

NORTH CAROLINA PUBLIC STAFF UTILITIES COMMISSION

August 25, 2020

Ms. Kimberley A. Campbell, Chief Clerk North Carolina Utilities Commission 4325 Mail Service Center Raleigh, North Carolina 27699-4300

Re: Docket No. E-2, Sub 1251 – Application of Duke Energy Progress, LLC Pursuant to G.S. 62-133.2 and Commission Rule R8-67 for Approval of REPS Compliance Report and REPS Cost Recovery Rider

Dear Ms. Campbell:

In connection with the above-referenced docket, I transmit herewith for filing on behalf of the Public Staff the following:

- Confidential Testimony of Jay B. Lucas, Manager, Electric Section Operations and Planning, Energy Division;
- Notice of Affidavit; and
- 3. Affidavit of June Chiu, Staff Accountant, Accounting Division.

By copy of this letter, I am forwarding a copy of the redacted version to all parties of record by electronic delivery. The confidential version will be provided to those parties that have entered into a confidentiality agreement.

Sincerely,

Electronically submitted /s/ Gina C. Holt Staff Attorney gina.holt@psncuc.nc.gov

/s/ Nadia L. Luhr Staff Attorney nadia.luhr@psncuc.nc.gov

Attachments

Executive Director (919) 733-2435

Communications (919) 733-5610 Economic Research (919) 733-2267

Legal (919) 733-6110 **Transportation** (919) 733-7766

Accounting (919) 733-4279

Consumer Services (919) 733-9277

Electric (919) 733-2267

Natural Gas (919) 733-4326

Water (919) 733-5610

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION DOCKET NO. E-2, SUB 1251

TESTIMONY OF JAY B. LUCAS ON BEHALF OF THE PUBLIC STAFF NORTH CAROLINA UTILITIES COMMISSION

August 25, 2020

1	Q.	PLEASE STATE YOUR NAME AND ADDRESS FOR THE
2		RECORD.
3	A.	My name is Jay B. Lucas. My business address is 430 North
4		Salisbury Street, Raleigh, North Carolina.
5	Q.	WHAT IS YOUR POSITION WITH THE PUBLIC STAFF?
6	A.	I am the manager of the Electric Section – Operations and Planning
7		in the Public Staff's Energy Division.
8	Q.	WOULD YOU BRIEFLY DISCUSS YOUR EDUCATION AND
9		EXPERIENCE?
10	A.	Yes. My education and experience are summarized in Appendix A to
11		my testimony.
12	Q.	WHAT IS THE PURPOSE OF YOUR TESTIMONY?
13	A.	The purpose of my testimony is to make recommendations to the
14		Commission on the Renewable Energy and Energy Efficiency
15		Portfolio Standard (REPS) Compliance Report and the Application
16		for Approval of the REPS Cost Recovery Rider (REPS Rider) filed by

1		Duke Energy Progress, LLC (DEP, or the Company), on June 9,
2		2020. I also discuss the following REPS-related issues:
3		1. recovery of costs for the Competitive Procurement of
4		Renewable Energy (CPRE) Program in the REPS rider;
5		2. sales prices of certain renewable energy certificates (RECs);
6		and
7		3. the Public Staff's position on DEP's exclusion of Solar Rebate
8		Program costs from the REPS cost cap.
9		REPS Compliance
10	Q.	IS DEP PROVIDING REPS COMPLIANCE SERVICES TO ANY
11		OTHER ELECTRIC POWER SUPPLIERS?
12	A.	No.
13	Q.	PLEASE DESCRIBE THE 2019 REPS COMPLIANCE
14		REQUIREMENTS FOR DEP.
15	A.	For 2019 compliance, DEP needed to pursue retirement of a
16		sufficient number of general RECs,1 energy efficiency certificates
17		(EECs), and RECs derived from other eligible sources so that the
18		total equaled 10% of its 2018 North Carolina retail electricity sales.
19		To meet the solar energy requirement in N.C. Gen. Stat. § 62-

¹ General RECs include all RECs other than those used to meet the solar, swine waste, and poultry waste set-asides. Unlike RECs used for the set-asides, general RECs and EECs are interchangeable for REPS compliance purposes, with the exception that EECs are limited to 25% of the total compliance requirement for the investor-owned utilities.

1	133.8(d), DEP needed to pursue retirement of sufficient solar RECs
2	to match 0.2% of its retail sales in 2018.

3

4

5

6

7

8

9

10

11

12

13

The Commission's December 16, 2019 Order Modifying the Swine and Poultry Waste Set-Aside Requirements and Providing Other Relief in Docket No. E-100, Sub 113, modified the requirements in N.C.G.S. § 62-133.8(e) and (f) for swine and poultry waste energy, respectively, as described below. To meet the swine waste set-aside requirement, DEP needed to pursue retirement of sufficient swine waste-derived RECs to match 0.04% of retail sales in 2018. To meet the poultry waste set-aside requirement, DEP needed to pursue retirement of sufficient poultry waste-derived RECs to match its prorata share of the poultry waste set-aside of 500,000 MWh or the thermal equivalent.

14 Q. HAVE YOU REVIEWED THE REPS COMPLIANCE REPORT?

15 Α. Yes. DEP's REPS Compliance Report is included as Exhibit 1 to the 16 direct testimony of DEP witness Megan Jennings. Based on our 17 review, the Public Staff believes that DEP's REPS Compliance 18 Report meets the requirements of N.C.G.S. § 62-133.8 and 19 R8-67(c). Accordingly, Commission Rule the Public recommends that the Commission approve DEP's 2019 REPS 20 21 Compliance Report.

Research Costs

2	Q.	PLEASE	DISCUSS	THE	RESEARCH	COSTS	DEP	HAS
3		INCLUDE	D FOR COS	T REC	OVERY.			

A. On pages 25 through 33 of her direct testimony, DEP witness Megan Jennings summarizes the results of the 17 research expenditures for which DEP is seeking cost recovery in this proceeding. The anticipated research costs total \$931,500 in the billing period, which is below the \$1,000,000 maximum annual amount allowed, as specified in N.C.G.S. § 62-133.8(h)(1)(b). The included projects generally regard operation of distributed energy resources (DERs) and advancing the understanding of optimal ways to integrate DERs and batteries into the power grid. DEP also included fees for membership in research organizations.

14 Q. DO YOU BELIEVE THAT ALL OF THE COSTS DEP HAS
15 INCLUDED QUALIFY AS RESEARCH "THAT ENCOURAGES
16 THE DEVELOPMENT OF RENEWABLE ENERGY, ENERGY
17 EFFICIENCY, OR IMPROVED AIR QUALITY," CONSISTENT WITH
18 N.C.G.S. § 62-133.8(h)(1)(b)?

19 A. Yes.

1

4

5

6

7

8

9

10

11

12

4

5

6

7

8

9

10

11

12

13

14

2 Q . H	IAS DEP	REQUESTED	TO RECOVER	ANY COSTS REL	ATED TO
----------------	---------	-----------	------------	---------------	---------

3 THE CPRE PROGRAM IN THIS PROCEEDING?

A. No, DEP has not included any costs related to the CPRE Program, enacted in Session Law 2017-192 as part of North Carolina House Bill 589 (HB 589), in this proceeding. DEP witness Jennings states on page 14 of her direct testimony that DEP has elected to recover the reasonable and prudent costs incurred to implement the CPRE Program through the CPRE Rider. DEP included those costs in its CPRE Program Rider filing in Docket No. E-2, Sub 1254, as contemplated under Commission Rule R8-71(j). She also states, however, that since DEP will use the RECs acquired through CPRE for REPS compliance, the Company may propose to recover CPRE Program implementation costs in future REPS proceedings.

15 Q. DO YOU AGREE THAT DEP SHOULD RECOVER CPRE COSTS

16 THROUGH THE REPS RIDER?

17 A. No. For the same reasons discussed in the testimony of Public Staff
18 witness Evan Lawrence in the 2019 Duke Energy Carolinas, LLC
19 (DEC), REPS Rider Proceeding in Docket No. E-7, Sub 1191, I do
20 not agree that DEP should recover CPRE implementation costs
21 through the REPS Rider. I agree, however, that it is difficult to
22 definitively make such a conclusion before this Commission has fully

1		considered CPRE costs in CPRE Program Rider filings or other
2		proceedings.
3	Q.	HAS DEP DISCUSSED THE RECOVERY OF CPRE COSTS IN
4		THE REPS RIDER IN OTHER PROCEEDINGS?
5	A.	Yes. In Docket No. E-100, Sub 150, DEP and DEC jointly filed their
6		Reply Comments and Amended Proposed Rule to Implement
7		N.C.G.S. § 62-110.8 on September 8, 2017. On page 13 of those
8		comments, DEP and DEC state:
9 10 11 12 13 14 15 16 17 18 19 20 21		Specific to the interrelationship with REPS, the Companies do not anticipate any CPRE Program costs being recovered through the REPS rider because N.C. Gen. Stat. § 62-110.8(b)(2) caps CPRE Program PPA purchases, including the cost of RECs, at or below the Companies' avoided cost. Therefore, the full cost of bundled CPRE Program RECs would be recovered through the CPRE Program rider mechanism. Similar to the approach used today for energy efficiency credits applied towards REPS compliance, the cost of RECs associated with renewable energy resources procured under the CPRE Program would simply be assigned \$0 cost for REPS compliance.
22	Q.	WHAT IS THE PUBLIC STAFF'S RECOMMENDATION WITH
23		REGARD TO THE RECOVERY OF CPRE COSTS IN THE REPS
24		RIDER?
25	A.	The Public Staff maintains its position that it is appropriate for CPRE
26		Program implementation costs to be recovered in a CPRE Program
27		Rider filing pursuant to Commission Rule R8-71(j). DEP should not
28		recover CPRE costs in the REPS rider.

Sale of RECs

1

21

22

2	Q.	PLEASE DESCRIBE THE DISCUSSIONS PERTAINING TO REC
3		SALES IN THE 2019 DEC REPS PROCEEDING.
4	A.	In the 2019 DEC REPS proceeding, Docket No. E-7, Sub 1191
5		Public Staff witness Michelle Boswell raised the issue of the pricing
6		of animal waste set-aside RECs sold by DEC in her direct testimony
7		and recommended that DEC and the Public Staff work together over
8		the next year to review and evaluate the sale price of set-aside RECs
9		sold by DEC. In its E-7, Sub 1191 Order, the Commission directed
10		DEC and the Public Staff to work together to determine what, if any
11		adjustments should be made to the current calculation of sales prices
12		of RECs sold by DEC to other electric power suppliers for the
13		purpose of those suppliers meeting their animal waste set-aside
14		requirements.
15	Q.	WHAT ASPECT OF THE SALE OF RECS BY DEP OR DEC ARE
16		YOU DISCUSSING IN YOUR TESTIMONY?
17	A.	One component of determining the sale price of RECs is to
18		determine the price at which DEP or DEC has purchased the RECs
19		from REC suppliers. I discuss my recommendation on the purchase
20		costs more fully below. My recommendation is in addition to those

made in the affidavit of Public Staff witness June Chiu in this

proceeding.

1	Q.	WHAT OCCURRED THAT REQUIRED AN INVESTIGATION ON
2		THE SALE OF RECS?
3	A.	Over the past four years, DEC has periodically sold set-aside RECs
4		to other electric power suppliers in order to assist with their REPS
5		compliance. The sale price of these RECs was determined using a
6		[BEGIN CONFIDENTIAL]
7		
8		
9		
10		
11		
12		
13		
14		
15		
16		
17		[END CONFIDENTIAL].
18	Q.	WHAT IS YOUR RECOMMENDATION REGARDING THE
19		PURCHASE PRICE OF RECS THAT DEP RESELLS?
20	A.	DEC and the Public Staff had productive discussions on the
21		purchase price of RECs and reached an agreement. As discussed in
22		the supplemental testimony of DEC witness Megan Jennings filed on
23		May 15, 2020, in Docket No. E-7, Sub 1229, DEC will calculate the

sale price of any animal waste set-aside RECs based on a weighted average price of RECs from all contracted and operational facilities in DEC's and DEP's combined portfolio for each respective set-aside. The Public Staff agrees with this proposal. The Public Staff has not testified regarding REC sales by DEP in previous REPS proceedings but recommends that any decisions by the Commission on DEC's REC sales also apply to DEP.

Solar Rebate Costs not applied to REPS Cost Cap

- 9 Q. PLEASE BRIEFLY DESCRIBE THE SOLAR REBATE PROGRAM

 10 AND ITS RELATION TO REPS.
- A. Part VIII of HB 589, enacted in part as N.C.G.S. § 62-155(f), requires certain electric public utilities, including DEP, to offer a Solar Rebate Program. The law authorizes DEP to recover all reasonable and prudent costs for the Solar Rebate Program through the REPS rider pursuant to N.C.G.S. § 62-133.8(h). DEP is also permitted to use any RECs created by the Solar Rebate Program for REPS compliance purposes.
- Q. DID DEP INCLUDE COSTS FOR THE SOLAR REBATE
 PROGRAM IN THE CURRENT RIDER PROCEEDING?
- 20 A. Yes.

1

2

3

4

5

6

7

1	Q.	DID DEP APPLY THE SOLAR REBATE COSTS TOWARD THE
2		COST CAP IN N.C.G.S. § 62-133.8(h)(4)?
3	A.	No. In a data request, the Public Staff asked DEP to explain its
4		reasoning for not including costs for the Solar Rebate Program in its
5		calculation of REPS costs that it applies toward the REPS cost cap.
6		DEP explained that it had referred to the requirements for the annual
7		compliance report in Commission Rule R8-67(c)(1)(iv) and (v),
8 9 10 11 12 13 14 15		which call for reporting the total and incremental costs for complying with NC G.S. 62-133.8(b) through (f) and comparing the incremental cost to the cost caps times the number of accounts. NC G.S. 62-133.8(b) through (f) establishes the overall REPS compliance requirements for electric public utilities and municipalities and EMCs, as well as the specific solar, poultry, and swine set-aside requirements.
16		Since the Solar Rebate Program is not listed in N.C.G.S. § 62-
17		133.8(b), (c), (d), (e), and (f), DEP did not include its costs in the
18		incremental costs applied to the cost cap.
19	Q.	DO YOU AGREE WITH NOT APPLYING THE SOLAR REBATE
20		PROGRAM COSTS TOWARD THE REPS COST CAP?
21	A.	Yes. I agree with not applying the Solar Rebate Program costs to the
22		cost cap. REPS was created in 2007 by N.C.G.S. § 62-133.8, and its
23		cost caps apply only to the specific requirements of N.C.G.S. § 62-
24		133.8(b), (c), (d), (e), and (f) and the funding of research in sub-
25		subdivision (h)(1)b. HB 589 did not alter N.C.G.S. § 62-133.8(h)(4)

- to include the Solar Rebate Program costs, which are included in sub-subdivision (h)(1)d.
- 3 REPS Rates
- 4 Q. WHAT RATES HAS DEP REQUESTED FOR ITS EMF AND REPS
- 5 **RIDERS?**
- A. In its Application, DEP requested the following monthly charges for
 the Billing and Experience Modification Factor (EMF) components of
 the total REPS rate, excluding the regulatory fee:

DEP's Rider Request Filed on June 9, 2020					
Customer Class	Billing Period Rate	EMF Rate	Total REPS Rate		
Residential	\$1.29	\$0.00	\$1.29		
General	\$7.71	\$(0.74)	\$6.97		
Industrial	\$54.49	\$(6.67)	\$47.82		

- 9 Q. WHAT RATES DOES THE PUBLIC STAFF RECOMMEND FOR
- 10 THE EMF AND REPS RIDERS?
- 11 A. The Public Staff agrees with the rates requested by DEP. These
 12 monthly rates are below the cost caps set forth in N.C.G.S. § 6213 133.8(h)(4). With these recommended rates, the residential, general
 14 service, and industrial classes are at approximately 57%, 56%, and
 15 57% of their cost caps, respectively.

- 1 Q. DOES THIS CONCLUDE YOUR TESTIMONY?
- 2 A. Yes, it does.

QUALIFICATIONS AND EXPERIENCE

JAY B. LUCAS

I graduated from the Virginia Military Institute in 1985, earning a Bachelor of Science Degree in Civil Engineering. Afterwards, I served for four years as an engineer in the Air Force performing many civil and environmental engineering tasks. I left the Air Force in 1989 and attended the Virginia Polytechnic Institute and State University (Virginia Tech), earning a Master of Science degree in Environmental Engineering. After completing my graduate degree, I worked for an engineering consulting firm and worked for the North Carolina Department of Environmental Quality in its water quality programs. Since joining the Public Staff in January 2000, I have worked on utility cost recovery, renewable energy program management, customer complaints, and other aspects of utility regulation. I am a licensed Professional Engineer in North Carolina.

STATE OF NORTH CAROLINA UTILITIES COMMISSION RALEIGH

DOCKET NO. E-2, SUB 1251

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

In the Matter of		
Application of Duke Energy Progress, LLC, for)	
Approval of Renewable Energy and Energy)	
Efficiency Portfolio Standard Cost Recovery)	NOTICE OF AFFIDAVIT
Rider Pursuant to N.C.G.S. § 62-133.8 and)	
Commission Rule R8-67)	

NOW COMES THE PUBLIC STAFF - North Carolina Utilities Commission, by and through its Executive Director, Christopher J. Ayers, as constituted by N.C. Gen. Stat. § 62-15, and gives notice that the Affidavit of:

June Chiu, Staff Accountant, Accounting Division Public Staff - North Carolina Utilities Commission 430 North Salisbury Street - Dobbs Building 4326 Mail Service Center Raleigh, North Carolina 27699-4300

will be used in evidence at the hearing in this docket scheduled for September 15, 2020, pursuant to N.C. Gen. Stat. § 62-68. The affiant will not be called to testify orally and will not be subject to cross-examination unless an opposing party or the Commission demands the right of cross-examination by notice mailed or delivered to the proponent at least five days prior to the hearing, pursuant to N.C. Gen. Stat. § 62-68.

THEREFORE, the Public Staff moves that the Affidavit of June Chiu be admitted into evidence in the absence of notice pursuant to N.C. Gen. Stat. § 62-68.

Respectfully submitted this the 25th day of August, 2020.

PUBLIC STAFF Christopher J. Ayers **Executive Director**

Dianna W. Downey **Chief Counsel**

Electronically submitted /s/ Gina C. Holt Staff Attorney gina.holt@psncuc.nc.gov

/s/ Nadia L. Luhr Staff Attorney nadia.luhr@psncuc.nc.gov

430 North Salisbury Street - Dobbs Building 4326 Mail Service Center Raleigh, North Carolina 27699-4300

Telephone: (919) 733-6110

CERTIFICATE OF SERVICE

I certify I have this day served a copy of the foregoing Notice of Affidavit and Affidavit on each of the parties of record in this proceeding or their attorneys of record by causing a copy to be deposited in the United States Mail, postage prepaid, properly addressed to each or by electronic delivery upon agreement from the parties.

This the 25th day of August, 2020.

Electronically submitted /s/ Gina C. HOlt Staff Attorney

DOCKET NO. E-2, SUB 1251

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

In the Matter of	
Application of Duke Energy Progress, LLC, for)	<u>AFFIDAVIT</u>
Approval of Renewable Energy and Energy)	<u>OF</u>
Efficiency Portfolio Standard Cost Recovery)	JUNE CHIU
Rider Pursuant to N.C.G.S. 62-133.8 and)	
Commission Rule R8-67	

STATE OF NORTH CAROLINA

COUNTY OF WAKE

1, June Chiu, first being duly sworn, do depose and say:

I am a Staff Áccountant with the Accounting Division of the Public Staff - North Carolina Utilities Commission. A summary of my education and experience is attached to this affidavit as Appendix A.

N.C. Gen. Stat. § 62-133.8(h) provides that the State's electric power suppliers may recover their reasonable and prudently incurred incremental costs of compliance with the Renewable Energy and Energy Efficiency Portfolio Standard (REPS) through an annual rider charge. Pursuant to Commission Rule R8-67, the REPS rider will be recovered over the same period as the utility's fuel and fuel-related cost rider. Rule R8-67 also provides for a REPS experience modification factor (REPS EMF) rider, which is utilized to "true-up" the recovery of reasonable and prudently incurred incremental REPS compliance costs incurred during the test period established for each annual rider proceeding.

The purpose of my affidavit is to present the results of the Public Staff's investigation of the REPS EMF rider proposed by Duke Energy Progress, LLC (DEP or the Company), in this proceeding, based on incremental REPS compliance costs incurred and revenues recorded from April 2019 through March 2020 (REPS EMF period or test period).

On June 9, 2020, DEP filed its application, testimony, and exhibits related to the incremental costs incurred for compliance with the REPS. Williams Exhibit No. 4 sets forth the proposed annual and monthly EMF increment or decrement riders for each of the North Carolina retail customer classes. The proposed annual EMF increment/(decrement) riders, excluding the North Carolina regulatory fee, for the residential, general, and industrial customers, respectively, are \$0.01, \$(8.89), and \$(80.08) per retail customer account. These rates are calculated by dividing the "Total EMF Costs/(Credits)" amount, as shown on Williams Exhibit No. 4 for each customer class, by the "Total Projected Number of Accounts – DEP NC Retail" for that class. The proposed monthly EMF increment/(decrement) riders, excluding the regulatory fee, for residential, general, and industrial customers, respectively, are \$0.00, \$(0.74), and \$(6.67) per retail customer account.

The Public Staff's investigation included procedures intended to evaluate whether the Company properly determined its per books incremental compliance costs and revenues, as well as the annual revenue cap for REPS requirements, during the test period. These procedures included a review of the Company's filing and other Company data provided to the Public Staff. Additionally, the

procedures included a review of certain specific types of expenditures impacting the Company's costs, including labor and research and development costs. Performing the Public Staff's investigation required the review of numerous responses to written and verbal data requests.

As a result of the Public Staff's investigation, I am recommending that DEP's proposed annual and monthly REPS EMF increment or decrement riders for each customer class be approved. These amounts produce annual increment/ (decrement) REPS EMF riders of \$0.01, \$(8.89), and \$(80.08), and monthly increment/(decrement) REPS EMF riders of \$0.00, \$(0.74), and \$(6.67), per customer account, excluding the regulatory fee, for residential, general, and industrial customers, respectively. Additionally, the Public Staff recommends that the Commission approve the same proposed REC sales price calculation, which was proposed by Duke Energy Carolinas, LLC (DEC), and the Public Staff in DEC's REPS rider proceeding in Docket No. E-7, Sub 1229 to calculate the sales price when the Company sells animal waste RECs to other electric suppliers to help those suppliers comply with N.C. Gen. Stat. §§ 62-133.8(e) and (f). The calculation, as described in Docket No. E-7, Sub 1229, includes (1) the calculation of the purchase price of the animal waste RECs, (2) the calculation of an overhead adder, and (3) the calculation of an interest adder. The proposed calculation (a) appropriately accounts for and balances the costs associated with the sales and (b) addresses the concerns raised by the Public Staff in the Docket No. E-7, Sub 1191 proceeding. The Public Staff recommends the calculation

continue to be reviewed on an annual basis to verify that it is working as designed.

This completes my affidavit.

June Chiu

Sworn to and subscribed before me this the <u>25</u> day of August, 2020.

Joanne M. Berube NOTARY PUBLIC WAKE COUNTY, N.C. My Commission Expires 12-17-2022.

My Commission Expires:

QUALIFICATIONS AND EXPERIENCE

JUNE CHIU

I graduated from Drake University in 2008 with a Master degree in Business Administration. Prior to joining the Public Staff, I worked in state government in Iowa and for two Fortune 500 corporations. My duties varied from performing audit engagement to supervising accounting and internal controls and preparing SEC filings.

I joined the Public Staff in October 2017. I am responsible for (1) examining and analyzing testimony, exhibits, books and records, and other data presented by utilities and other parties under the jurisdiction of the Commission or involved in Commission proceedings, and (2) preparing and presenting testimony, exhibits, and other documents for presentation to the Commission.

I have performed audits and/or presented testimony and exhibits before the Commission for water cases for Ridgecrest, Water Resources, Aqua, Lake Junaluska, Carolina Water Service Inc. of NC and JAARS. I have participated in electric cases such as the Dominion Energy North Carolina 2019 rate case and Duke Energy Carolinas, LLC's 2019 rate case.