



17 October 2013

To: Chief Clerk Gail Mount  
The North Carolina Utilities Commission  
4325 Mail Service Center  
Raleigh, NC 27699-4325

**FILED**  
**OCT 17 2013**

From: The North Carolina Sustainable Energy Association  
P.O. Box 6465  
Raleigh, NC 27628

Clerk's Office  
N.C. Utilities Commission

Re: Duke Energy Progress, Inc's ("DEP") Application for Fuel and Fuel-Related Cost Recovery  
**(Docket No. E-2, Sub 1031)**

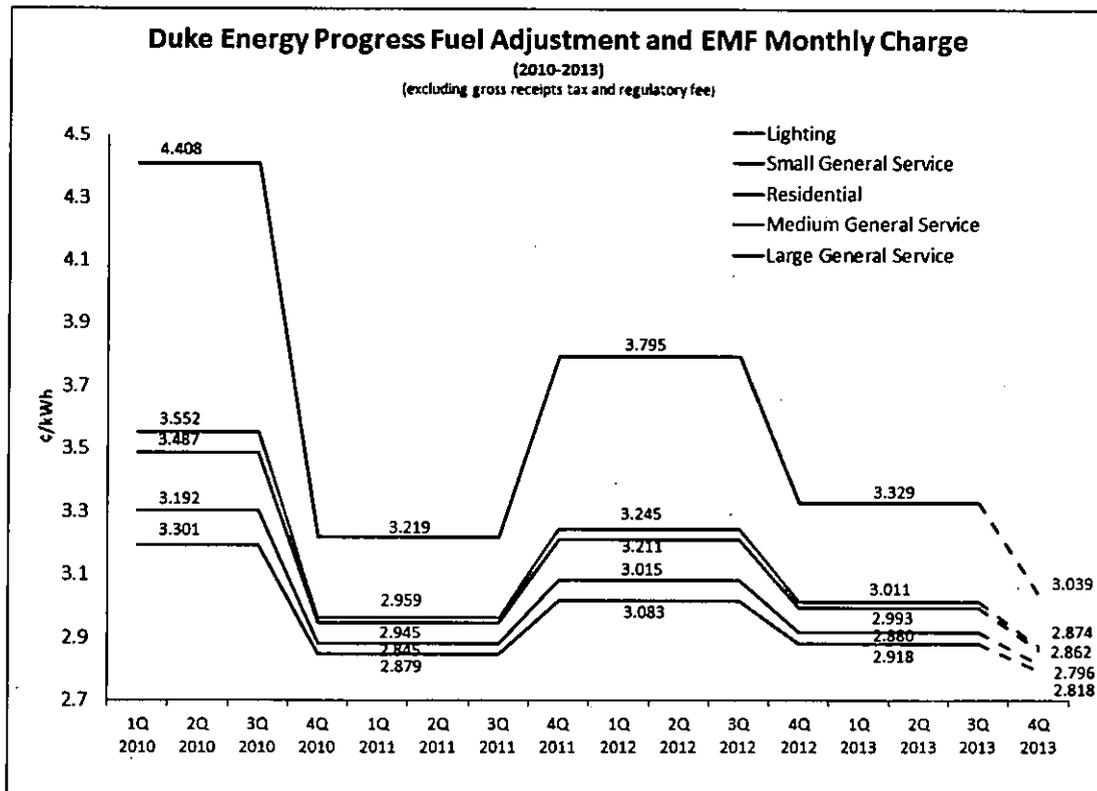
Honorable Clerk and Commissioners:

I serve as counsel and policy director for the North Carolina Sustainable Energy Association ("NCSEA"), an intervenor in this proceeding. NCSEA files this letter in lieu of a post-hearing brief.

Overview

NCSEA does not challenge the cost recovery sought by DEP and agreed to by the Public Staff. Assuming the North Carolina Utilities Commission ("Commission") approves DEP's application, the graph, *infra*, depicts DEP's monthly charges for its various customer classes on a cents/kWh basis for the period 2010 through 2013:

Full Dist



While NCSEA does not contest DEP’s proposed cost recovery, NCSEA does respectfully request that the Commission’s final order in this proceeding incorporate DEP’s commitment to file, by the end of 2013, an updated fuel procurement practices report that includes any revisions proposed for its natural gas hedging strategy.

### NCSEA’s Interest in Hedging

DEP’s hedging is an issue of interest to NCSEA and its members because one of the primary benefits of generation resources such as solar PV and wind is that their “fuels” are free and thus fuel price volatility and mitigatory hedging costs are avoided. As NCSEA-sponsored Witness Karl R. Rabago states in his pre-filed testimony in Commission Docket No. E-100, Sub 136, “I am not taking issue with the practice of hedging against fuel price volatility, but it is important to note that fuel-free solar electric generation offers true financial and physical hedging benefits to the utility resource portfolio, a value that should be captured in an objective avoided cost estimation process.” *Pre-filed Testimony of Karl R. Rabago*, pp. 18-19, Commission Docket No. E-100, Sub 136 (27 September 2013).

### DEP's Hedging Practices

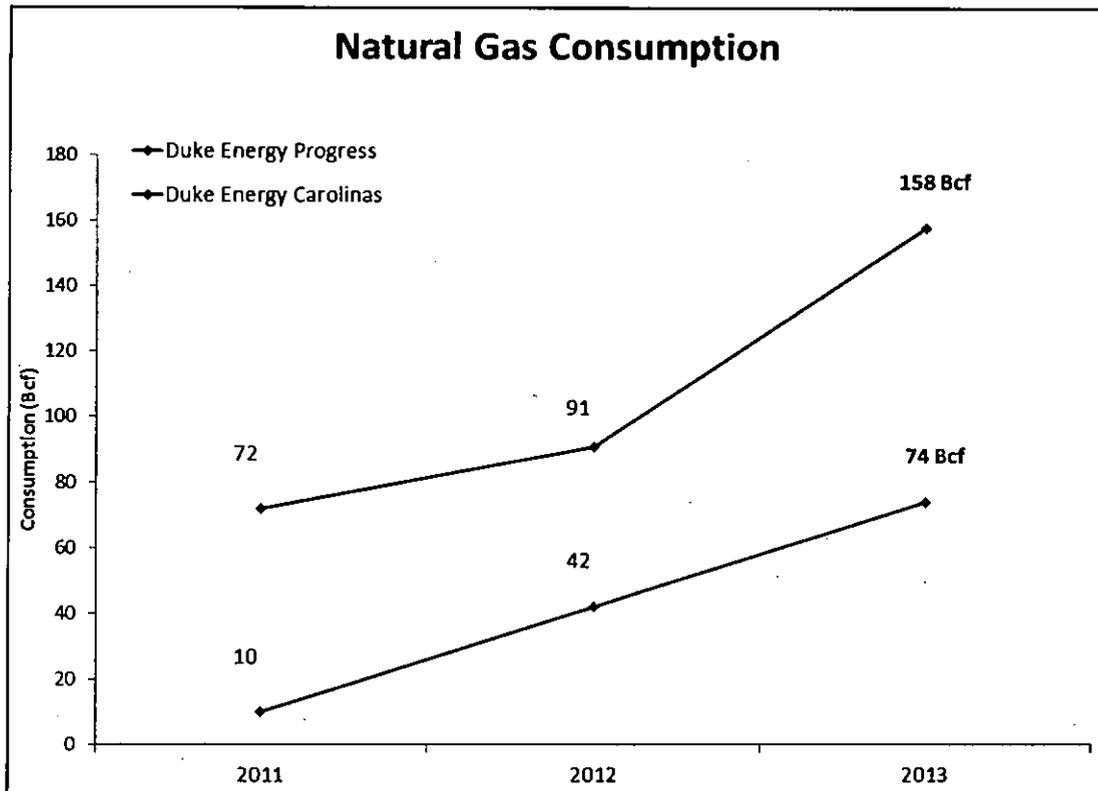
At the 17 September 2013 evidentiary hearing, DEP Witness Weintraub testified that "Progress' financial hedging strategy is a kind of dollar-cost averaging approach that mitigates price volatility by locking in gas prices at a fixed price[.]" *Transcript of Testimony Volume 1 (Heard September 17, 2013)* ("Tr. at p. \_\_\_"), p. 53, Commission Docket No. E-2, Sub 1031 (25 September 2013). Even though this type of hedging can increase customer bills, the Commission is generally supportive of the use of hedging as a tool to manage the volatility of future natural gas prices. Tr. at pp. 54-55 (Weintraub testimony). Commission Chairman Finley and DEP Witness Weintraub helped clarify why the Commission is generally supportive of hedging in the following exchange:

Q (Finley): Would a rough analogy be that a homeowner spends money on fire insurance year after year after year after year, knowing that that's a cost he has to incur, but he's ensuring against a fire? He hopes he never gets to have a fire, but he's paying that money year after year after year in case he might. Is that sort of a rough analogy?

A: It is. . . .

Tr. at pp. 64-65.

DEP's natural gas hedging strategy (and its impact) is worth discussing because DEP's consumption of natural gas has increased dramatically in recent years. DEP consumed 72 billion cubic feet [of natural gas] in 2011, 91 billion cubic feet in 2012, and it estimates 158 billion cubic feet or more will be consumed in 2013. Tr. at pp. 23, 56 (Weintraub testimony). The graph, *infra*, depicts both DEP's and DEC's recent and forecast natural gas consumption:



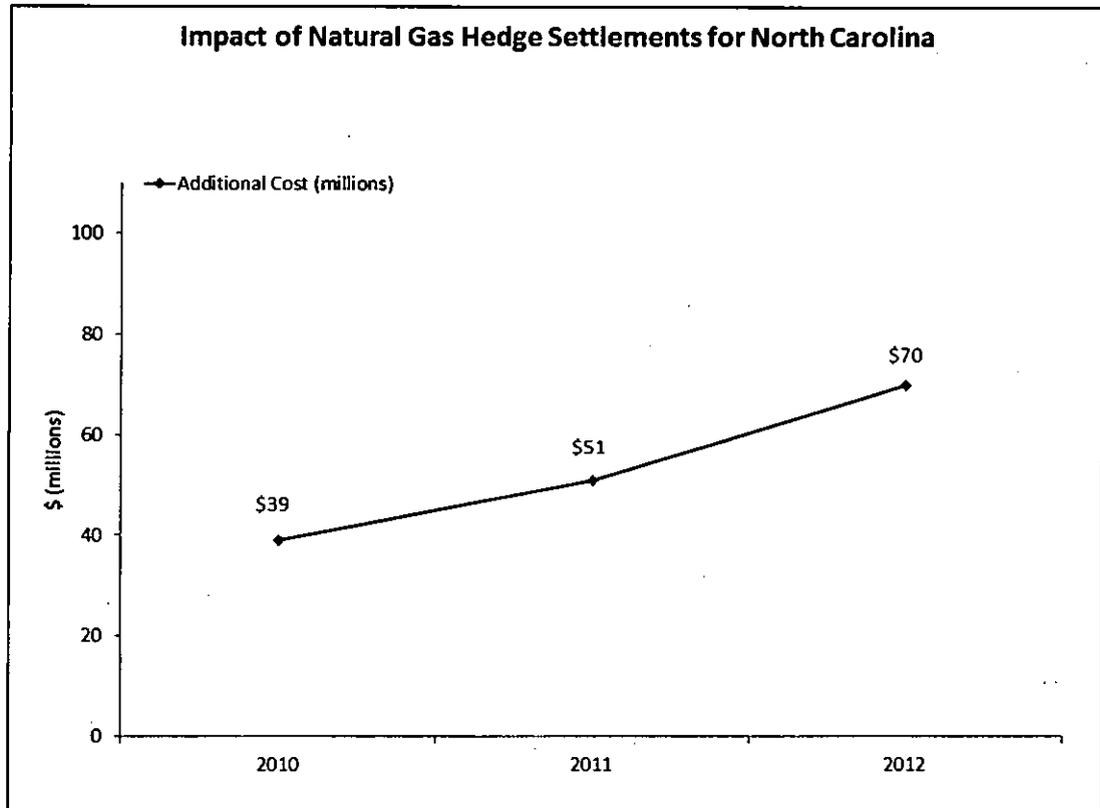
DEP Witness Weintraub, who also serves as a witness for DEC, confirmed the accuracy of the information depicted in the graph. Tr. at pp. 55-57; NCSEA Weintraub Cross-Exhibit No. 1 at p. 1. Additionally, with the Sutton combined cycle plant coming online later this year or early next year, DEP anticipates its consumption will increase beyond 158 billion cubic feet in future years. Tr. at p. 57 (Weintraub testimony).

DEP Witness Weintraub confirmed that DEP has been hedging approximately 50% of its consumption. Tr. at p. 58. Accordingly, as confirmed by DEP Witness Weintraub, DEP hedged roughly 36 billion cubic feet in 2011, 45 billion cubic feet in 2012, and it will hedge roughly 79 billion cubic feet in 2013. Tr. at pp. 58-59.

#### Impact of DEP's Hedging on Customer Bills

DEP's hedging has had a marked impact on customer bills. Where changing prices cause DEP to settle a financial hedge at a loss, the loss gets applied to customer bills. Tr. at p. 59 (Weintraub testimony). DEP's hedging losses have recently resulted in its customers bearing additional costs of \$39 million for the 2010 test period, about \$51 million for the 2011 test period, and about \$70 million for the 2012 test period. Tr. at p.

60. The graph, *infra*, depicts the additional annual costs borne by DEP's customers as a result of DEP's financial hedging:<sup>1</sup>



DEP Witness Weintraub confirmed the accuracy of the information depicted in the graph. Tr. at p. 59; NCSEA Weintraub Cross-Exhibit No. 1 at p. 3. To put these costs in perspective, Public Staff Witness Hinton testified that DEP's financial hedging for the 2012 test period resulted in DEP's typical residential customer paying a little over \$2.00 additional per month. Tr. at pp. 135, 138.

### Conclusion

DEP does not appear to oppose the relief that NCSEA requests be incorporated into the final order in this proceeding. At the hearing, DEP Witness Weintraub testified as follows:

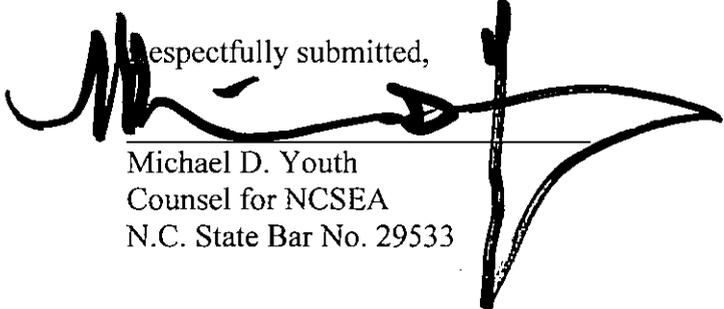
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<sup>1</sup> DEP's natural gas storage costs ratepayers "roughly a million to a million and a half of [additional] fixed [annual] costs in order to have the storage available to [DEP]." Tr. at p. 60 (Weintraub testimony).

[T]he Public Staff has questions about DEP's hedging strategy, and we also believe that other intervenors may have similar types of questions. Consistent with the Commission's Order in the 2013 DEC fuel case in Docket No. E-7, Sub 1033, I recommend that the Commission evaluate DEP's hedging strategy when it is filed in Docket No. E-100, Sub 47A by the end of this year.

Tr. at p. 24.

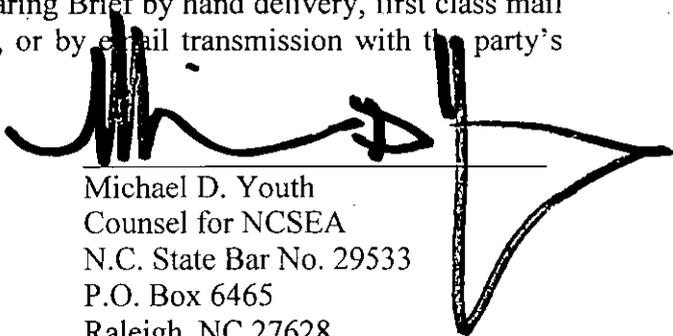
For the foregoing reasons, NCSEA respectfully requests that the Commission's final order in this proceeding incorporate DEP's commitment to file an updated fuel procurement practices report that includes its proposed natural gas hedging strategy by 31 December 2013.

Respectfully submitted,  
  
Michael D. Youth  
Counsel for NCSEA  
N.C. State Bar No. 29533

**CERTIFICATE OF SERVICE**

I hereby certify that all persons on the docket service list have been served true and accurate copies of the foregoing Post-Hearing Brief by hand delivery, first class mail deposited in the U.S. mail, postage pre-paid, or by e-mail transmission with the party's consent.

This the 17<sup>th</sup> day of October, 2013.

  
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