

STIPULATION

Regarding the Proper Methodology for Determining the Fuel Costs Associated with Power Purchases from Power Marketers and Others

This **Stipulation** (“Stipulation”) is made as of the 5th day of January 2023, by and among Duke Energy Carolinas, LLC, (“DEC”), Duke Energy Progress, LLC (“DEP,” and together “Companies”), and the Public Staff of the North Carolina Utilities Commission (“Public Staff”). This Stipulation is effective as of the date it is signed by the last party to sign it, as indicated by the date next to such party’s signature.

North Carolina General Statute §62-133.2 provides for annual fuel charge adjustment proceedings for electric utilities engaged in the generation or production of electricity by fossil or nuclear fuels. The Companies met with the Public Staff to discuss updating the total fuel cost to total energy cost ratio that is applied to certain power purchases to approximate the actual fuel cost component of a power purchase. As a result of this meeting, the Companies and the Public Staff have agreed to the following stipulations to establish a percentage range as the basis for an appropriate fuel cost proxy percentage.

WHEREAS, the fuel charge adjustment statute, N.C. Gen. Stat. § 62-133.2, requires electric utilities to present "verified annualized information and data in such form and detail as the Commission may require" for all aspects of its fuel expenses, including "sources and fuel cost component of purchased power used."

WHEREAS, many of the purchases made by the Companies are from sellers who do not generate the power that they sell, but rather purchase it from other utilities for resale, the actual fuel cost component is not identified separately from the total purchase cost. Additionally, some power sellers who generate the power they sell withhold disclosure of their actual fuel costs. As a result, the total fuel cost to total energy cost ratio of such power purchases is unavailable to the Companies for the purpose of recognizing actual fuel costs on those purchases in the annual fuel charge adjustment as required by N.C. Gen. Stat. § 62-133.2.

WHEREAS, in 1997, the Companies, the Public Staff, and other parties entered a certain stipulation (which was applicable to the 1997 and 1998 fuel proceedings) addressing the proper methodology to determine the fuel costs associated with power purchases by electric utilities from power marketers and certain utilities. The parties entered a similar stipulation in 1999 (applicable to the 1999, 2000, and 2001 fuel proceedings). Each stipulation provided for the use of the fuel component of the Companies’ off-system sales as a reasonable basis for approximating the fuel component on power purchases when the actual fuel component is unavailable. The underlying methodology for such stipulations has been accepted by this Commission as reasonable in each fuel rider proceeding since the beginning of 1997.

STIPULATION

Regarding the Proper Methodology for Determining the Fuel Costs Associated with Power Purchases from Power Marketers and Others

WHEREAS, the Companies and Public Staff continue to consider it reasonable to use the Companies' short-term off-system sales as the basis for determining the appropriate total fuel cost to total energy cost ratio to be used to approximate fuel costs associated with power purchases when actual fuel costs are unavailable; however, the most recent proxy was established during the 2008 fuel proceeding, through analysis of off-system sales from calendar year 2007, and the fuel percentage proxy was set at sixty-one percent (61%). Since the 2008 fuel proceeding, the proxy has not been updated.

WHEREAS, due to increasing fuel commodity prices, the 61% fuel proxy established in the 2008 fuel proceeding is no longer appropriate for determining the fuel portion of power purchases.

WHEREAS, the Companies and the Public Staff agree, for future fuel proceedings starting with the Companies' 2023 annual fuel rider proceedings, an annual compilation of actual total fuel and fuel-related costs as a component of total short-term off-system sales revenue is an appropriate basis for estimating fuel costs on power purchases when the actual fuel component is unavailable or unidentified as a component of the price paid for energy under a power purchase contract.

WHEREAS, total purchase costs on economically dispatchable and curtailable purchases will continue to be requested for cost recovery through the annual fuel charge adjustment and actual or identified fuel costs on other energy purchases will continue to be requested for cost recovery through the annual fuel charge adjustment; in addition, when actual fuel costs are unavailable or unidentified, the fuel cost proxy will establish a percentage of the total energy cost that is appropriate for cost recovery through the annual fuel charge adjustment. The remaining balance of total purchase costs not requested for cost recovery through the annual fuel charge adjustment will continue to be requested for cost recovery through base rates.

NOW, THEREFORE, Duke Energy Carolinas, LLC, Duke Energy Progress, LLC, and the Public Staff of the North Carolina Utilities Commission agree as follows:

For the Companies' annual fuel rider proceedings filed during 2023 through 2027, if actual fuel cost for a power purchase is unavailable or the fuel cost component is unidentified under a power purchase contract, the Companies shall assume that the fuel cost was in a range between 75% to 85%, the exact percentage to be determined by the parties beginning with a composite calendar year 2022 review of short-term off-system sales¹ (applied to the test year purchases under review in 2023 fuel proceedings) through a composite calendar year 2026 review of short-term off-system sales (applied to the test year purchases under review in 2027 fuel proceedings).

¹ Southeast Energy Exchange Market ("SEEM") sales will be included in the basis for the fuel proxy since they are, by nature, short-term off-system sales.

STIPULATION

Regarding the Proper Methodology for Determining the Fuel Costs Associated with Power Purchases from Power Marketers and Others

The Companies will propose a composite total fuel cost to total energy cost ratio, based on DEC's and DEP's combined short-term off-system sales of a calendar year. Such composite, in accordance with the terms herein, shall be no greater than 85%, but no less than 75%. For each of the above-specified fuel proceeding test years, the Companies will assess the prior calendar year composite proxy percentage to be used by both DEC and DEP, consistently for the full test periods of the subsequent annual fuel rider proceeding, despite the three-month difference in end date between DEC's and DEP's twelve-month test periods.

To the extent that the analysis of annual composite short-term off-system sales indicates that the actual fuel and fuel-related component of such sales revenue falls outside the range of 75% to 85%, the ratio will be adjusted accordingly to reflect either the minimum or maximum of the range. For example, if analysis results in a fuel and fuel-related cost ratio of 65%, the Companies will propose recovering 75% of the purchase cost through the annual fuel charge adjustment and 25% through base rates. Alternatively, if the fuel and fuel-related cost ratio is 90%, the Companies will propose recovering 85% of the purchase cost through the annual fuel charge adjustment and 15% through base rates. In either case, the Companies and the Public Staff will support this approach in the fuel proceedings starting in 2023, through 2027.

To the extent that DEC and DEP filed NC general rate case proposals based on a 2021 test year which reflected 39% of costs on power purchases when the actual fuel component was unavailable or unidentified as a component of the price paid for energy under a power purchase contract, an adjustment to the revenue requirement will be made under a supplemental filing to reflect the outcome of this Stipulation.

This Stipulation shall remain in effect until the completion of the Companies' annual fuel rider proceedings filed in calendar year 2027 or the effective date of a merger of the DEC and DEP utilities, whichever occurs sooner.

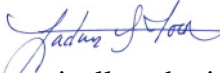
Should the parties have differences regarding the utilization of the terms of this Stipulation to determine fuel costs for any specific purchase or group of purchases, the parties agree to meet to attempt to resolve those differences. If the differences cannot be resolved, the parties will submit the issues to the Commission for resolution.

[Signature Page to Follow]

STIPULATION

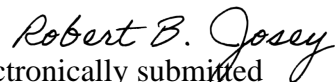
***Regarding the Proper Methodology for Determining the Fuel Costs Associated with
Power Purchases from Power Marketers and Others***

*ATTORNEY FOR DUKE ENERGY CAROLINAS, LLC and DUKE
ENERGY PROGRESS, LLC*

s/ []
Electronically submitted
Date: 2/9/2023

Ladawn S. Toon
Associate General Counsel
Duke Energy Corporation
P. O. Box 1551 / NCRH 20
Raleigh, North Carolina 27602
Tel. 919.546.7971
ladawn.toon@duke-energy.com

*ATTORNEYS FOR PUBLIC STAFF–NORTH CAROLINA
UTILITIES COMMISSION*

s/ []
Electronically submitted
Date: 2/8/2023

Robert B. Josey
Staff Attorney
Manager, Electric Section
Public Staff – N.C. Utilities Commission
430 N. Salisbury Street
4326 Mail Service Center
Raleigh, NC 27699-4300
Office: 919-733-0973
robert.josey@psncuc.nc.gov