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STATE OF NORTH CAROLINA
UTILITIES COMMISSION
RALEIGH

DOCKET NO. E-100, SUB 140

FILED
FEB 23 2016
Clerk's Office
N.C. Utilities Commission

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

In the Matter of)	
Biennial Determination of Avoided Cost)	NCSEA'S GENERAL
Rates for Electric Utility Purchases from)	COMMENTS ON MOU
Qualifying Facilities - 2014)	

In its Order Establishing Standard Rates and Contract Terms for Qualifying Facilities, issued in the above-captioned docket on December 17, 2015 (the "Order"), the North Carolina Utilities Commission (the "Commission") directed Duke Energy Carolinas, LLC ("DEC"), Duke Energy Progress, LLC ("DEP"), and Virginia Electric and Power Company d/b/a Dominion North Carolina Power ("DNCP") (collectively, the "Utilities") to file new versions of their rate schedules and standard contracts, in compliance with the Order, which are to become effective fifteen (15) days after the filing date unless specific objections as to the accuracy of the calculations and conformity with the Order are filed within that 15-day period.¹

The North Carolina Sustainable Energy Association ("NCSEA"), having become a party to this proceeding pursuant to that Order Granting Petition to Intervene entered by the Commission on February 27, 2014, by and through undersigned counsel, respectfully submits the following general comments for the record related to the Memorandum of Understanding by and between DEC, DEP, DNCP and the Public Staff of the North

¹ Order, Ordering Paragraph 27.

Carolina Utilities Commission in Support of Recalculation of Avoided Cost Rates, filed in the above-captioned docket on February 2, 2016 (the "MOU"). By filing these comments, NCSEA seeks to preserve its rights in a future proceeding to raise issues related to the calculation of hedge value discussed herein. NCSEA does not seek any specific relief from the Commission in this proceeding as to the calculation of hedge value and does not oppose the MOU for purposes of this proceeding.

GENERAL COMMENTS

In its Proposed Order filed in this docket on September 18, 2015, NCSEA took the positions that: 1) the Black-Scholes Option Pricing Model is a reasonable method for calculating hedge value for the purposes of the 2014 biennial avoided cost proceeding; and 2) the interest rate used to calculate hedge value should be one that is consistent with the range of risk free interest rates used by the Utilities in developing cost of equity estimates in their respective most recent rate case proceedings. In addition, NCSEA noted that methodologies related to fuel price hedge value provided by QF generation are likely to be increasingly discussed and analyzed across the country and requested that the Commission to revisit this issue in a future proceeding, particularly if a national consensus on methodology emerges that differs from the methodology herein approved.²

As indicated in the MOU, the Utilities agreed, in the interest of administrative efficiency, to utilize a hedge value of 0.028 cents per kWh, as had been recommended by the Public Staff, in recalculating their avoided energy costs.

While NCSEA has not objected to the use of the Black-Scholes Option Pricing Model as a method to calculate fuel price hedging benefits, NCSEA continues to have

² NCSEA's Proposed Order, N.C.U.C. Docket No. E-100, Sub 140, September 18, 2015, 18.

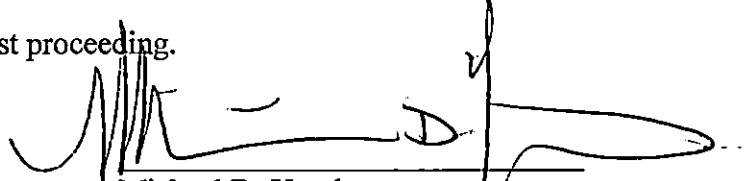
concerns related to the use of an interest rate that is inconsistent with the range of risk free interest rates used by the Utilities in developing cost of equity estimates in their respective most recent rate case proceedings. The Public Staff's calculation, which is reflected in the MOU, involves an interest rate of 1%. In order to be consistent with the interest rates used by the Utilities in developing cost of equity estimates, NCSEA restates its position, as outlined in its Reply Comments, that an interest rate of at least 3.10% should be used in the calculation, which is consistent with the range of interest rates propounded by DEP (2.65%, 3.0%, and 5.3%), DEC (2.85%, 3.14% and 5.10%), and DNCP (3.09% and 3.5%) in their respective most recent rate case proceedings. By its terms, the MOU does not constitute any agreement as to the appropriate methodology to be used to calculate that hedging value and is without prejudice to any position that any party thereto may take with respect to application of the Black-Scholes Option Pricing Model or any other method used to calculate fuel price hedging benefits in any future proceeding.³

As NCSEA is not a party to the MOU, NCSEA reiterates its position that the Commission should further evaluate this issue in a future proceeding, giving attention to whether national consensus has emerged as to methodology, and NCSEA invites the opportunity to work with the Utilities and the Public Staff to refine the method for calculating fuel price hedging benefits and, ideally, achieve consensus on this issue prior to next biennial avoided cost proceeding.

³ MOU, paragraph 4.

CONCLUSION

In conclusion, NCSEA respectfully requests that the Commission accept the following general comments and preserve NCSEA's ability to challenge the noted calculations in a future biennial avoided cost proceeding.

A handwritten signature in black ink, appearing to read "Michael D. Youth", written over a horizontal line.

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CERTIFICATE OF SERVICE

The undersigned certifies that she has served a copy of the foregoing **NCSEA'S GENERAL COMMENTS ON MOU** upon the parties of record in this proceeding, or their attorneys, by electronic mail.

This the 22nd day of February, 2016.

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