PWC Fayetteville's HOMETOWN UTILITY

Power Supply Adjustment (PSA) Recommendation

Jason Alban, Director of Financial Planning

8/26/2026

Agenda

Fayetteville's HOMETOWN UTILITY

- What happened?
- Why were projections missed?
- Impact to PWC
- Customer mitigating action
- Duke Energy Progress (DEP) changes for 2027-2028
- Staff recommendation

Executive Summary

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What happened?

Market energy costs were significantly higher than DEP projections in peak months.

Financial Impact

$18.1M recovery requirement funded by Electric Rate Stabilization Fund.

Management Action

Reduce immediate recovery by $5.0M for future consideration.

Recover $13.1M over 12-month period.

Proposal

Adopt a 12-month PSA of $0.00663/kWh beginning September 1, 2026.

Customer Impact

Average Residential bill increase $1.24 per month over existing PSA.

In accordance with PWC's Service Regulations and Charges, PWC may use a Power Supply Adjustment (PSA) when the cumulative and projected power costs are more than five percent (5%) from the determinants used to set PWC's retail electric rates.

PWC is responding responsibly to a significant and unexpected change in wholesale power supply costs.

What Happened?

DEP's 2026 Actual Energy Costs Were Significantly Greater Than Market Projections

Actual wholesale power supply costs substantially exceeded DEP forecasts, creating a significant cost recovery requirement for all its customers, including PWC.

Forecast vs. Actual / Updated Market Costs

▲ +128% - $8.4M

January Energy Cost

Actual/updated above baseline

▲ +106% - $5.6M

February Energy Cost

Actual/updated above baseline

▲ +50%

First Half 2026

Energy costs above forecast basis

DEP forecast variance: Actual market costs exceeded projections and created the need for recovery.

Why Were DEP's Projections Missed?

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Extreme Market Conditions Drove Costs Beyond Original Forecasts

Increases in power supply cost from DEP were driven primarily by Winter Storms Fern and Gianna, higher-than-expected customer demand, unprecedented natural gas prices and costly reliability power purchases made during extreme market conditions.

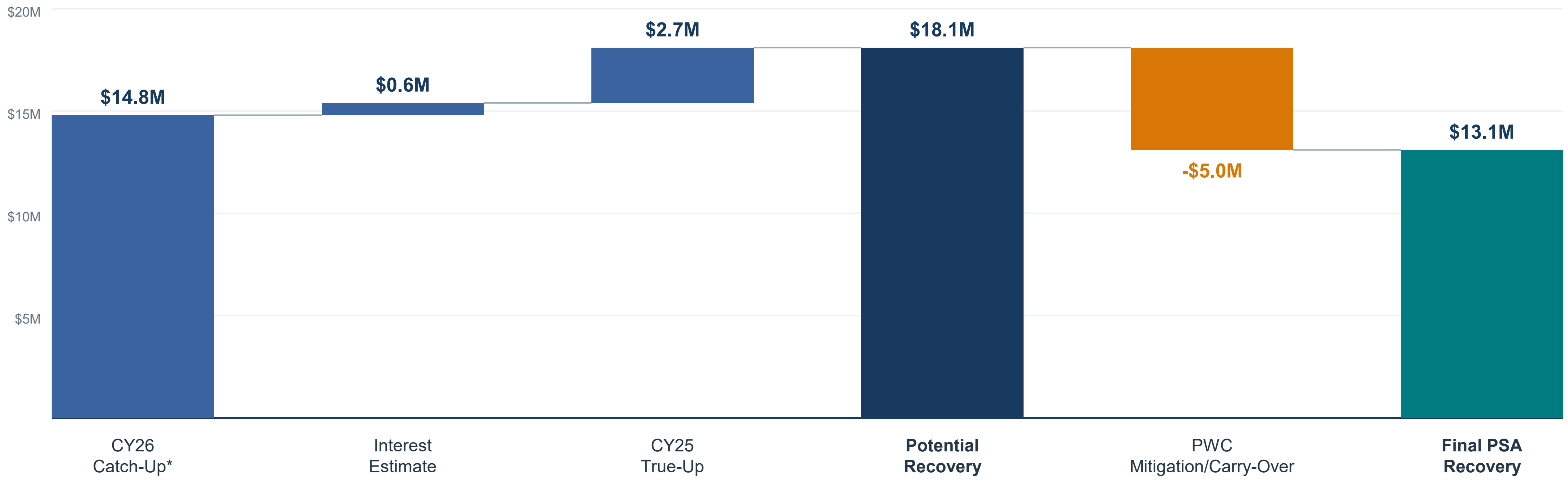
- **Severe winter weather:** Arctic blasts elevated demand and stressed energy markets. Natural gas prices surged more than 70% late January.
- **Tight natural gas supply:** Price surge exacerbated by tight supply and high exports. Also, record heating demand and overall power generation.
- **Wholesale price increase:** Market pricing moved above forecast assumptions. Purchased power costs up over 100% January-February.
- **Forecast basis exceeded:** Actual energy market experience outpaced original projections.

The cost driver was external market volatility and wholesale pricing variance, not an increase in PWC's other operating costs.

Impact to PWC

Under-Recovered Power Supply Costs Created an $18.1M Exposure

Waterfall from cost exposure to recommended recovery



* Budget Amendment approved by Commission

Recommended PSA recovery of $13.1M reflects PWC mitigation to reduce immediate customer impact.

How PWC Protected Customers

PWC Reduced Immediate Customer Impact by $5.0 Million

Staff evaluated recovery alternatives and recommends reducing the immediate recovery requirement from $18.1M to $13.1M.

Full Recovery: $18.1M with a potential 12-month PSA recovery

Recommended Recovery: $13.1M now

PWC deferred $5.0M to future evaluation

Average residential bill impact reduced by approximately $2.55 per month

Management reduced the immediate PSA recovery requirement to better protect customers.

DEP Changes for 2027-2028

Enhanced energy rate forecasting, system changes and new gas supply

DEP is evolving its modeling, simulations and forecasting, combining the two utilities, and anticipates additional gas supply coming online, along with PWC oversight.

Enhanced Simulations

In-house simulations implementing in 2027 include gas spot prices and stochastic range modeling.

Energy Forecasting

Improving with DEP's 2027 forecast cycle and better capturing weather, fuel cost and other input variability.

One Utility - Merger

Combined utility with joint planning and more efficient dispatch should improve fuel cost efficiency in 2027.

Gas Supply

Additional gas supply expected to come online in late 2027, reducing daily exposure to winter pricing.

3rd Party Validation

PWC/Consultant Oversight: Activate PWC's right to challenge DEP billing/true-ups when warranted.

DEP simulations and forecasting enhancements along with combined system efficiencies and additional gas supply should lessen impacts to power supply costs going forward but may be realized to a greater extent in 2028.

Accountability is framed through oversight, governance, transparency and customer protection.

Staff Recommendation

PWC Fayetteville's HOME TOWN UTILITY

Approve the Proposed 12-Month PSA

Staff evaluated options to minimize customer impacts, reduced the immediate recovery by $5.0 million, and recommends the Commission to impose the proposed PSA to responsibly recover incurred costs while maintaining financial stability.

- **Recommended PSA $0.00663/kWh** 12-month recovery beginning September 1, 2026
- **Immediate Recovery $13.1M** after $5.0M deferral
- **Financial Stewardship Cost recovery** maintains financial stability

Adopt the proposed PSA in accordance with PWC's Service Regulations and Charges to responsibly recover costs already incurred while maintaining financial stability and minimizing customer impact.

The recommendation balances responsible cost recovery, customer impact mitigation, and financial stability.

Power Supply Adjustment (PSA) Recommendation

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