BEFORE THE NORTH CAROLINA UTILITIES COMMISSION
DOCKET NO. E-2, SUB 1170
DOCKET NO. E-7, SUB 1169

In the Matter of:
Petition for Approval of Green Source Advantage Program and Rider GSA to Implement N.C. Gen. Stat. § 62-159.2

NCSEA’S COMMENTS ON DUKE ENERGY CAROLINAS, LLC’S AND DUKE ENERGY PROGRESS, LLC’S GREEN SOURCE ADVANTAGE PROGRAM COMPLIANCE FILING


For all the reasons set forth below, Duke’s Compliance Filing fails to comply with the Commission’s order and, accordingly, should be rejected by the Commission. Further,
NCSEA requests the Commission provide clarity with regard to the issues listed below insofar as clarity is requested and, also, for the Commission to require Duke to file a new, complete compliance filing that includes all necessary components, including specifically those set out below, and otherwise complies with the Commission’s Order.

I. **DUKE’S COMPLIANCE FILING FAILS TO ADHERE TO THE ORDER**

   A. **OVERVIEW**

   In the Order, the Commission provided two guidelines which highlight how the GSA program should be tailored: “Non-Participating Consumers [to the GSA Program] must be held neutral, neither disadvantaged nor advantaged, from the impact of the renewable electricity procured on behalf of the program customers”\(^1\) and “the bill credit received by participating customers ‘shall not exceed the utilities’ avoided cost.”\(^2\) While Duke disentangled a number of the underlying issues which the Commission rejected, such as Duke’s proposed integration of GSA into the Competitive Procurement of Renewable Energy Program (“CPRE”) mandated by North Carolina Gen. Stat. § 62-110.8, the Duke Compliance Filing still fundamentally fails to comply with the Order and, notably, violates the first tenet listed above. Namely, Duke has proposed a program structure where Non-Participating Consumers to the GSA Program are not held neutral.

   B. **COST RECOVERY**

   The initial issue that NCSEA sees with the Compliance Filing is regarding Duke’s cost recovery. Namely, Duke states that it intends to seek cost recovery (via the fuel adjustment clause) for amounts equal to the amounts due for each Power Purchase Agreement (“PPA”) made through the program. That cost recovery is not outlined in the

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\(^1\) Order, p. 43 citing N.C. Gen. Stat. § 62-159.2(e).

\(^2\) Id.
Order. In the Order, the Commission addresses the complexities of cost recovery in the GSA Program and how the arguments made by the Public Staff and Duke at oral argument highlighted how the program should be run:

[The Public Staff and Duke] arguments clarified Duke’s proposal that GSA renewable energy facilities will be “system assets,” meaning that the energy delivered to Duke will be dispersed throughout the electric system and will serve all retail customers. In other words, the electrons generated by the GSA renewable energy facilities and procured under the GSA Program may not, and need not, be delivered to the participating customer for consumption at that customer’s premises. For purposes of implementing a GSA Program that complies with the requirements of the GSA Statute, it is sufficient that the amount of energy generated by the GSA renewable energy facility is metered, and that the bill credit is appropriately established to ensure that all non-participating customers are held neutral and that the bill credit does not exceed the utility’s avoided costs. Viewed in this light, and as stated by counsel for the Public Staff, the bill credit as determined by the Commission is “basically the price that [Duke] would be paying for that additional power being added as a system resource.” [...] In this manner, the nonparticipating customers will bear the costs of the electric power delivered to the Duke utilities, but the cost that they will bear is approximately the same as they would have paid in the absence of the electric power procured under the GSA Program. This, the Commission determines, ensures that all nonparticipating customers “are held neutral, neither advantaged nor disadvantaged, from the impact of the renewable energy procured on behalf of the program customer.”3

The Commission also recognized that Duke would therefore seek recovery of its non-administrative costs related to the GSA Program “not recovered from program participants[.]”4 The Commission then laid out four tiers of cost recovery mechanism it anticipated to receive from Duke:

1. That customers participating in the GSA Program continue to pay their “normal retail bill,” requiring that the participating customer continue under an appropriate rate schedule generally available to nonresidential customers;
2. That Duke has collected a GSA Administrative Charge equal to $375 per customer account per month, plus an additional $50 per month per additional account, from each customer participating in the GSA Program.

3 Order, p. 60.
4 Id. (Emphasis added).
The revenue from collecting this administrative charge recovers the program administrative costs, including expenses for manual billing;

3. That Duke has collected a GSA Product Charge from each customer participating in the GSA Program, and that the GSA Product Charge is equal to the price negotiated between the participating customer and the owner of the GSA renewable energy facility (expressed in $/MWh, fixed for the term of the PPA) multiplied by the amount of energy delivered to Duke by the GSA renewable energy facility (expressed in MWh). The revenue collected by Duke as the GSA Product Charge shall ultimately be paid to the relevant GSA renewable energy facility.

4. That Duke has paid a GSA Bill Credit each month, to each participating customer. For customers that elect to participate through a GSA Service Agreement with a two- or five-year term, the bill credit shall be based on the most recently approved avoided cost rate methodology applicable in the PURPA negotiated contract setting, fixed for the full two- or five-year term of the agreement, and multiplied by the amount of energy delivered to Duke by the relevant renewable energy facility. For customers that elect to participate through a GSA Service Agreement that has a term longer than five years, the bill credit will be based on the most recently approved avoided cost rate methodology applicable in the PURPA negotiated contract setting, refreshed after five years to reflect the then-most recently approved avoided cost rate methodology applicable in the PURPA negotiated contract setting. Alternatively, the bill credit will be based on the marginal hourly production cost data, consistent with the methodology proposed in the Walmart Settlement for any length of term. In either case, the applicable rate will be multiplied by the amount of energy delivered to Duke by the relevant renewable energy facility to arrive at a bill credit expressed in dollars. Duke shall present the total of all bill credit payments in the relevant test period as the amount sought to be recovered through N.C.G.S. § 62-133.2(a1)(11).

Duke outlines its version of cost-recovery beginning on page 19 of the Compliance Filing and includes the following section that NCSEA takes issue with:

In the case of either a third-party-owned or Duke-owned GSA Facility, the amount to be recovered from all native load customers through the fuel adjustment clause will be equal to the amount due under the PPA (i.e., the applicable Bill Credit rate multiplied by the actual energy delivered by the GSA Facility). In this manner, nonparticipating customers will be held neutral, neither advantaged nor disadvantaged from the impact of the renewable energy procured on behalf of the GSA Customer.5

Duke then goes on to claim that the GSA Program is not “cost-contained”:

The GSA Program is not “cost-contained” (i.e., not all costs are “recovered from the participating customers”) as was alleged by an intervenor in the proceeding. To the contrary, the cost to be recovered from non-participating customers for each MWh generated by GSA Facility is, in fact, the Bill Credit applicable to the particular GSA Service Agreement. Each MWh generated by the GSA Facility will displace a MWh that would have been generated by another system asset and, contrary to assertions raised in the proceeding, Duke is not recovering any fuel costs associated with that “displaced MWh.”\(^6\)

This cost recovery request as outlined in the Compliance Filing is not stated in the Order and, even aside from that, brings a number of questions. First, neither the GSA Statute (codified at N.C. Gen. Stat. § 62-159.2) nor the fuel rider statute (codified at N.C. Gen. Stat. § 62-133.2) mandate that Duke may recover, via recovery of the amounts paid by Duke to the GSA Customer via the bill credit, for the MWh that the GSA program displaces from Duke’s generation mix. The fuel rider statute states that Duke may recovery “[a]ll nonadministrative costs related to the renewable energy procurement pursuant to G.S. 62-159.2 not recovered from the program participants.” N.C. Gen. Stat. § 62-133.2(a1)(11).

Apparently, Duke believes that nonadministrative costs include the so-called “displace” of MWh which would assumptively have been generated elsewhere in Duke’s generation mix \textit{but for} the GSA Facility. NCSEA disagrees. Further, NCSEA is not comfortable assuming that the large-usage customers would have required this generation (as presumed by Duke) without the ability to utilize a clean power program such as GSA.

Also, nowhere in the Order (or any of the underlying statutes) is Duke granted the authority or benefit of such additional cost recovery. NCSEA believes that if the statute or the Commission intended for such methodology of cost recovery, then either the Commission or the General Assembly would have specifically enumerated as much and

\(^6\) Compliance Filing, p. 20.
applied it to the GSA program. As a matter of accounting, this methodology would potentially double the underlying cost of the GSA power: first as it is purchased by the GSA Customer through the “normal retail bill” payment plus the GSA Product Charge, assignable by Duke to the GSA Supplier, and which is equal to the price negotiated between the customer and the GSA Supplier for energy; and then, second, via the cost recovery that Duke is seeking here for displaced generation.

Moreover, Duke is a potential GSA Supplier under the GSA Program and, accordingly, Duke could potentially receive the GSA Product Charge and, also, recover the same amounts sought under via fuel rider. Duke may not intend this clear double recovery, but as it is currently outlined in the Compliance Filing, it appears that this is a potential outcome if the current Compliance Filing is approved without further clarification.

To that end, NCSEA acknowledges the mechanism involved here is complex and understands that Duke is forced to outline a program where Duke moves monies around for potentially two other parties (the participating customer and supplier) all the meanwhile incurring costs and expenditures which must be specifically accounted for and paid in order to hold nonparticipants neutral. It is possible that the GSA Program Duke is seeking to implement will have no such double cost for energy or double recovery (in the case Duke is the GSA Supplier). Therefore, NCSEA requests the Commission clarify exactly what costs that Duke may seek in the fuel rider proceeding which arise in the GSA Program and whether those nonadministrative costs outlined in the GSA statute intend for utility recovery for displaced generation. NCSEA also requests that the Commission further

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7 See Generally, Compliance Filing; also, Duke references itself as a potential GSA Supplier in stating that it would not be required to execute a PPA like other GSA Suppliers: “the GSA Facility Owner would be required to execute a PPA (except in the event that DEP or DEC is the GSA Facility Owner)[.]” Compliance Filing, p. 3 (emphasis added).
outline what requirements Duke does and does not have if it chooses to be a GSA Supplier. As more fully outlined below, Duke’s inherent advantages as a potential GSA Supplier in this program are considerable without even considering for potential double-recovery as outlined here. NCSEA does not believe that any such double-recovery was the intent of the statute, nor does NCSEA believe that such structure is good policy or in the best interests of North Carolina’s rate payers, whether they participate in the GSA Program or not, and, accordingly, seeks the clarification related thereto.

C. **Duke’s Compliance Filing Outlines a Program Wherein Duke Has Inherent, Unfair Advantages Over Third-Party GSA Suppliers**

NCSEA acknowledges that the statute does not prohibit Duke from participating in the GSA Program as a supplier or otherwise regulate how Duke can participate as a supplier (such as outlined in the CPRE Statute). However, Duke’s advantages are numerous and substantive as outlined in the Compliance Filing.

i. **Interconnection Issues**

   1. **Interconnection Costs**

   In the Order, on the topic of the underlying interconnection costs, the Commission stated that the Commission “shares the Public Staff’s preference for the ‘traditional approach’ of assigning all interconnection costs to the GSA Program customer and/or GSA renewable energy facility.” Duke’s outline of how this will work is confusing:

   In its Order, the Commission directed the Company to follow the “traditional approach” in “assigning all interconnection costs” to the GSA Facility Owner (i.e., the legal entity that submitted the applicable Interconnection Request) […] The Companies will […] implement this directive and agree that this is the appropriate treatment in the context of the

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8 Order, p. 62.
GSA Program and aligns with the statutory directive for the GSA Customer to pay the “total cost of any renewable energy and capacity.”

Duke states that the Order is consistent with the “statutory directive” for the GSA Customer to pay the interconnection costs. However, this mischaracterizes the Order, which states that either the customer “and/or” the GSA Facility Owner will shoulder the interconnection cost load. Duke goes on to clarify that, actually, the GSA Facility Owner will pay for interconnection costs:

Simply stated, the GSA Facility Owner will be required to pursue interconnection under the applicable interconnection procedures (whether North Carolina or South Carolina or FERC) and no unique interconnection-related arrangements will be implemented in connection with the GSA Program. The GSA Facility Owner will be responsible in accordance with the applicable interconnection procedures for the cost of Interconnection Facilities and any transmission or distribution Network Upgrade costs assigned to GSA Facility. The GSA Facility Owner will presumably take into account the cost of Interconnection Facilities and any transmission and distribution Network Upgrades in agreeing upon the Negotiated Price with a GSA Customer.

Duke has failed to provide clear guidance in its Compliance Filing who is responsible for the payment of interconnection costs. As can be examined thoroughly in a review of the Interconnection Docket, interconnection costs can range into the tens of millions of dollars for certain transmission level interconnections. The costs are substantial, and, in particular for a potential GSA Customer or a third-party GSA Facility Owner, the premise of opening a new facility to be used in this GSA Program with substantial costs hanging overhead (and a lack of clarity as to who is responsible for them), may limit potential participation by both customers and renewable energy suppliers. Clearly, the General Assembly did not intend for such market limitation.

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10 Id. at 11.
Perhaps more importantly, Duke does not lay out how *Duke* GSA Facilities will pay for interconnection costs (assuming the GSA Supplier pays for the interconnection costs). Duke intends to seek cost recovery for its GSA Facilities when the facilities are no longer tied to a GSA Contract, which could theoretically be in as little as 2-years under the terms of the GSA Statute and the Order.\(^{12}\) Does Duke intend to seek cost recovery for its own interconnection costs? Neither the Order nor the Compliance Filing make this answer clear. Furthermore, NCSEA believes that is inequitable and falls outside the intent of the GSA statute for Duke to cost recover from ratepayers for interconnection costs in the GSA Program. If Duke can assume cost recovery for all interconnection costs, then any and all potential GSA Projects are feasible for Duke as the GSA Supplier. Duke would have no risk. Comparatively, a third-party GSA Supplier (or customer) will have to bear the burden of significant interconnection costs, with no guarantee of return for those costs. This puts third-party suppliers at a significant disadvantage to Duke in terms of the ability to negotiate a contract for a GSA Facility with a potential GSA Customer. While the underlying GSA Statute does not specifically protect third-party suppliers, it undoubtedly intended a marketplace as it specified that GSA Customers and GSA Suppliers can negotiate financial terms for energy purchases. This negotiation factor would be completely undermined if Duke was allowed to cost recover for interconnection costs. For all these reasons, NCSEA requests the Commission clarify (1) who shall pay for the underlying interconnection cost (customer or facility owner); and, (2) if the facility owner

\(^{12}\) NCSEA would also like to highlight that the cost recovery mechanism for Duke (at the end of a GSA Contract) is evidence of how the scales are inherently weighted towards Duke – should Duke’s GSA Contract Term expire (or otherwise end) of a facility Duke owns, Duke can recover costs for the facility via rate base. However, if an independent power producer’s GSA Contract Term expires (or otherwise ends), the independent power producer is on the hook for the remaining costs owed on the facility. Ideally, they will be able to sell power into Duke that will produce revenues to pay off any financing debts, however, there is no guarantee of those sufficient revenues.
is required to pay for interconnection costs, then whether Duke can cost recover for its interconnection costs or will Duke be treated like all other energy suppliers in this regard.

2. Interconnection/Grid Upgrade Information and the System Impact Study

In the Compliance Filing, Duke seeks to temper the expectations of interconnection information brought by the Commission. In Footnote 14, Duke states:

The Commission states in its Order that “the Commission recognizes that Duke must provide the eligible customer with information regarding the interconnection costs and/or grid upgrade costs fairly attributed to accommodating the renewable energy facility selected by the GSA customer relatively early in the GSA Program application process.” To be clear, each project will be studied in accordance with the applicable interconnection procedures and, in this process, the Companies will be engaging with the GSA Facility Owner that submitted the Interconnection Request and not the GSA Customer. Such GSA Facility Owner will receive “information regarding the interconnection costs and/or grid upgrades costs” in accordance with the serial processing requirements applicable under the relevant procedures. Therefore, to be clear, a GSA Customer will not necessarily receive information concerning the interconnection costs “relatively early in the GSA Program application process.” Instead, interconnection-related information will be provided to the GSA Facility Owner in accordance with the applicable interconnection procedures.¹³

NCSEA can understand and empathize with Duke insofar as the requirement for information to a GSA Customer “relatively early” is difficult to define with specificity. However, Duke’s footnote response is an outright refusal to attempt to comply with the Order, and, accordingly, NCSEA objects. NCSEA requests the Commission order Duke to provide its GSA Customers with more specificity as to interconnection-related information.

Furthermore, Duke has introduced System Impact Studies to the GSA Program again in its Compliance Filing as Duke seeks to regulate the remaining “self-supply”

¹³ Compliance Filing, p. 11.
option. NCSEA understands Duke’s perspective insofar as the System Impact Study may allow for more certainty as to when projects can come online however, Duke fails to include a number of details and, in effect, is requiring a GSA Facility to have completed a System Impact Study in order to even be eligible for the GSA Program. This is not contemplated in the GSA Statute and is not required by the Order, so to incorporate this requirement now falls outside the scope of the Order. This requirement adds substantive new steps to the GSA process.

NCSEA believes it would appropriate to allow the parties comment on the implementation of the System Impact Study within the constraints of the GSA Program. As Duke outlines, the completion of a System Impact Study will allow GSA Customers to identify “ready” projects that are later in the interconnection process and have more cost and time certainty – NCSEA agrees with this in concept. However, major concerns include whether this will keep out projects that have not yet had a system impact study completed as outlined above and, also, whether Duke will apply the same standards to its own facilities – how does Duke intend to show that its Duke GSA Facilities are not given advantages over third-party projects? Duke has an inherent advantage insofar as they can develop projects for the CPRE program and, if necessary, sell those projects to GSA Customers as readymade clean energy. NCSEA wants clean energy deployed on the grid, of course, but there is an inherent question as to the fairness involved here to third-party independent power producers. Therefore, NCSEA requests the Commission provide more clarity as to what Duke’s facilities are required to do and what accounting that Duke must provide to the Commission to show that its facilities are not given an unfair leg up on third-party

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independent power producers. NCSEA further requests the Commission accept further comments tailored specifically to the inclusion of the System Impact Study in the GSA Program and utilize those to make bright line rules regarding interconnection of GSA projects.

ii. PPA Disparity and Associated Costs

Another inherent advantage baked into the GSA Program as set out in the Compliance Filing is the underlying costs associated with contracting for energy. Duke states in the Compliance Filing:

If selected pursuant to the application process described in Section VI, the GSA Customer would then be required to execute the GSA Service Agreement (along with the GSA Facility Owner and DEC or DEP, as applicable) and the GSA Facility Owner would be required to execute a PPA (except in the event that DEP or DEC is the GSA Facility Owner).  

Duke requires third-party independent power producers to execute PPAs, but Duke utilities do not have to execute those as a GSA Facility Owner. NCSEA recognizes Duke’s position here – Duke as GSA Facility Owner executing a PPA would be akin to contracting with itself. It’s unnecessary. However, this highlights another cost-causing issue that third-party independent power producers have to incur that Duke does not. Namely, independent power producers will have to incur legal and administrative expenses which are involved with executing a long-term contract. Duke does not and, therefore, has yet another advantage and cost-savings.

iii. End of GSA Contract Facility Disposition

As set forth above, Duke can recover costs for its facilities after the end of a GSA contract with a GSA Consumer through its rate base. Third-party GSA Suppliers cannot recover those costs and must hope they will be able to sell energy and capacity to Duke at a sufficient rate to pay off any financing costs they have left for the GSA Facility at that time. Additionally, Duke has requested Post-COD Security for projects utilizing the fixed

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15 Compliance Filing, p. 3.
administratively-established avoided cost based PPA. NCSEA believes it is unfair to require such financial assurances from those projects, but not from the projects utilizing the Wal-Mart Settlement avoided cost cap model. NCSEA recognizes the inherent differences in the two projects and requests that the Commission provide clarity as to whether financial security of this manner is necessary and whether alternative methods for security can be explored which do not further the upfront costs for independent power producers.

D. MISCELLANEOUS OTHER ISSUES WITH THE COMPLIANCE FILING

i. Duke Failed to Include Contract Forms Required by the Order

In the Order, Duke was required to revise the structure of the GSA Program to “empower the eligible customer to negotiate a price with the renewable energy facility the customer has selected, which sets the GSA Product Charge as part of the three-party agreement for participation in the GSA Program, consistent with the basic structure proposed in the Walmart Settlement.” The Commission further states:

The Commission agrees that N.C.G.S. § 62-159.2 expressly requires standard contract terms and conditions for both participating customers and the participating renewable energy facilities, meaning fill-in-the-blank forms used to express the terms of the agreement between Duke, its customer, and the renewable energy facility owner. Duke initially did not file the standard forms, and the other parties complained about the lack of opportunity for review and comment. Duke has since filed a proposed GSA PPA, GSA Service Agreement, GSA Term Sheet, and other related documents with the Commission, but the other parties have not had a meaningful opportunity to present arguments related to these documents. The Commission generally agrees with the positions of the other parties, and, thus, will also direct Duke to include revised versions of these documents in the compliance filing required by this Order.

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16 Compliance Filing, p. 18.
17 Order, p. 53.
18 Id. at 52.
Duke has still failed to comply with this directive. The schedule for the GSA Product Charge included in their Compliance Filing is blank. Moreover, the documents included as contract documents for Duke’s GSA Program are marked as “subject to Duke legal and management approval” which indicates the potential for further changes from Duke. NCSEA does not believe these documents fulfill the compliance requirements for the Order.

ii. **Duke’s Future GSA Allocation Between Territories Needs Structure and Oversight**

On page 9 of the Compliance Filing, Duke states that future GSA allocation for capacity not allocated (including those capacity amounts earmarked for either the University of North Carolina or the Department of Defense), shall be subject to capacity allocation based upon load and determined by Duke. NCSEA supports review and updating of capacity in future years of this program, but this this capacity allocation needs to be proposed by Duke to the Commission and subject to regulatory oversight. Accordingly, NCSEA requests the Commission require Duke to formally request capacity reallocation and that such request is subject to comments from intervenors.

iii. **Duke’s Compliance Filing Requires Customer Applications to Include Sophisticated Information that Some Customers May Not Understand or Know**

Duke’s Compliance Filing requires that Customers include their annual peak demand and also the amount of capacity they intend to procure from the GSA Supplier. NCSEA thinks this is a level of sophistication that not all customers may have of their energy usage, even those large consumers intended for this program. NCSEA encourages

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19 Compliance Filing, p. 36 (PDF #1).
Duke to provide knowledge and resources to those customers who may not know this information where requested.

Furthermore, the Application Fee of $2,000.00 is a substantial fee and NCSEA requests Duke grant leeway to Customers who submit their Applications with clerical errors or other misunderstandings before rejecting the application and keeping the fee. NCSEA is not calling into question Duke’s customer service quality in this section, but rather would just encourage that Duke work with GSA Customers so as to allow this program to succeed especially given the relatively severe nature of the application and application fee process set forth in the Compliance Filing.20

II.  CONCLUSION

For all the reasons set forth above, NCSEA requests that the Commission reject Duke’s Compliance Filing, provide necessary clarity on several issues highlighted herein and requested, allow the parties to comment on the proposed inclusion of the System Impact Study, and require Duke to file a new Compliance Filing adhering to the requests made herein and also subject to the clarity provided by the Commission.

Respectfully submitted, this the 8th day of April, 2019.

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CERTIFICATE OF SERVICE

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

This the 8th day of April, 2019.

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