130001-EI

REDACTED

REDACTED

Duke Energy Florida, Inc.
Risk Management Plan for
Fuel Procurement and Wholesale Power Purchases
For 2014

Duke Energy Florida, Inc. (DEF) is submitting its 2014 Risk Management Plan for review by the Florida Public Service Commission. The Risk Management Plan includes the required items as outlined in Attachment A of Order No. PSC-02-1484-FOF-EI and specifically items 1 through 9, and items 13 through 15 as set forth in Exhibit TFB-4 to the prefiled testimony of Todd F. Bohrmann in Docket No. 011605-EI and further clarified in Order No. PSC-08-0667-PAA-EI of Docket No. 080001-EI.

Several groups play key roles in the management, monitoring, and execution of the activities outlined in DEF's Risk Management Plan. These groups include Fuels and System Optimization (FSO), Global Risk Management (GRM), which includes Enterprise and Regulated Risk and Credit (Risk Management), Regulated Accounting, Internal Audit, Legal, and Information Technology. The activities supported by these groups include the following: procuring competitively priced fuel, performing active asset optimization and portfolio management, executing DEF's hedging strategy, monitoring and reporting against established oversight limits for credit and margin limits, performing credit evaluations and monitoring credit and default exposure, performing deal validation, volume actualization, preparing and reviewing transactions and contracts, preparing journal entries to account for fuel and power related activities, performing billing and payments under the various fuel and purchased power contracts, performing audits, and maintaining and supporting needed systems to capture, track, and account for these activities.

Based on the July 2013 Fuels and Operations Forecast (FOF), DEF's estimated fuel consumption and economy transaction projections for 2014 are as follows:

Coal

Based on current projections, DEF forecasts to burn approximately [redacted] tons of coal in 2014. DEF's forecasted coal requirements for 2014 will primarily be purchased under term coal supply agreements. The coal supply will be delivered to DEF's plants via railroad and barge transportation agreements. Spot purchases will be made as needed to supplement the term purchases.

Light Oil

Based on current projections, DEF forecasts to burn approximately [redacted] barrels of light oil in 2014. DEF's forecasted light fuel oil requirements for 2014 are expected to be purchased primarily under term supply

 REDACTED

agreements with volume flexibility at indexed market prices. Spot market purchases will be made as needed to supplement term purchases.

Natural Gas
Based on current projections, DEF forecasts to burn approximately [redacted] of natural gas in 2014, comprised of approximately [redacted] at DEF's generating plants and [redacted] at gas-tolling purchased power facilities where DEF has the responsibility to provide the natural gas. DEF's forecasted natural gas requirements for 2014 are expected to be purchased primarily under term supply agreements based on market index pricing, with supplemental seasonal, monthly and daily purchases of natural gas being made as needed.

Economy Power Purchases and Sales
Based on current projections, DEF forecasts to purchase approximately [redacted] of economy power and sell approximately [redacted] of economy power in 2014. DEF actively seeks to purchase and sell economy power as opportunities arise based on market prices, dispatch costs, and available transmission capacity.

Item 1. Identify the company's overall quantitative and qualitative Risk Management Plan Objectives.

DEF's identified 2014 Risk Management Plan Objectives are to effectively manage its overall fuel and purchased power costs for its customers by engaging in competitive fuel procurement practices and activities, performing active asset optimization and portfolio management activities, and continuing to execute the company's hedging program to reduce price risk and provide greater cost certainty for DEF's customers. These items are discussed further in Item 8.

Item 2. Identify the minimum quantity of fuel to be hedged and the activities to be executed during the remainder of 2013 and during 2014

DEF utilizes a phased hedging program where hedge transactions are executed over time with the objective of reducing price risk and providing greater cost certainty for DEF's customers. The hedging program includes executing approved agreements over time for natural gas and light fuel oil usage for generation fuel, and coal rail and river transportation fuel surcharges. Natural gas hedging activity represents the largest component of DEF's hedging program as natural gas represents the largest fuel cost component of DEF's overall generation fuel costs.

The volumes hedged over time represent a portion of DEF's forecasted burns with higher hedging target ranges in the near term and lower hedging target ranges in the outer period. The hedge percentage target ranges outlined provide a framework for consistently executing the layered hedging strategy over time. DEF cannot predict future prices and DEF's hedging program does not involve speculation or trying to "out-guess" the market. All hedges are executed at the prevailing market price for any given period that exists at the time the hedging transactions are executed. The results of hedging activities may or may not result in net fuel cost savings due to differences between the monthly settlement prices and the actual hedge price of the transactions that were executed over time. The volumes hedged for each fuel type over time are based on periodic updated fuel forecasts and the actual hedge percentages for any month, rolling period, or calendar annual period may come in higher or lower than the target minimum hedge percentages and hedging ranges because of actual fuel burns versus forecasted fuel burns. Actual burns can deviate from forecasted burns because of dynamic variables such as weather, unforeseen unit outages, actual load, and changing fuel prices. DEF's multi-year approach to executing fixed price transactions over time is a reasonable and prudent approach to reduce price risk and provide greater cost certainty for DEF's customers.

Outlined below for each fuel type and exposure are the targeted minimum hedge percentages to be hedged for the remainder of 2013 and 2014:

Natural Gas

Natural gas represents DEF's largest fuel cost component and represents the largest component of DEF's hedging activities. DEF plans to continue to execute its existing phased hedging program over a rolling 36-month period through time for natural gas through the remainder of 2013 and during 2014. The currently approved rolling hedge percentage that are outlined in DEF's Franchised Electric Risk Limits as follows:

[redacted]

DEF will target to hedge a minimum of [redacted] [redacted] and [redacted] of forecasted natural gas burns for the rolling 36-month time period through time, respectively, during the remainder of 2013 and 2014. Given DEF's hedging strategy, DEF will continue to participate in spot natural gas prices for a portion of its estimated natural gas needs.

Light Oil

With respect to light oil forecasted to be burned at DEF's owned generation facilities for calendar year 2014, during the balance of 2013 and 2014, DEF will target to hedge a minimum of [redacted] of its forecasted light oil burns.

Coal Rail and River Transportation Fuel Surcharges
During the balance of 2013 and during 2014, with respect to coal river and rail transportation estimated fuel surcharge exposure, DEF will target to hedge between [redacted] to [redacted] of the estimated fuel surcharge exposure for calendar year 2014.

Summary
Through the remainder of 2013 and during 2014, DEF will continue monitor its fuel forecast and will continue to execute hedges over time to attempt to manage to the hedge percentage targets outlined for a portion of its projected burns for natural gas, light oil, and estimated coal rail and river transportation fuel surcharge exposure. This hedging approach is consistent with DEF's existing strategy and allows DEF to continue to monitor the market and fuel forecast updates. The hedging targets for each of the respective periods are included in DEF's Franchised Electric Risk Limits in **Attachment A**.

Item 3. Identify and quantify each risk, general and specific, that the utility may encounter with its fuel procurement.

DEF has identified specific and general risks associated with the procurement of fuels and power optimization activities. The specific risks include fuel price risk, supplier performance and default risk, liquidity risk, credit risk, product availability risk, and changes in forecasted volumes. The general risks include weather related events such as hurricanes, extreme weather variations from forecast, business continuity, and changes in environmental rules and regulations. Described below are the specific and general risks and DEF's activities to manage overall exposure to these risks. In addition, the processes that DEF has in place to monitor and quantify these risks are also described.

Fuel Price Risk
DEF's customers are exposed to the risk of fuel price movements, which could result in significant variability in projected and actual fuel costs. For natural gas and light oil, the physical fuel is procured under standard industry contracts that are based on published market index pricing that exists during the time periods the fuel is delivered. The published market index prices paid by DEF for these fuels will fluctuate with daily changes in market prices until the respective first of the month market index or daily-published market index

price settles and the product is delivered. For coal, DEF executes standard industry supply agreements to fix and/or collar the price of the underlying coal, but is exposed to fuel surcharges in the transportation agreements. Absent hedging as defined by Order No. PSC-02-1484-FOF-EI (i.e. the Hedging Order), Order No. PSC-08-0667-PAA-EI (i.e. Clarifying Hedge Order), and PSC-09-0349-CO-EI (i.e. Transportation Surcharges), and fixed price coal supply contracts, the projected fuel costs for coal, natural gas, and light oil fuel purchases could vary significantly due to changing market prices over time.

DEF manages and reduces fuel price risks for a portion of its forecasted natural gas and fuel oil burns, and estimated coal rail and river transportation fuel surcharges by utilizing financial transactions over time. As outlined above, DEF enters into standard industry coal supply agreements to fix the price of the underlying commodity exposure. Because of these actions, DEF reduces its overall exposure to changes in projected fuel costs for its customers.

With respect to monitoring and quantifying fuel price risk, Risk Management independently monitors and reports on the percentage of projected fuel burns that have been hedged under physical and financial agreements as compared to the established procurement targets for each respective product and period. In addition, the Company performs multiple periodic fuel and purchased power cost forecast updates each year, which incorporate any updates needed for financial and physical hedge positions, fuel and emission prices, unit maintenance schedules, load forecasts, and other operating parameters. The updated fuel and purchased power forecasts are point in time estimates and are summarized and published to ensure there is a regular review of projected fuel and purchased power costs. In addition, Risk Management performs standard statistical stress tests and portfolio analysis on an as needed basis.

Supplier Performance and Default Risk

Supplier performance and default risk represents the risk of financial loss and/or supply loss that DEF could incur if a supplier defaults on a physical or financial obligation and is not able to fulfill the terms of an agreement. The estimated aggregate dollar amount of supplier performance and default risk for the portfolio is based on the volume, duration, and price of the agreements as compared to the current estimated market value of the agreements.

DEF reduces supplier performance risk by engaging in business with a number of approved suppliers, executing agreements within contract approval limits and credit parameter limits, monitoring delivery performance of suppliers, and, if possible, incorporating contractual provisions that allow for non-performance remedies in the case of default. In addition, if a supplier defaults, DEF also maintains on-site inventories for coal and fuel oil. For activities associated with hedging under financial agreements, the Credit function within Risk Management monitors all open positions and reviews the estimated exposure for each third party company on a daily basis to ensure that DEF has the appropriate collateral balances as compared to contractual thresholds established.

With respect to monitoring and quantifying the level of supplier performance and default risk in fuel agreements, the Credit function within Risk Management monitors and reports on the amount of default risk associated with coal, natural gas, and fuel oil financial and physical agreements. The review is based on contractual volumes, duration, and prices as compared to the current estimated value of the open positions in the agreements that have yet to be delivered or financially settled. See **Attachment B** for DEF's estimated Portfolio Default Exposure Report as of July 11, 2013.

Liquidity Risk

Liquidity risk represents the risk that DEF could not meet the collateral requirements generated from fuel hedging agreements if fuel prices fall substantially. As discussed above, DEF manages fuel price risk for a portion of its forecasted fuel costs through the use of physical and financial hedging agreements. To manage default risk, most of these agreements contain provisions that require the posting of collateral if contractual thresholds are surpassed. The collateral requirements of the portfolio are based on the volume, duration, price, and collateral threshold levels of the agreements as compared to the current estimated market value of the agreements.

DEF manages and reduces liquidity risk by conducting business with a number of counterparties to maximize the collateral threshold levels in individual agreements. In addition, DEF has continued to maximize the use of hedging agreements with non-marginable provisions that have less impact on collateral requirements and do not require the posting of margin. For activities associated with hedging under financial agreements, the Credit function within Risk Management monitors all open positions and reviews the estimated market exposure for each third party company on a daily basis to ensure that DEF only posts the appropriate collateral balances as compared to contractual thresholds.

With respect to monitoring and quantifying the level of liquidity risk in fuel agreements, Risk Management independently calculates, monitors, and reports on the amount of liquidity risk associated with coal, natural gas, and fuel oil financial and physical agreements. The review is based on contractual volumes, duration, and prices as compared to the current estimated value of the open positions in the agreements that have yet to be delivered or financially settled. Risk Management performs standard statistical stress tests and portfolio analysis on an as needed basis.

In addition, the company continues to monitor the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act"). The Dodd-Frank Act provides for the comprehensive regulation of swaps and security-based swaps, applying in respects to all swaps, including the bilateral and over-the-counter (OTC) derivatives markets, as well as swaps embedded in physical forward transactions. Generally, the Dodd-Frank Act provides for certain exemptions from the mandatory clearing and exchange trading requirements for participants that are "end-users" engaging in hedging activities to mitigate or hedge physical risk. DEF enters into commodity and interest rate hedges to mitigate commercial risk and/or hedge physical positions, rather than as part of a regular swap business, thus it is eligible for the end-user exemption from the law's mandatory clearing and trading provisions.

The Commodity Futures Trading Commission (CFTC) issued rules for recordkeeping and reporting requirements and the marketplace is in the process of achieving compliance with these regulations. DEF is maintaining records in accordance with the requirements of the CFTC regulations. Further, as an end-user, DEF can shift, and has shifted, the reporting obligation to swap counterparties for historic and current swap transactions. The CFTC has not finalized the rules for margining and clearing requirements. DEF is continuing to study issued rules and timing of their implementation to prepare for applicable compliance requirements. DEF continues to monitor the potential impact of the rules on its hedging transactions; however, it is difficult to predict how the market will ultimately adjust to the new regulations.

In general, proposed regulations may continue to effect changes to the derivatives markets. For example, margining requirements could raise the incremental cost of hedging activities as it may require counterparties to post additional margin and maintenance margin for OTC derivatives, which would then increase the liquidity requirements needed to support these activities. Currently, DEF has credit collateral thresholds in place with its counterparties that do not require the posting of collateral unless the market value of its hedges drops below the negotiated threshold dollar value. Additionally, DEF has negotiated several bi-lateral non-margin hedging agreements with counterparties where margin posting is not required on certain transactions. If some of DEF's counterparties are subject to higher liquidity requirements due to the proposed regulations, DEF could be subject to higher incremental costs for hedging transactions in the form of 1) potential increases in bid / offer spreads on market hedge transactions, 2) potential reduction by certain counterparties in the use of non marginable OTC transactions, and 3) potential reduction in the number of counterparties who will be available for hedging transactions with DEF.

<u>Credit Risk</u>

On a daily basis, the Credit function within Risk Management calculates, monitors, and reports on the credit risk associated with the Company's fuel procurement and hedging activities. The Credit function utilizes industry-specific credit evaluation practices and has specific criteria that are used to measure credit risk and ensure counterparties' credit is monitored and reviewed. The Credit function monitors all positions and reviews the mark-to-market exposure for each third party company to ensure that based on the current market value of open hedge positions and the credit quality of the third party companies the appropriate level of collateral is posted or received as compared to the contractually established threshold. To date, DEF has not experienced any credit losses with respect to its hedging program activities.

With respect to financial transactions, prior to executing any financial transaction with a third party company, two activities take place. First, DEF and the third party company must have an International Swap Dealer Agreement (ISDA) in place. The ISDA is a standard industry contract that is used by industry participants to enter into Over the Counter bi-lateral transactions (OTC transactions). All ISDA agreements are negotiated by the Legal group and reviewed as needed with Credit, FSO, and Accounting to ensure the appropriate terms and conditions are included. As part of the process of setting up a new financial agreement, a credit evaluation is performed on the third party company by the Credit function. There are universal principles of credit strength that are evaluated before credit is granted. Among these principles are company size, industry characteristics and trends, profitability, liquidity, cash flow, interest and fixed charge coverage, and capital structure. DEF evaluates counterparties using a consistent analytical approach and the credit ratings are based on both external ratings and the evaluation of key counterparty attributes identified as leading indicators for financial performance. The credit rating process includes obtaining counterparty background information, identifying any existing Standard & Poor's (S&P) and/or Moody's ratings for the counterparty, and performing a financial statement analysis. The financial statement analysis includes, but is not limited to, a review of revenue trends, metric calculations and trends evaluation for Free Funds from Operations, Total Debt to Tangible Net Worth, Funded Debt to Capital, Interest Coverage, Operating Cash Flow and Liquidity. If the counterparty is a bank, Tier I and Total Capital Ratios are also reviewed. Once the credit evaluation is complete, a credit rating is assigned to the third party company and, if appropriate, a credit line is extended. The assigned credit rating and credit limit dictate the size and duration of financial hedging transactions that DEF can enter into with a third party company.

As described, on a daily basis the Credit function independently monitors, calculates and reports on collateral exposure. In addition, with respect to monitoring agreements that require the posting of margin based on established contractual thresholds, the company may ask for margin or send out margin to the third party company to ensure exposures are within established contractual thresholds. See **Attachment C** for the DEF Collateral Report as of July 11, 2013.

Product Availability and Changes in Forecasted Volumes

DEF must have access to needed physical fuel supplies, adequate product delivery capabilities and inventory to meet projected fuel requirements. Without access to needed fuel supply and inventory, DEF is exposed to the risk of not being able to economically and reliably dispatch the generation fleet for its customers.

DEF manages and reduces this risk by entering into physical supply contracts, as well as needed pipeline, railroad, barge, and trucking agreements for the purchase and delivery of coal, natural gas, and fuel oil that provide the ability to meet projected burns. In addition, DEF maintains on-site inventory for coal and fuel oil to provide fuel supplies to support on-going operations and ensure supplies are available if unexpected delivery delays, storm curtailments, or other events that could affect fuel supply availability occur. DEF also holds off-site high deliverability natural gas storage capacity that provides additional access for a portion of its natural gas needs when natural gas supplies are curtailed. In addition, DEF has firm transportation on Gulfstream Natural Gas, Florida Gas Transmission (FGT), and Southern Natural Gas (Sonat), and has access to onshore gas supplies via contractual volumes delivered on Southeast Supply Header, the Transco Mobile Bay South Lateral and purchase for LNG volumes that are delivered out of Elba Island into FGT via the Sonat Cypress Pipeline. DEF monitors actual fuel burns, forecasted fuel burns, and fuel inventory levels. Based on these reviews, DEF may make procurement adjustments to manage any changes to the volume and delivery timing of contracted supplies because of actual burns, changes to forecasted fuel burns, and inventory levels that can be caused by economic factors, weather deviations, fuel-switching trends, plant outages, and purchased power opportunities.

With respect to monitoring and quantifying the level of risk associated with ensuring adequate fuel supply, Risk Management independently monitors and reports on the amount of fuel procured versus projected burns. In addition, the front office performs analyses that quantify the amount of fuel and transportation needed to support projected burns and inventory needs. Lastly, the Company performs periodic forecast for fuel burns and purchased power and produces summary reports for review and monitoring of projected fuel burns.

General Risk

DEF is subject to weather events and hurricanes. As detailed above, DEF reduces the overall risks associated with weather events and other potential fuel delivery curtailments and delays by maintaining on-site inventories, off-site inventories, and continuing to diversify its natural gas supply to more secure onshore locations as the Company's overall gas generation has grown. DEF is also subject to events that could require FSO employees to perform required work functions at locations other than their normal work location. With respect to this risk, the FSO Department has business continuity plans in place that are reviewed and tested periodically to ensure that offsite locations are functional. Lastly, DEF is subject to changes in environmental rules and regulations.

Item 4. Describe the company's oversight of its fuel procurement activities.

The Finance and Risk Management Committee (FRMC) of the Board of Directors as well as the Company's Senior Management, defined as the Chief Executive Officer (CEO) and his/her direct reports, provide guidance and oversight to Duke Energy's financial risks. The Chief Risk Officer (CRO) updates the FRMC of any material risks or risk taking activities of the enterprise at every regularly scheduled Board meeting. The Transaction and Risk Committee (TRC) is responsible for oversight of the Corporation's Risk Management activities. The TRC is comprised of senior executives from varying functional areas. The CRO is responsible for annually reviewing the corporate Commodity Risk Policy and Corporate Credit Policy, and the TRC is responsible for approving substantive changes to the policies. The CRO reviews corporate risks and resulting mitigation decisions including fuel hedging and procurement activities. The TRC reviews transactions that exceed individual senior management committee approval authorities. Senior management committee approval authorities are outlined in the Company's Approval of Business Transaction policy (ABT). In addition, the Company maintains a risk management control manual, together with specific risk and credit limits that apply to the activities of DEF. These policies, processes, and limits are reviewed at least annually by the Front Office and Risk Management, and are approved by CRO or the Chief Financial Officer (CFO) as required.

DEF has included the Franchised Electric Risk Management Control Manual, the Commodity Risk Policy, The Credit Policy, the DEF Franchised Electric Risk Limits and the DEF Franchised Electric Credit Limits as **Attachments I, E, F, A and G**.

With respect to day-to-day independent oversight and controls in place to oversee FSO's activities, the company uses the "three-office" structure which includes FSO and Energy Supply Analytics (Front Office), Risk Management (Middle Office), and Regulated Accounting (Back Office) to provide the necessary independent oversight and monitoring of its fuel procurement, power optimization, and hedging activities.

The "three-office" structure is an accepted industry practice with the Front Office, Middle Office, and Back Office each functioning as independent departments, which ensures the required segregation of duties and the existence of independent oversight and controls over key activities. In addition, the Legal organization provides critical contractual support to ensure that the Front Office contracts are reviewed with FSO and contain legal provisions that reduce risks that could affect the Company. The IT Enterprise Application Solution Support organization provides on-going support related to trading system operations and functioning. Treasury and Disbursement Services provide appropriate support when disbursing funds to counterparties via checks, wires, or automated clearinghouse payments. These support organizations are independent from the Front Office.

Front Office

DEF has a structured procurement process where Requests for Proposals are issued periodically to procure needed competitive fuel supply. As noted above, the fuel procurement contracting and settlement activity is supported by the Legal and Regulated Accounting function. Front Office management is responsible for ensuring employees are authorized before they are allowed to trade commodities on the Company's behalf. In addition, there is a corporate Energy Supply Bulk Power Marketing & Trading Delegation of Authorities as well as a corporate Approval of Business Transactions Delegation of Authorities, which provides the required approvals for fuel related procurement activity based on estimated costs and duration of fuel related contracts. Front Office management is also responsible for ensuring that employees who trade commodities on the company's behalf attend required periodic training conducted by Risk Management and Regulatory Compliance. DEF has included the Duke Energy Commodity Risk Policy, Duke Energy Credit Policy, DEF Franchised Electric Risk Limits and DEF Franchised Electric Credit Limits in **Attachments E, F, A, and G.** In addition, DEF has included the Duke Energy Supply Bulk Power Marketing & Trading Delegation of Authorities and the Duke Energy Commodities Approval Matrix from the ABT as **Attachments H and D** respectively.

Middle Office

Risk Management monitors Front Office activity by quantifying, monitoring, and reporting risks associated with fuel procurement, power optimization, and hedging activities. Risk Management is accountable to the enterprise for independent oversight, measurement, and reporting of Front Office activities to management. Risk Management monitors and reports on Front Office activities and will report immediately any non-compliance as required within the reporting and control limit structures as defined by the Risk Management Guidelines. Lastly, Risk Management publishes credit limit and exposure reports to ensure that counterparty credit limits are monitored and adhered to and administers margin activity as required under agreements with counterparties to reduce credit and default risk.

Regulated Accounting
Accounting is also independent from Front Office and performs the following control functions, among other things, on a daily, weekly, or monthly basis: deal validation, transaction confirmations, close accounting, general ledger balance sheet account reconciliations, settlements/cash transfers, processing payments/receipts, accounting for hedging activities and derivatives, and performing certain compliance activities as defined and/or required by various regulatory agencies (e.g. Securities and Exchange Commission, Financial Accounting Standards Board, Federal Energy Regulatory Commission, Public Service Commission). Related to accounting for hedging activities and derivatives, Duke Energy's Derivatives policy is followed. This policy is reviewed and updated as necessary and at least annually.

Item 5. Verify that the utility provides its fuel procurement activities with independent and unavoidable oversight.

As described in Item 4, the Company has a robust independent oversight culture and organizational design with processes in place to ensure the identification, monitoring, and reporting of risks accompanying independent controls for monitoring and reporting on fuel procurement, power optimization, and hedging activities. The key components of the oversight functions and processes are further described below.

The Finance and Risk Management Committee of the Board of Directors (FRMC)
The FRMC is primarily responsible for the oversight of risk at the Company. This oversight function includes, but is not limited to, review of Duke Energy's risk exposure as related to the overall company portfolio and impact on earnings and review of the financial exposures undertaken by the company in light of the approved Corporate Risk Management Policies. Such exposures include physical and financial positions in the commodities markets. The Committee is comprised of a minimum of two members of the Board.

Transaction and Risk Committee (TRC)

The TRC is responsible for oversight of the Corporation's Risk Management activities as well as reviewing proposed business transactions and risk management activities that require approval by the President and Chief Executive Officer, the Board of Directors, or a committee of the Board of Directors in accordance with the Approval of Business Transactions Policy. The membership of the Committee shall consist of the following officers of the Corporation:

- Chief Financial Officer (Chair)
- Chief Legal Officer
- Vice President and Chief Risk Officer
- Vice President and Treasurer
- Vice President, Internal Audit, Ethics and Compliance

In addition to the members listed above, three members from the Senior Management Committee, other than the Chief Financial Officer and Chief Legal Officer who are permanent members, serve on the Committee on a rotational basis. These members will be selected on an annual basis by the President and Chief Executive Officer.

Enterprise and Regulated Risk Management (Risk Management)
The Company has an independent Risk Management section, which is overseen by the Director of Enterprise Portfolio and Risk Management who reports to the CRO. The Risk Management group is comprised of a credit risk management function and a market risk management function. Risk Management's credit function provides independent credit evaluation of trading and procurement counterparties, performs credit reviews of the Company's suppliers and customers, assists in drafting and reviewing credit language in various agreements, and monitors and reports on credit exposures daily. Risk Management's market risk function independently reports on fuel procurement and hedging activities and performs independent analysis as required. Risk Management independently develops the methodologies for measuring and evaluating risk.

Franchised Electric Risk Management Control Manual and Franchised Electric Risk Limits
As part of the overall risk management structure and oversight process at the Company, the Company has a Franchised Electric Risk Management Control Manual, Franchised Electric Risk Limits and Franchised Electric Credit Limits.

These are reviewed by Front Office and Risk Management, and approved by the CRO or the CFO as required.

The Franchised Electric Risk Management Control Manual provides the descriptions of the objectives and operations of the regulated businesses, the overall control environment in which they operate, and the structure and responsibilities of the various groups involved in the control function. DEF's Franchised Electric Risk Limits contain the limits and approved activities for DEF. In aggregate, these documents provide for the oversight and controls, roles and responsibilities, and the approved activities associated with fuel procurement contracts, fuel hedging activities, and power activities. Duke Energy's Credit Policy provides the overall objectives and general operating practices for evaluating, measuring, mitigating, and reporting credit risk associated with FSO activities. In addition, the Company has established Credit Risk Limits define prescribed credit limits, including contract duration criteria for counterparties based on credit metrics.

Internal Audit

Internal Audit provides independent assurance and consulting services that ensure compliance, effective corporate governance, adherence to established procedures, and operational effectiveness for all major areas of the Company. With respect to FSO activities, Audit Services performs periodic audits that focus on items such as compliance with established procedures, off-premise activity, payment terms under fuel contracts, and other trading and procurement activities.

Legal and Regulated Accounting

Legal performs contract reviews with the Front Office during drafting and prior to final execution. In addition, Regulated Accounting which includes the Back Office performs, among other things, on a daily, weekly, or monthly basis, deal validation, transaction confirmations, close accounting, general ledger balance sheet account reconciliations, settlements/cash transfers, processing payments/receipts, accounting for hedging activities and derivatives, and compliance activities as defined and required.

Item 6. Describe the utility's corporate risk policy regarding fuel procurement activities.

The Company has a Franchised Electric Risk Management Control Manual, a Commodity Risk Policy, a Credit Policy, and Franchised Electric Risk and Electric Credit Limits. In addition, the Company has the Duke Energy Supply Bulk Power Marketing & Trading Delegation of Authority, and the Duke Energy Commodities Approval Matrix from the Approval of Business Transactions policy that outline the approval requirements for procurement activities for respective individuals and management levels based on the tenor and estimated dollar amounts of agreement, subject to the requirements of the Approval of Business Transactions policy.

These documents and processes in aggregate outline the expectations, policies, responsibilities, and limits associated with the corporate risk oversight and approved activities for the Company's fuel procurement practices. In addition, as described in detail in item 4 the Company has developed oversight functions and processes that are followed with respect to fuel procurement, power optimization, and hedging activities. DEF has included the Franchised Electric Risk Management Control Manual, Duke Energy Commodity Risk Policy, Duke Energy Credit Policy, the Franchised Electric Risk Limits, the Franchised Electric Credit Limits, the Duke Energy Supply Bulk Power Marketing & Trading Delegation of Authority, and the Duke Energy Commodities Approval Matrix from the ABT as **Attachments I, E, F, A, G, H and D.** The fuel purchase and related activities are identified under the Energy Supply Bulk Power Marketing & Trading Delegation of Authority, Franchised Electric Risk Limits and the Commodities Approval Matrix.

Item 7. <u>Verify that the utility's corporate risk policy clearly delineates individual and group transaction limits and authorizations for all fuel procurement and hedging activities.</u>

The Utility has approval requirements, policies, and authorizations in place that outline authorizations for fuel procurement and hedging activities. DEF has included the DEF's Franchised Electric Risk Limits and corporate Duke Energy Commodity Risk Policy in **Attachment A and E**. These policies and guidelines outline roles and responsibilities of each group, deal execution processes, and allowed products, as well as control limits such as volumetric, tenor, and liquidity limits and deal validation and valuation processes. Additionally, the Duke Energy Supply Bulk Power Marketing & Trading Delegation of Authority and the Duke Energy Commodities Approval Matrix from the ABT outline the approval requirements for procurement activities for respective individuals and management levels based on the tenor and estimated dollar amounts of agreement, subject to the requirements of the Approval of Business Transactions policy. The Duke Energy Supply Bulk Power Marketing & Trading Delegation of Authority, and the Duke Energy Commodities Approval Matrix from the ABT are included in **Attachments, H, and D,** respectively.

Item 8. Describe the utility's strategy to fulfill its risk management objectives.

As outlined in Item 1, DEF's 2014 Risk Management Plan objectives are to effectively manage its overall fuel and purchased power costs for its customers by engaging in competitive fuel procurement practices and activities, performing active asset optimization and portfolio management activities, and continuing to execute the company's hedging program to reduce price risk and provide greater cost certainty for DEF's customers. Outlined below is the strategy to fulfill the risk management objectives.

First, the strategy is executed by experienced professionals who conduct and execute their activities to achieve the objectives of the plan.

One of the components of DEF's Risk Management Plan objectives is to engage is competitive fuel procurement practices. Examples of the strategy executed to fulfill this objective include the issuance of periodic RFP's to solicit competitive term supply bids for coal, natural gas, and fuel oil. In addition, DEF actively manages its day-to-day fuel needs and participates in the short-term market place to access competitive supply and work closely with suppliers as needed. With respect to the strategy executed to achieve the objective of performing active asset optimization and portfolio management activities, the Portfolio Management Unit within FSO performs daily forecast to determine optimal unit commitment and dispatch based on generation costs and market prices, and together with the Power Trading Unit within FSO, monitors the hourly cost to dispatch the generation fleet compared to available market opportunities. The Power Unit actively seeks opportunities to execute economic purchases and sales that reduce costs for the customers. Lastly, with respect to the strategy executed to fulfill the objectives of the hedging program, DEF by virtue of locking in fixed price for a portion of forecasted usage over time via its hedging program, achieves this objective as a portion of DEF's fuel costs are no longer subject to changing fuel markets.

Along with the examples noted above, DEF's Risk Management Plan activities are governed by independent controls and audits, strong processes, appropriate organizational design and oversight, deal approval requirements, and the existence of needed guidelines and procedures. The Company has established controls, guidelines, procedures, and organizations to support and independently monitor fuel procurement, hedging, and power optimization activities. As noted in items 4 and 5, the Company has a robust oversight culture and processes that include oversight by the TRC, periodic audits by Audit Services, and independent reporting and credit monitoring by Risk Management to ensure adherence to established guidelines and procedures.

Item 9. <u>Verify that the utility has sufficient policies and procedures to implement its strategy.</u>

DEF maintains sufficient guidelines and procedures to implement its strategy. Please see **Attachment K** for a summary listing of the applicable guidelines and procedures.

Item 13. <u>Describe the utilities reporting system for fuel procurement activities.</u>

The Company utilizes multiple systems and applications to track, record, account, and report on executed fuel procurement activities. Descriptions of the primary systems, software, and other tools are provided below.

Forecasted fuel burns are prepared by the Company using a production cost simulation model called GenTrader. Fuel and other commodity price forecasts, load forecasts, purchased power deal information, generating unit operating characteristics, maintenance schedules, and other pertinent data are input into GenTrader which then simulates the system and computes a projected fuel burn requirement.

Aligne is a software application used by the Company to capture natural gas physical procurement transactions as well as financial natural gas and light oil transactions. In addition to deal capture, Aligne is used for deal valuation, position management, mark-to-market calculations, and settlements. Aligne is integrated with the Gas Management System (GMS) which is a natural gas scheduling tool used to match supply and deliveries. Once volumes are updated in GMS with actual volumes, there is a process that systematically updates the physical deals in Aligne.

The GMS is a software application used by the Company to match supply, transport, and deliveries for natural gas purchases, sales, and transport activity and the administration of associated contracts. The system is integrated with Aligne as outlined above, which provides for greater efficiency and controls for gas related activities.

Fuelworx is a software application used by the Company to capture and track physical procurement activity for coal and fuel oil. The system assists with administering contract terms and conditions, maintaining inventory levels, capturing fuel consumption information, and issuing monthly closeout processes, including invoicing, and settlements.

Front Office, Risk Management, and Accounting utilize other programs such as Business Objects and Excel to summarize, evaluate, and report on fuel procurement transactions and counterparty credit evaluations. In addition, Energy Supply Analytics and Risk Management utilize Matlab, a computer programming language, to calculate VAR and run other scenarios as needed by the business units.

Lastly, the Company has agreements with vendors to provide real time pricing feeds to monitor real-time natural gas, fuel oil, and power market prices.

Item 14. <u>Verify the utility's reporting system and other tools consistently and comprehensively identifies, measures and monitors all forms of risk associated with fuel procurement activities.</u>

As outlined in the response to item 13, the Company utilizes several applications to ensure procurement and hedging activities are captured, measured, monitored, confirmed, accounted for, and reported. The Company uses standard industry reporting templates, valuation techniques and applications. The current applications utilized by the Company provide the necessary functionality for capturing deals, summarizing fuel positions, calculating mark-to-market valuations, calculating credit and collateral exposures, generating confirmations, supporting billing and payment requirements, and maintaining needed historical information such as prices and trade data.

Item 15. <u>If the utility has current limitations in implementing certain hedging techniques that would provide a net benefit to ratepayers, provide the details of a plan detailing the resources, policies, and procedures for acquiring the ability to use effectively the hedging techniques.</u>

DEF does not believe that there are any current limitations to execute its hedging strategy in a reasonable and prudent manner.

ATTACHMENT A

REDACTED

DEF FRANCHISED ELECTRIC RISK LIMITS

(10 pages)

Attachment B

REDACTED

Regulated Fuels Hedging Portfolio

Total Default Exposure (MtM) by commodity

Report Date: 7/11/2013
As of: 7/10/2013

Duke Energy Florida, Inc.

$ in millions

Commodity	2013	2014	2015	2016	2017	2018	2019	Total
Gas[A]	[redacted]							
Fixed Price Physical								
Fixed Swaps								
Financial Options								
Oil[B]								
Fixed Swaps No.6								
Financial Options No.6								
Fixed Swaps No.2								
Financial Options No.2								
Coal[D]								
Fixed Priced								
Collar Priced								
Market Priced								
Ammonia[E]								
Fuel Surcharge[F]								
Barge								
Rail								
DEF Total								

Notes

[redacted]

ATTACHMENT C

REDACTED

DEF ISDA COLLATERAL SUMMARY

(1 page)

ATTACHMENT D

REDACTED

DEF AUTHORITY LIMIT MATRIX
(2 pages)

ATTACHMENT E

REDACTED

DEF COMMODITY RISK POLICY

(6 pages)

ATTACHMENT F

REDACTED

DEF CREDIT POLICY

(5 pages)

ATTACHMENT G

REDACTED

DEF FRANCHISED ELECTRIC CREDIT LIMITS
(5 pages)

ATTACHMENT H

REDACTED

DEF ENERGY SUPPLY BULK POWER MARKETING & TRADING DELEGATION OF AUTHORITY

(2 pages)

Attachment I - REDACTED

Duke Energy Corporation
Franchised Electric
Risk Management Control Manual

December 2012

REDACTED

Risk Management Controls and Procedures for Fuels & Systems Optimization and Wholesale Power and Renewable Generation

Confidential Information

The information contained within this manual is confidential and proprietary to Duke Energy Corporation's Franchised Electric & Gas group, particularly Fuels & Systems Optimization (FSO) and the Wholesale Power and Renewable Generation (WaR) and the various groups supporting these operations as further defined within this manual. Confidential and proprietary information is a valuable resource. Release of this information to the general public could lead to a competitive disadvantage for Duke Energy Corporation and its subsidiaries ("Duke Energy").

Also, release of this information to the Non-Regulated portions of Duke Energy could result in violation of regulatory rules (FERC Affiliate Restrictions/Standards of Conduct). Confidential and proprietary information must be protected from unauthorized use, modification, disclosure, or destruction whether intentional or unintentional. Duke Energy employees must also comply and acknowledge review of the Code of Business Ethics policy.

REDACTED

Table of Contents:

I. Introduction and Purpose 5
Risk Management Policies and Procedures 5
Control Manual Amendments and Approvals 6
Legal and Regulatory Compliance 6
Exception Process 7
New Employees 8
Inter-Affiliate Transactions 8
II. Concept of Operations 8
Duke Energy Carolinas & Progress Energy Carolinas 9
Progress Energy Florida 9
Duke Energy Indiana & Duke Energy Kentucky 10
Duke Energy Ohio 11
III. Roles and Responsibilities 11
Role of Corporate Officers 11
Segregation of Function and Ownership 12
Role of Chief Risk Officer 12
Role of Corporate Risk Management 12
Role of Fuels & Systems Optimization 13
Role of Traders 14
Role Regulated Fuels 14
Role of Wholesale Power and Renewable Generation 14
Role of Energy Supply Analytics 15
Role of Contract Management 15
Role of Internal Audit 15
Role of Ethics and Compliance 16
Role of Duke Energy General Counsel 16
Role of Accounting 16
Role of Treasury 17

IV. Control Requirements and Activities 17
Risk Management 17
Risk Management - Credit Risk 19
Violations of Risk Control Manual 19
Fuels & Systems Optimization 20
Contract Management 22
V. Dodd-Frank 23

Appendices:

REDACTED

Appendix A – Key Risks 25
Appendix B – Unauthorized Transactions 27
Appendix C – Confirmations & Settlement Activities 28
Appendix D – New Products/Business Activities Approval Process 30
Appendix E – New Product Checklist 31
Appendix F – Potential Trade Exceptions 32
Appendix G – Potential Deliver Term Violations 33
Appendix H – Employee Acknowledgment 34
Appendix I – FERC 741 Officer Certification Process 36

REDACTED

I. Introduction and Purpose

[redacted]

Risk Management Policies and Procedures

[redacted]

REDACTED

[redacted]

Control Manual Amendments and Approvals

[redacted]

REDACTED

Legal and Regulatory Compliance

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

Exception Process

[redacted]

REDACTED

[redacted]

New Employees

[redacted]

Inter-Affiliate Transactions

[redacted]

REDACTED

II. Concept of Operations

[redacted]

Carolinas (Duke Energy Carolinas & Progress Energy Carolinas)

[redacted]

[redacted]

[redacted]

[redacted]

REDACTED

Progress Energy Florida

[redacted]

Duke Energy Indiana & Duke Energy Kentucky

[redacted]

REDACTED

[redacted]

Duke Energy Ohio

[redacted]

Duke Energy.

REDACTED

III. Roles & Responsibilities

Role of Corporate Officers

[redacted]

Segregation of Function and Ownership

[redacted]

Role of the Chief Risk Officer

[redacted]

[redacted]

REDACTED

Role of Corporate Risk Management

[redacted]

REDACTED

Role of Fuels & Systems Optimization

[redacted]

[redacted]

[redacted]

[redacted]

Role of Traders

[redacted]

Role of Regulated Fuels

REDACTED

[redacted]

[redacted]

Role of Wholesale Power and Renewable Generation

[redacted]

Role of Energy Supply Analytics

[redacted]

[redacted]

REDACTED

Role of Contract Management

[redacted]

[redacted]

Role of Internal Audit

[redacted]

Role of Ethics and Compliance

[redacted]

Role of Duke Energy General Counsel

[redacted]

Role of Accounting

[redacted]

REDACTED

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

Role of Treasury

[redacted]

REDACTED

IV. Control Requirements and Activities

Risk Management

[redacted]

[redacted]

[redacted]

[redacted]

REDACTED

[redacted]

Risk Management – Credit Risk

[redacted]

[redacted]

[redacted]

REDACTED

[redacted]

[redacted]

Violations of Risk Control Manual

[redacted]

[redacted]

[redacted]

Duke Energy.

REDACTED

[redacted]

[redacted]

Fuels & Systems Optimization

[redacted]

[redacted]

REDACTED

[redacted]

[redacted]

[redacted]

[redacted]

REDACTED

[redacted]

Contract Management

[redacted]

REDACTED

[redacted]

V. Dodd-Frank

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

REDACTED

[redacted]

[redacted]

REDACTED

Appendix A

Key Risks

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

REDACTED

[redacted]

[redacted]

Appendix B

Unauthorized Transactions

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

Appendix C

Confirmation Activities:

[redacted]

[redacted]

Settlement Activities:

[redacted]

[redacted]

Appendix D

New Products/Business Activity Approval Process

[redacted]

Appendix E

New Product Checklist

[redacted]

[redacted]

[redacted]

[redacted]

Appendix F

Potential Trade Exceptions

[redacted]

[redacted]

Appendix G

Potential Delivery Term Violations

[redacted]

[redacted]

Appendix H

Risk Management Employee Acknowledgment

Employee Name:____
(Please print)

RISK MANAGEMENT EMPLOYEE ACKNOWLEDGMENT

Corporate Risk Management has a combination of Policies, Risk Limits, Guidelines and procedures referred to as the "Risk Documents" that contain certain information regarding the governance and procedures of certain Duke Energy activities. Please read and review the appropriate Risk Documents. If you have any questions regarding the Risk Documents, you are to contact your immediate supervisor. It is very important that you understand how the Risk Documents apply to your current position. After reading and understanding the appropriate Risk Documents, please check the Risk Documents read and understood below and sign the Risk Management Employee Acknowledgment as instructed in the last line below.

Check all that apply:

- Duke Energy Commodity Risk Policy (applies across all entities) .... ☐
- Duke Energy Credit Policy (applies across all entities) .... ☐
- Model Review and Approval Process (applies across all entities) .... ☐
- Dodd-Frank Act Goveranance Policy (applies across all entities) .... ☐
- Duke Energy Franchised Electric Risk Management Control Manual...................... ☐
- Duke Energy Carolinas & Progress Energy Carolinas Risk Limits .... ☐
- Progress Energy Florida Electric Risk Limits .... ☐
- Duke Energy Indiana Electric Risk Limits .... ☐
- Duke Energy Kentucky Electric Risk Limits.. ☐
- Duke Energy Carolinas Credit Limits .... ☐
- Progress Energy Florida Credit Limits.. ☐
- Progress Energy Carolinas Credit Limits.. ☐
- Duke Energy Indiana & Duke Energy Kentucky Credit Limits .... ☐
- Delegation of Authority – Fuels & Systems Optimization .... ☐

I have read the Risk Documents as indicated above outlining Duke Energy's expectations of me. I understand and acknowledge these Risk Documents apply to my position. I acknowledge and agree that it is my responsibility to comply with all aspects

of the Risk Documents as well as any future revisions made to the Risk Documents. If I encounter a situation in which I do not know how the Risk Documents applies, I will contact my immediate supervisor.
I further acknowledge and agree that I will contact my immediate supervisor should my responsibilities at Duke Energy change and questions arise regarding the application of the Risk Documents to my new position and/or responsibilities.

I understand and acknowledge that my failure to comply with the Risk Documents will result in corrective action, up to and including termination.

I ACKNOWLEDGE AND UNDERSTAND THAT NEITHER THE RISK DOCUMENTS EMPLOYEE ACKNOWLEDGMENT NOR ANY OF DUKE ENERGY'S POLICIES OR PROCEDURES, INDIVIDUALLY OR TOGETHER, CONSTITUTE A GUARANTEE OF CONTINUED EMPLOYMENT, CREATE A CONTRACT OF EMPLOYMENT OR ALTER THE AT-WILL NATURE OF MY EMPLOYMENT IN ANY WAY.

______________________________ / ______________

Employee Signature / Date

____

Employee Title

____

Print Full Name

Appendix I

FERC 741 Officer Certification Process

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

Date:

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]		
[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	
	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	
[redacted]		[redacted]