

STATE OF NORTH CAROLINA
UTILITIES COMMISSION
RALEIGH

DOCKET NO. E-100, SUB 167

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

In the Matter of
Biennial Determination of Avoided)
Cost Rates for Electric Utility)
Purchases from Qualifying Facilities –)
2020)

**REPLY COMMENTS OF THE
PUBLIC STAFF**

NOW COMES THE PUBLIC STAFF – North Carolina Utilities Commission, by and through its Executive Director, Christopher J. Ayers, and respectfully submits the following reply comments pursuant to the Commission’s August 13, 2020, *Order Establishing Biennial Proceeding, Requiring Data, and Scheduling Public Hearing* (Scheduling Order) in the above-referenced docket.

I. BACKGROUND

On October 30, 2020, the Commission issued its *Order Granting Motion and Establishing Reporting Requirements* (Continuance Order) in which it granted the request to conduct a streamlined proceeding for the 2020 avoided cost proceeding and to delay the certain additional issues raised in its 2018 avoided cost proceeding until November 1, 2021. On November 2, 2020, Duke Energy Carolinas, LLC (DEC), Duke Energy Progress, LLC (DEP, and jointly with DEC, Duke), and Virginia Electric and Power Company d/b/a Dominion Energy North Carolina (DENC) filed their proposed avoided cost rates, standard power purchase agreements (PPAs), and terms and conditions, consistent with the Continuance

Order. On December 22, 2020, Western Carolina University jointly with New River Light and Power also made their avoided cost filings in this docket.

On January 25, 2021, the Public Staff filed its Initial Statement, and the North Carolina Clean Energy Business Alliance (NCCEBA), North Carolina Sustainable Energy Association (NCSEA), and the Southern Alliance for Clean Energy (SACE) (NCCEBA, NCSEA, and SACE, together, Joint Commenters), filed joint initial comments. On February 22, 2021, the Joint Commenters requested an extension of time for parties to file reply comments to March 5, 2021. The Commission granted the extension. In these reply comments, the Public Staff responds to specific topics raised by the Joint Commenters, as well as issues raised in the initial comments and addressed by Duke and DENC.

II. DISCUSSION

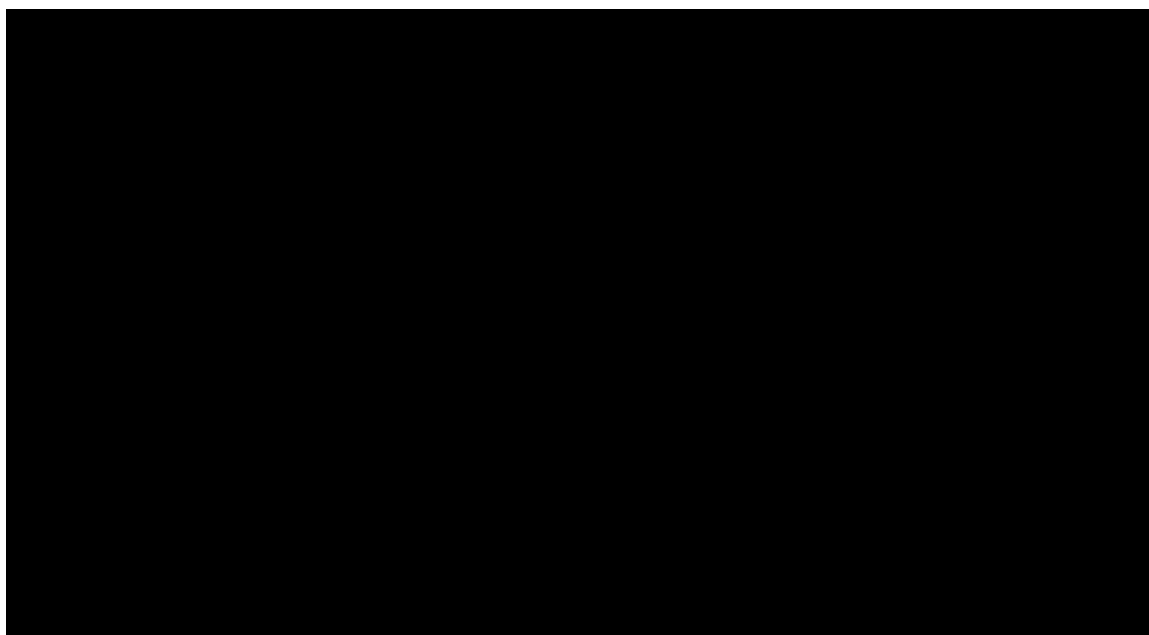
SOURCE OF UTILITY NATURAL GAS FUNDAMENTAL FORECASTS

The Joint Commenters recommended that the Utilities be required to supplement their private natural gas fundamentals forecast with a publicly available natural gas fundamental gas price forecasts, such as from the Energy Information Administration (EIA).¹ The Public Staff notes that other parties have the ability to cite publicly available forecasts and provide supporting evidence in their comments if they believe that that Utilities' fundamental forecast is inappropriate. Given that the Utilities' long-term fundamental price forecast are

¹ Joint Commenters, Initial Comments at 10.

reasonably comparable to EIA's 2020 Annual Energy Outlook (AEO) gas price forecast (see figures below²), and no intervenors have provided persuasive evidence that the Utilities' fundamental forecasts are inappropriate,³ the Public Staff does not believe that the mandated use of publicly available forecasts is warranted at this time.⁴

[BEGIN CONFIDENTIAL]

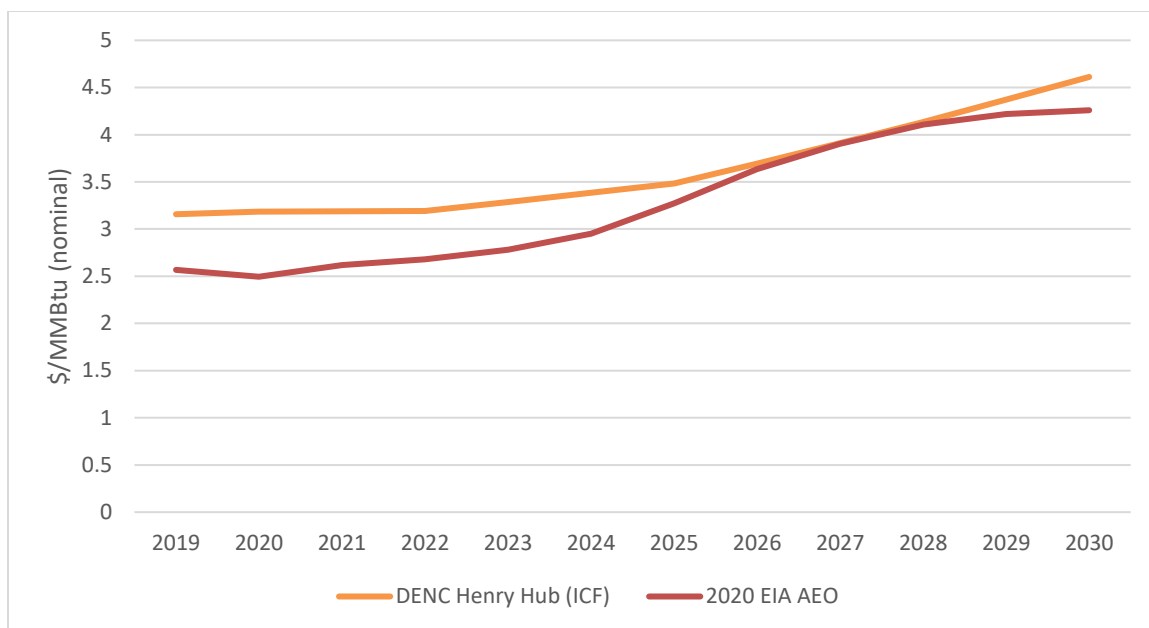


[END CONFIDENTIAL]

² Note that these are the fundamental price forecasts, and they do not factor into the natural gas price forecasts used in the calculation of avoided energy until the utility transitions from forward market prices to fundamentals.

³ The Joint Commenters note that they "do not question these private forecasts." Exhibit A to Joint Commenters Initial Comments, Crossborder Energy Report, at 2.

⁴ The use of publicly available data for the installed cost of a combustion turbine (CT) was ordered by the Commission in Docket No. E-100, Sub 140. However, this decision was largely in response to a history of significant differences among the CT cost estimates generated by the utilities that was not easily explained. See Order Setting Avoided Cost Input Parameters, December 31, 2014.



NATURAL GAS FORECAST TRANSITION

In the Sub 158 Proceeding, as noted by the Joint Commenters, “the Public Staff presented comments recommending that Duke use no more than five years of forward market data before transitioning to Duke’s fundamental forecast.”⁵ Consistent with its prior positions, the Public Staff agrees with the Joint Commenters’ recommendations “that Duke should rely on fewer than eight years of forward natural gas market price data before transitioning to a fundamentals forecast in both the avoided cost proceeding and the IRP proceeding,”⁶ and that Duke use “a transition period between the forwards-only forecast and the fundamental forecast.”⁷ However, given the streamlined approach to the 2020 biennial proceeding approved by the Continuance Order, the Public Staff accepts

⁵ Joint Commenters, Initial Comments at 14. Also available in Sub 158 Proceeding, Public Staff Initial Comments, at 27.

⁶ *Id.* at 15.

⁷ *Id.*

the natural gas price forecasts used in this proceeding as consistent with the methodology approved by the Commission in the Sub 158 Proceeding and reserves the right to raise this issue in the next avoided cost proceeding.

DEC AND DEP TREATMENT OF START COSTS

In its Initial Statement, the Public Staff noted that the avoided energy rates filed by DEC and DEP exhibited counterintuitive behavior in some schedules, and noted that it had determined that the primary driver for the counterintuitive rates was a change in the treatment of start costs in the production cost models used to determine avoided energy costs.⁸ In prior proceedings, Duke had converted the start costs to a \$ per megawatt-hour (MWh) rate that was spread over the hours the unit was run after startup. In 2019, however, Duke changed the methodology to allocated start costs to the hour in which the costs are incurred.

On February 12, 2021, DEC and DEP made a supplemental filing including updated Schedule PP avoided energy cost rate calculations, in response to the Public Staff's comments regarding the treatment of unit start costs. In the supplemental filing, Duke re-ran its production cost models spreading the start costs over each unit's run time, which was consistent with the approach used in the Sub 158 Proceeding. The Public Staff has reviewed the revised filings and finds that the revisions appear to resolve the anomalies previously identified, and believes that the revised rates are appropriate for use in this proceeding. The Public Staff also agrees to continue to discuss the treatment of start costs in

⁸ Initial Statement of the Public Staff at 46-48.

production cost modeling with Duke and other parties for further consideration in the November 2021 filing.

INCLUSION OF CARBON COSTS IN AVOIDED ENERGY RATES

In its Initial Statement, the Public Staff noted that DENC's CO2 pricing in its production cost model for avoided energy rates included a federal CO2 price, in addition to the RGGI CO2 price in years 2026 and beyond.⁹ The Public Staff recommended that DENC rerun its production cost model using a RGGI price forecast without a federal CO2 price, and file revised avoided energy rates. The Public Staff and DENC have further discussed this issue, and DENC has shared with the Public Staff revised rate schedules consistent with the Public Staff's recommendation. It is the Public Staff's understanding that DENC will include in its reply comments these revised rate schedules excluding federal CO2 costs. The Public Staff agrees that those rates are appropriate for use in this proceeding.

III. CONCLUSIONS

WHEREFORE, the Public Staff prays that the Commission take these reply comments into consideration in reaching its decision in this proceeding.

⁹ Id. at 39-40.

Respectfully submitted this the 5th day of March 2021.

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CERTIFICATE OF SERVICE

I certify that a copy of these reply comments have been served on all parties of record or their attorneys, or both, by United States mail, first class or better; by hand delivery; or by means of facsimile or electronic delivery upon agreement of the receiving party.

This the 5th day of March 2021.

Electronically submitted
/s/ Layla Cummings