Duke Energy Carolinas, LLC Fossil Fuel Procurement Practices

<u>Coal</u>

- Using Stochastic cost production modeling, near and long-term coal consumption is forecasted based on inputs such as load projections, weather, fleet maintenance and availability schedules, coal quality and cost, non-coal commodity and emission prices, environmental permit and emissions constraints, projected renewable energy production, and wholesale energy imports and exports.
- Station and system inventory targets are developed to provide generational reliability, insulation from short-term market volatility, and adaptability to evolving coal production and transportation conditions. Inventories are monitored continuously.
- On a continuous basis, existing purchase commitments are compared with consumption and inventory requirements to determine changes in supply needs.
- All qualified suppliers are invited to participate in Request for Proposals to satisfy additional supply needs.
- Spot market solicitations are conducted on an on-going basis to supplement existing purchase commitments.
- Contracts are awarded based on the highest customer value, considering factors such as price, quality, transportation, reliability and flexibility.
- Delivered coal volume and quality are monitored against contract commitments. Coal and freight payments are calculated based on certified scale weights and coal quality analysis meeting ASTM standards as established by ASTM International.

<u>Gas</u>

- Using Stochastic cost production modeling, near and long-term natural gas consumption is forecasted based on inputs such as load projections, weather, commodity and emission prices, projected renewable energy production, and fleet maintenance and availability schedules.
- Physical procurement targets are developed to procure a cost effective and reliable natural gas supply.
- Natural gas supply is contracted utilizing a portfolio of long term, short term, spot market and physical call option agreements
- Short-term and long-term Requests for Proposals and market solicitations are conducted with potential suppliers, as needed, to procure the cost competitive, secure, and reliable natural gas supply, firm transportation, and storage capacity needed to meet forecasted gas usage.
- Short-term and spot purchases are conducted on an on-going basis to supplement term natural gas supply.
- On a continuous basis, existing purchases are compared against forecasted gas usage to determine changes in supply and transportation needs.
- Natural gas transportation for the generation fleet is obtained through a mix of long-term firm transportation agreements, and shorter-term pipeline capacity purchases.

- A targeted percentage of the natural gas fuel price exposure is managed via a rolling 60-month structured financial natural gas hedging program.
- Through the Asset Management and Delivered Supply Agreement between Duke Energy Carolinas, LLC ("DEC") and Duke Energy Progress, LLC implemented on January 1, 2103, DEC serves as the designated Asset Manager that procures and manages the combined gas supply needs for the combined Carolinas gas fleet.

Fuel Oil

- No. 2 fuel oil is burned primarily for initiation of coal combustion (light-off at steam plants) and in combustion turbines (peaking assets).
- All No. 2 fuel oil is moved via pipeline to applicable terminals where it is then loaded on trucks for delivery into the Company's storage tanks. Because oil usage is highly variable, the Company relies on a combination of inventory, responsive suppliers with access to multiple terminals, and trucking agreements to manage its needs. Replenishment of No. 2 fuel oil inventories at the applicable plant facilities is done on an "as needed basis" and coordinated between fuel procurement and station personnel.
- Formal solicitations for supply may be conducted as needed with an emphasis on maintaining a network of reliable suppliers at a competitive market price in the region of our generating assets.