understanding (“MOU”) pertains to the inclusion of fuel hedging benefits in the calculation of avoided energy costs under the Commission’s December 17, 2015 *Order Establishing Standard Rates and Contract Terms for Qualifying Facilities*, in Docket No. E-100, Sub 140 (“Phase II Order”).

1. In its Phase II Order, the Commission directed DEC, DEP, and DNCP (collectively, “the Utilities”) to recalculate the value of their current hedging programs using the Black-Scholes Model or similar method that values the added fuel price stability gained through each year of the entire term of a QF power purchase agreement.

2. In so finding, the Commission cited the Public Staff’s recommendation that the Utilities fully reflect fuel price hedging benefits when calculating their avoided energy costs. In its recommendation, the Public Staff had determined that an appropriate net option price, the price of a call option minus the price of a put option, for “at-the-money” Henry Hub natural gas options, is approximately \$0.04 per dekatherm for the 12-month and 24-month hedge terms used by the Utilities. The Public Staff then converted the \$0.04 per dekatherm net option price to a hedge value of 0.028 cents per kWh. Phase II Order, at p. 29.

3. The Parties agree that the hedge value of 0.028 cents per kWh, as recommended by the Public Staff and cited in the record of this proceeding, is a reasonable and appropriate hedging value for the Utilities to utilize in recalculating their avoided energy costs for purposes of this proceeding.

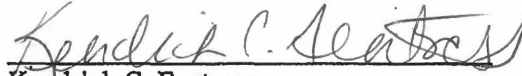
4. The Parties acknowledge the Commission's findings in the Phase II Order that it is "appropriate for the Utilities to utilize the Black-Scholes Model or a similar model to determine the hedging value of renewable generation" and that "the fuel hedge value should be included for each year of the entire term of the QF PPA." Phase II Order at pp. 30-31. This MOU, however, does not constitute any agreement by any of the Parties as to the appropriate methodology to be used to calculate that hedging value and is without prejudice to any position that a Party may take with respect to application of the Black-Scholes Model or any other method used to calculate fuel price hedging benefits in any future proceeding.

5. The Parties further agree that this MOU is intended to result in administrative efficiency, as it will reduce the amount of time and investigation required to review the Utilities' avoided fuel cost recalculations when they file their avoided cost rates in compliance with the Phase II Order.

The foregoing is agreed to, this the 2nd day of February, 2016.

DUKE ENERGY CAROLINAS, LLC, AND
DUKE ENERGY PROGRESS, LLC.

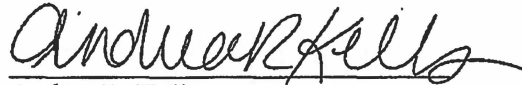
By:



Kendrick C. Fentress
Attorney for Duke Energy Carolinas, LLC and
Duke Energy Progress, LLC

DOMINION NORTH CAROLINA POWER

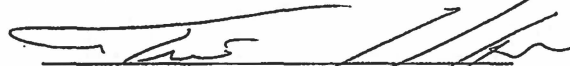
By:



Andrea R. Kells
Attorney for Dominion North Carolina Power

THE PUBLIC STAFF OF THE NORTH
CAROLINA UTILITIES COMMISSION

By:

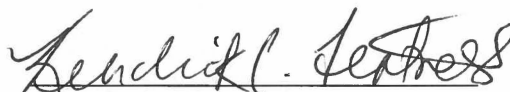


Tim R. Dodge
Attorney for the Public Staff - NCUC

CERTIFICATE OF SERVICE

I certify that a copy of this letter and the Memorandum of Understanding by and between Duke Energy Carolinas, LLC, Duke Energy Progress, LLC, Dominion North Carolina Power, and the Public Staff of the North Carolina Utilities Commission, in Docket No. E-100, Sub 140, has been served on all parties of record either by electronic mail, hand delivery or by depositing a copy in the United States mail, postage prepaid.

This the 2nd day of February, 2016.



Kendrick C. Fentress
Associate General Counsel
Duke Energy Corporation
P.O. Box 1551/ NCRH 20
Raleigh, North Carolina 27602
Tel: 919.546.6733
Kendrick.Fentress@duke-energy.com