STATE OF NORTH CAROLINA
UTILITIES COMMISSION
RALEIGH

DOCKET NO. E-2, SUB 1170
DOCKET NO. E-7, SUB 1169

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

In the Matter of	)	
Petition of Duke Energy Progress, LLC,	)	**NORTH CAROLINA ELECTRIC**
and Duke Energy Carolinas, LLC,	)	**MEMBERSHIP CORPORATION'S**
Requesting Approval of Green Source	)	**REPLY COMMENTS**
Advantage Program and Rider GSA to	)	
Implement G.S. 62-159.2	)	

NOW COMES the North Carolina Electric Membership Corporation ("NCEMC") and, pursuant to the North Carolina Utilities Commission ("Commission") *Order Granting Petition to Intervene* issued on February 26, 2018 and in accordance with the *Order Establishing Proceeding to Review Proposed Green Source Rider Advantage Program and Rider GSA* issued on January 26, 2018, files these reply comments.

1. Throughout the stakeholder process that led to the enactment of H.B. 589, NCEMC's member EMCs sought recognition – by stakeholders, legislators, and others involved in the process – of the increasing system costs (and operational impacts) associated with renewables integration and the fact that these costs are being shouldered by all North Carolinians.
2. H.B. 589 reflects an overarching stakeholder agreement that the Duke Energy Progress and Duke Energy Carolinas systems will accommodate approximately 6,800 MW of

installed solar by 2022[1] in exchange for certain changes that will yield net customer savings of $850 million over the next decade.[2]

3. NCEMC's interest continues to be ensuring that proceedings implementing H.B. 589 comport with the overarching stakeholder agreement <u>and</u> the legislature's specific directives regarding cost restrictions including, in this docket, the instruction that: **"The Commission shall ensure that all [non-participating] customers are held neutral, neither advantaged nor disadvantaged, from the impact of the renewable electricity procured on behalf of the program customer."** N.C. Gen. Stat. § 62-159.2(e) (emphasis added).

<u>The Green Source Advantage Bill Credit</u>

4. N.C. Gen. Stat. § 62-159.2(e) provides in relevant part: "The [Green Source Advantage] program customer shall receive a bill credit for the energy as determined by the Commission; provided, however, that the bill credit shall not exceed utility's avoided cost."

5. M.C. Gen. Stat. § 62-159.2(e) does not mandate that the program customer bill credit be set **at** the utility's avoided cost. Instead, the statute affords the Commission

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[1] The 6,800 MW figure was derived from the 2014 *Duke Energy Photovoltaic Integration Study: Carolinas Service Areas* performed by Pacific Northwest National Laboratory, specifically: "Under the study conditions, Duke Energy's generation fleet proved capable of accommodating PV with an installation capacity of up to 6800 MW, or 20 percent of peak load, the highest level investigated in this study." (p. ix)

[2] The $850 million savings figure has been acknowledged multiple times since the passage of H.B. 589. *See, e.g.,* Wheeless, Randy, *Want solar energy? New NC law makes it easier for you* (August 16, 2017) (Duke Energy "said customers will save $850 million in purchased solar power over the next 10 years.") (accessed March 29, 2018 via https://illumination.duke-energy.com/articles/want-solar-energy); Hawley, John, *Szoka: Green technology driving policy changes* (March 25, 2018) ("Notably, Szoka was the architect and primary sponsor of legislation, House Bill 589, last year that offered solar policy changes he says will save consumers $850 million over the next decade.") (accessed March 29, 2018 via http://www.dailyadvance.com/News/2018/03/25/Szoka-Policymakers-trying-to-keep-up-with-green-tech-changes.html).

discretion to set the bill credit at a lower level to ensure non-participating customers are held neutral.

6. Some intervenors argue that a Green Source Advantage program customer should receive a bill credit set **at** the utility's avoided cost, even in a situation in where Duke Energy – as purchaser-administrator of the PPA that was negotiated by the program customer – pays less than the utility's avoided cost for the direct renewable energy procurement. The Public Staff has indicated a willingness to consider such an approach:

> The Public Staff is still considering various bill credit options to ensure that non-participating customers are held neutral, including the appropriateness of utilizing the utility's current forecast of its avoided cost, based on the utility's most recently Commission-approved avoided cost methodology and calculated over the term of the PPA, and may provide additional recommendations regarding the appropriate basis for the bill credit in its reply comments in this proceeding.

Initial Comments of the Public Staff at pp. 10-11.

7. NCEMC does not believe that setting the bill credit at the utility's avoided cost, *as determined in Docket No. E-100, Sub 148 ("Sub 148")*, holds non-participating customers neutral, particularly in the circumstance where the program customer negotiates to procure the direct renewable energy at a price below the utility's Sub 148 avoided cost. In such a circumstance, non-participating customers will be disadvantaged because they will bear – via the bill credit – a portion of the cost for the direct renewable energy procurement.

8. The following simplified example illustrates the disadvantage to non-participating customers: Utility's Sub 148 avoided cost yields a levelized \$60/MWh over a 20-year term. The program customer procures direct renewable energy at a negotiated levelized \$50/MWh over a 20-year term. The program customer receives a \$60 bill credit for

every MWh it (or the utility on its behalf) purchases for $50, yielding a difference or "delta" of $10 per MWh. The utility's non-participating customers bear the socialized burden of the delta (i.e., $10).

9. To its credit, the Public Staff acknowledges that setting the bill credit at the utility's Sub 148 avoided cost can result in overpayment by non-participating customers:

> To the extent the Commission's administratively determined avoided cost rates are used, the rates should be updated accordingly to reflect the most recent assumptions regarding capacity needs, fuel costs, and other factors that may reduce the exposure of ratepayers to potential overpayment due to changing market conditions.

Initial Comments of the Public Staff at p. 11.

10. To mitigate the risk of overpayment, the Public Staff contemplated setting the bill credit at the utility's *updated/refreshed* Sub 148 avoided cost. The Public Staff appears to believe such an approach will hold non-participating customers neutral under the assumption that an *updated/refreshed* Sub 148 avoided cost marks the indifference point for non-participating customers such that a bill credit set at this cost point holds them neutral *even if they bear the socialized cost of a delta.*

11. However, a simple update/refresh of the inputs will not make the Sub 148 avoided costs reflective of the utilities' current true avoided costs.[3]

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[3] Simply updating/refreshing the Sub 148 avoided costs, for example, will fail to adjust solar avoided cost rates downward to account for integration costs. In the last biennial avoided cost docket, NCEMC asserted, with supporting citations to the evidentiary record, that "[i]ntegration of QFs, particularly solar QFs, into the electric utilities' systems gives rise to significant costs that are not currently being accounted for in the electric utilities' avoided cost rates and, as a result, are being borne by the electric utilities' retail and wholesale ratepayers." *NCEMC's Partial Proposed Order*, pp. 21-30, Commission Docket No. E-100, Sub 148 (June 22, 2017) (attached as Attachment A to NCEMC's *Post-Hearing Filing* made on the same date). NCEMC incorporates its *Partial Proposed Order* herein by reference.

12. To its credit, Duke Energy – taking into account the Commission's longstanding practice of mentioning in its biennial avoided cost orders that avoided costs can be set via a "utility's competitive bidding process," *see, e.g.* Finding of Fact No. 3 in the Commission's *Sub 148 Order* and Finding of Fact No. 2 in the Commission's *Sub 140 Order* – contends that a weighted average of the winning bids in its CPRE program serves as the best proxy of its current true avoided costs.

13. The Public Staff, to its credit, "recognize[d] … that the CPRE Tranche weighted average price will provide a reflection of the market-based price for renewable energy resources and may be an appropriate reference point for the Commission to consider in establishing the bill credit … ." *Initial Comments of the Public Staff* at pp. 11-12.

<u>NCEMC's Recommendations</u>

14. Ideally, the bill credit for a program customer should be set at the exact amount "[t]he electric utility …pay[s] the owner of the renewable energy facility which provided the electricity … not [to] exceed [the] utility's avoided cost[,]" N.C. Gen. Stat. § 62-159.2(e), <u>and</u> the "utility's avoided cost" would be calculated on a PPA-by-PPA basis to reflect the utility's then-current true avoided costs.

15. NCEMC believes Duke Energy's proposed CPRE-derived market proxy for its current true avoided costs is more accurate than the other proposals that have been advocated for thus far.

16. Further, NCEMC believes use of Duke Energy's proposed CPRE-derived market proxy for its current true avoided costs will better hold non-participating customers "neutral" by minimizing the potential for socialized delta costs.

17. While Duke Energy's approach may not be ideal (*compare* ¶ 13 *supra*), Duke Energy's approach is fairer to non-participating customers.

18. To be clear, NCEMC opposes the setting of every program customer's bill credit at the utility's *non*-updated/*non*-refreshed Sub 148 avoided cost. Such an approach will disadvantage non-participating customers by forcing them to pay more for direct renewable energy procurement than the program customer (or the utility on its behalf) will pay for the energy. *See* ¶¶ 7-8, *supra*.

19. NCEMC also opposes the setting of every program customer's bill credit at the utility's *updated/refreshed* Sub 148 avoided cost rates if these rates are not updated/refreshed to reflect solar integration costs as well as all of the other factors listed in the Public Staff's comments. *See* ¶ 9, *supra*. Failure to update/refresh for solar integration costs can doubly disadvantage non-participating customers: First, they will overpay in the manner set forth in ¶¶ 7-8 *supra*; second, they will overpay because the socialized delta portion of the bill credit will be larger than it should be (because the avoided cost rates will not have been adjusted downward to reflect solar integration costs[4]).

20. In the event the Commission does not approve Duke Energy's proposed bill credit approach, NCEMC recommends Duke Energy be required to publicly file an annual report with the Commission disclosing the delta costs – the difference between (i) the amount each operating company paid, in the aggregate, for direct renewable energy procurement and (ii) the amount each operating company credited program customers

[4] *See* Duke Energy Response to Public Staff Data Request No. 2-7, attached as Exhibit A.

via bill credits, in the aggregate.[5] Such a report will add a measure of transparency and accountability to the program.

Respectfully submitted this the 20th day of April, 2018.

NORTH CAROLINA ELECTRIC MEMBERSHIP CORPORATION

By: ____________________________

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CERTIFICATE OF SERVICE

It is hereby certified that the foregoing document has been served upon all parties of record by electronic mail, or depositing the same in the United States mail, postage prepaid.

This the 20th day of April, 2018.

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[5] Through discovery, Duke Energy presented the Public Staff with an illustrative calculation projecting that the potential GSA Bill Credit delta costs could approach$350 million dollars if the full 600 MW is procured over a 20-year term. *See* Duke Energy Responses to Public Staff Data Request Nos. 2-1, 2-2, and 2-10. Such additional costs for non-participating customers jeopardize achievement of the overarching promise of $850 million in net customer savings under H.B. 589 over the next decade.

EXHIBIT A

DUKE ENERGY CAROLINAS, LLC and DUKE ENERGY PROGRESS, LLC

Request:

Please identify any solar integration costs included in the model and provide detailed support for such costs.

Response:

No solar integration costs have been included.