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November 25, 2020

VIA ELECTRONIC FILING

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

**RE: Duke Energy Carolinas, LLC's Corrected Late-Filed Exhibit
Docket No. SP-13695, Sub 1**

Dear Ms. Campbell:

On November 24, 2020, Duke Energy Carolinas, LLC filed a Late-Filed Exhibit in the above-captioned matter. It has come to my attention that the narrative portion of the public version of the Late-Filed Exhibit contained typographical errors. I have enclosed a corrected Late-Filed Exhibit, in its entirety, to replace the one filed previously.

If you have any questions, please do not hesitate to contact me. Thank you for your assistance with this matter.

Sincerely,

Jack E. Jirak

Enclosure

cc: Parties of Record

OFFICIAL COPY

Nov 25 2020

DEC Late Filed Exhibit

Docket No. SP-13695, Sub 1

In response to Commission questions during the hearing on November 2, 2020, the Company provides this information concerning certain Proposals submitted into CPRE Tranche 1.

In addition to Orion, two other Proposals were eliminated in Tranche 1 as a result of having been evaluated by the Independent Administrator (“IA”) and determined to have a negative Net Benefit (*i.e.*, the Proposals would be harmful to customers based on projected avoided costs). For purposes of this summary, the two other Proposals are identified as Bid A and Bid B (reference attached spreadsheet for the identity of the other two Proposal sponsors). Neither of these two Proposals were submitted into Tranche 2. The attached spreadsheet provides additional information about Orion and the additional two Tranche 1 Proposals.

As is shown in the attached spreadsheet, all three Proposals would be detrimental to customers even prior to application of any transmission & distribution (“T&D”) upgrade costs (“Upgrades”). The column entitled “Step 1 – Net Benefit (\$) without T&D Costs” identifies the negative net benefit prior to application of T&D costs for each of the three Proposals. As requested by the Commission, the IA has also calculated the Allowable System Upgrade cost that would have been applicable in Tranche 1 for these three bids (*i.e.*, the maximum amount of Upgrade costs that could be absorbed by the Proposal before exceeding the avoided price cost cap, though the projects had a negative Net Benefit).

While the Commission has not yet resolved the key legal questions in this proceeding—whether the applicable law permitted the elimination of bids that were determined through the IA’s evaluation methodology to have a negative economic impact on customers—this late-filed exhibit provides additional factual information regarding questions posed by the Commission concerning a potential scenario in which Tranche 1 PPAs were retroactively offered to these Proposals. In light of the passage of time and certain changes occurring between Tranche 1 and 2, a number of complex factors must be considered in evaluating the impact of offering Tranche 1 PPAs to the three projects. The following is a summary of the relevant facts.

1. **Interconnection Study**—*Is further interconnection study needed for any of the Proposals in order to establish the Upgrades for each?*

- **Orion:** No. As explained in the hearing, a thermal study was performed for Orion during Tranche 1. Such study did not identify any thermal issues and therefore no Upgrades were required beyond the standard Upgrade package.

- **Bid A:** Yes. A thermal study was not performed for Bid A during Tranche 1. Therefore, a thermal study would need to be conducted in order to determine whether any Upgrades would be needed beyond the standard Upgrade package.
 - **Bid B:** No. A thermal study was performed for Bid B during Tranche 1. Such study did not identify any thermal issues and therefore no Upgrades were required beyond the standard Upgrade package.
2. **Interconnection Study**—*If further interconnection study is required, what is the appropriate base case to be used for study?*
- As background, the T&D analysis requires the development of a base case—that is, the set of projects that are assumed to be operational for purposes of the T&D analysis, which includes operational projects and projects in the transmission queue as of the bid date that were not bid into the respective CPRE Tranche.
- **Orion:** N/A. However, the Company witness testified during the hearing that Orion was studied in both Tranche 1 and Tranche 2 and neither study identified any Upgrades beyond the standard Upgrade package (discussed in detail below).
 - **Bid A:** Tranche 1 base case seems most appropriate to use. The Company has confirmed that no Tranche 2 projects would have been impacted had this project been selected in Tranche 1. This is because this Proposal was not bid into Tranche 2 and therefore would have been included in the base case for Tranche 2. In other words, this project was already assumed in the base case for studying Tranche 2 projects.
 - **Bid B:** N/A. The Company has confirmed that no Tranche 2 projects would have been impacted had this project been selected in Tranche 1. This is because this Proposal was not bid into Tranche 2 and therefore would have been included in the base case for Tranche 2. In other words, this project was already assumed in the base case for studying Tranche 2 projects.
3. **Changes in Equipment Classification Between Tranche 1 and Tranche 2**—*How should changes in equipment classification that occurred between Tranche 1 and Tranche 2 be handled?*

All transmission-level interconnection require certain standard equipment to facilitate interconnection (referred to herein as the “standard Upgrade package”). A portion of this standard Upgrade package is comprised of either a “GOAB” (for 100 kV and up interconnections) or 4-pole bent (for 44 kV interconnections) (collectively referred to herein as “POI Switching Equipment”). Historically, POI Switching Equipment had been classified by the Company as Interconnection Facilities for state-jurisdictional interconnections. However, in a development that was not specifically related to CPRE, Duke determined that FERC guidance required that POI Switching Equipment be classified as Upgrades rather than Interconnection Facilities. This determination occurred between Tranche 1 and Tranche 2. However, this change between Tranche 1 and Tranche 2 must now be considered in the pending matter.

Because Tranche 1 occurred prior to this change, all bidders in Tranche 1 were provided information that indicated the POI Switching Equipment was the responsibility of the bidder as Interconnection Facilities and would therefore be accounted for in developing their PPA price and the cost of POI Switching Equipment was therefore not assessed to Proposals as part of the Step 2 T&D evaluation.

In contrast, in Tranche 2, bidders were provided information that indicated that the POI Switching Equipment was not the responsibility of the bidder and therefore did not need to be included in the PPA price (given that it was now classified as Upgrades) and the cost of POI Switching Equipment was assessed to Proposals as part of the Step 2 T&D evaluation (though bidders would not be responsible for paying for the POI Switching Equipment under the CPRE cost recovery construct).

To put a fine point on this, because Tranche 1 did not classify the POI Switching Equipment as an Upgrade, the standard Upgrade package (which also includes relay/communication modifications as discussed below) in Tranche 1 did not include POI Switching Equipment at all. In contrast, the standard Upgrade package in Tranche 2 did include POI Switching Equipment, which increased the cost of the standard Upgrade package by approximately \$1 M - \$1.25M (though a portion of that increase was offset in Tranche 2 by a reduced estimated cost for relaying as described below).

Looking backwards to Tranche 1, the Company is not permitted to retroactively issue Interconnection Agreements for Tranche 1 Proposals that classify POI Switching Equipment as Interconnection Facilities since FERC guidance has now rendered that improper. But this raises a number of questions to be considered in a

hypothetical scenario in which PPAs are retroactively offered to Tranche 1 bidders. A basic component of a competitive solicitation program is that all participants are treated in the same manner and that all bids are evaluated using the same methodology, and a retroactive change in the evaluation standards applied to some Proposals would violate this standard.

First, is there a potential for a windfall for the Tranche 1 bidders if they are issued an Interconnection Agreement using existing classifications but are awarded a PPA based on a bid price that assumed the older classifications (*i.e.*, the bids assumed cost responsibility for POI Switching Equipment)?

Second, should the Tranche 1 bidders be assessed based on the standard Upgrade package that was applicable at the time of Tranche 1 (which did not include POI Switching Equipment), or should the Tranche 1 bidders be assessed the standard Upgrade package that is now effective and was applied to Tranche 2 (which did include POI Switching Equipment)? And if the standard Upgrade package that is now effective is applied, should the Tranche 1 bidders (both the three Proposals described herein along with all other Proposals) be given an opportunity to re-price their Tranche 1 bids? That is, if they will now be assessed higher standard Upgrade package costs, should they be given an opportunity to re-price their bids in light of the fact that their initial bids assumed bidder responsibility for the POI Switching Equipment? Note that the standard Upgrade package includes POI Switching Equipment, along with certain relays that are discussed in more detail below.

As the equipment reclassification relates to the three bidders in question, the following are the primary considerations.

- **Orion:** As a winner in Tranche 2, Orion is in the process of being studied and offered an interconnection agreement under the Tranche 2 assumptions. Thus, the Orion Tranche 2 Interconnection Agreement will treat POI Switching Equipment as Upgrades. And under the CPRE cost recovery construct, Orion would not be responsible for the cost of the POI Switching Equipment. Orion's Tranche 2 PPA pricing was based, in part, on the guidance that it would not be responsible for the cost of the POI Switching Equipment. In contrast, Orion's Tranche 1 PPA price would have been based, in part, on assuming responsibility for POI Switching Equipment.

Because Duke believes that it is required to issue an Interconnection Agreement that classifies POI Switching Equipment as an upgrade, if Orion is awarded a Tranche 1 PPA based on its Tranche 1 bid price, Orion would

be receiving a windfall because its Tranche 1 bid price assumed cost responsibility for POI Switching Equipment while its Interconnection Agreement (which is being developed as part of Tranche 2) will not actually assign Orion cost responsibility for POI Switching Equipment.

Second, should the standard Upgrade package be applied to Orion based on Tranche 1 assumptions (\$450K) or based on Tranche 2 assumptions (\$1.6 M)? It appears that the Orion Proposal would have sufficient headroom to absorb the Tranche 1 assumed cost for the standard Upgrade package but would not have sufficient headroom to absorb the Tranche 2 assumed cost for the standard Upgrade package.

- **Bid A:** The same set of considerations apply to Bid A. If Bid A were to be awarded a Tranche 1 PPA based on the Tranche 1 bid price, it would be receiving a windfall due to the fact that its Tranche 1 bid price assumed responsibility for POI Switching Equipment but its Interconnection Agreement (if issued) would classify POI Switching Equipment as Upgrade and, therefore, Bid A would not bear that cost.

Second, should the standard Upgrade package be applied to Bid A based on Tranche 1 assumptions (\$225K) or based on Tranche 2 assumptions (\$1.125 M)? Once again, the definitive amount of Upgrades for Bid A would not be known until completion of thermal study as is explained above in Section 1. It appears that Bid A would have sufficient headroom to absorb the Tranche 1 assumed cost for the standard Upgrade package but would not have sufficient headroom to absorb the Tranche 2 assumed cost for the standard Upgrade package. In the latter case, should Bid A be given the opportunity to reprice its Tranche 1 bid?

- **Bid B:** The same set of considerations apply to Bid B. If Bid B were to be awarded a Tranche 1 PPA based on the Tranche 1 bid price, it would be receiving a windfall due to the fact that its Tranche 1 bid price assumed responsibility for POI Switching Equipment but its Interconnection Agreement (if issued) would classify POI Switching Equipment as Upgrade and, therefore, Bid B would not bear that cost.

Second, should the standard Upgrade package be applied to Bid B based on Tranche 1 assumptions (\$450K) or based on Tranche 2 assumptions (\$1.5 M)? It appears that Bid B would have sufficient headroom to absorb the Tranche 1 assumed cost for the standard Upgrade package but would not

have sufficient headroom to absorb the Tranche 2 assumed cost for the standard Upgrade package. In the latter case, should Bid B be given the opportunity to reprice its Tranche 1 bid?

4. **Changes in estimated Upgrade costs between Tranche 1 and Tranche 2**—*How should changes in estimated relay costs between Tranche 1 and Tranche 2 be handled?*

All transmission-level interconnection require a certain set of relays. These relays are classified as Upgrades. For purposes of the T&D evaluation in Tranche 1, the Company used a cost estimate of \$250 K. Based on updated information, the estimated cost for such relays was changed to \$125 K in Tranche 2. While the estimated relay cost was a decrease, the overall cost of the standard Upgrade package increased in Tranche 2 due to the inclusion of POI Switching Equipment as described above.

This issue feeds into the questions posed above regarding whether the Tranche 1 bids should be evaluated using the assumed standard Upgrade package from Tranche 1 or Tranche 2.

5. **Overall CPRE Target Procurements**—*What impact do the additional projects have on the overall CPRE target procurement?*

As was described in the Company's CPRE Program Plan Update, under HB 589, the ultimate amount to be procured through CPRE cannot be determined until the total amount of Transition MW is determined. However, under certain realistic scenarios, the Company (together with DEP) is already over-procured for CPRE based on Tranche 1 and Tranche 2 due to higher than projected amounts of Transition MWs.

Such assessment assumes the procurement of Orion, since Orion was selected in Tranche 2. However, such assessment does not assume the retroactive procurement of two additional projects from Tranche 1, which would further increase risk of over-procurement and, if any further procurements are deemed necessary, would reduce the size of such procurements.

6. **Other Bids Eliminated in Tranche 1 Based on Net Benefit Analysis**—*Should the IA retroactively assess all other Proposals eliminated in Tranche 1 on the basis of the Net Benefits analysis?*

This late-filed exhibit describes certain considerations that would apply with respect to the other two Proposals that were similarly situated to Orion—Proposals that were eliminated in Tranche 1 based on negative Net Benefit *prior to* application

of any T&D costs through Step 2. However, 15 projects were also eliminated in Tranche 1 based on a determination of negative Net Benefits *after* the application of T&D costs determined in Step 2. Extensive further analysis would therefore be needed to assess each such Proposal to determine whether the applicable T&D costs, in addition to causing the Proposals to have a negative Net Benefit, also would have exceeded the Maximum Allowable T&D Upgrade Cost. Depending on the outcome of such hypothetical analysis, all of the questions above would then need to be resolved with respect to such additional Proposals.

Accion - Late Filed Exhibit

CPRE Tranche 1 - DEC: Summary of Results	Proposals
Proposals Submitted:	58
- Selected as Winners	12
- Eliminated Proposals	46
Summary of Eliminated Proposals:	
- MP Failed to Post Proposal Security	20
- MP Withdrew or Unique Disqualifying Reasons	8
- Result of Step 1 Analysis: Proposal has Negative Net Benefits	3
- Result of Step 2 T&D System Upgrade Costs Analysis: Proposal has Negative Net Benefits	15

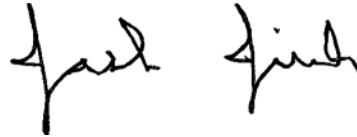
*** Some of these 15 Proposals may pass "Maximum Allowable T&D Upgrade Costs" screen.

CPRE Tranche 1 for DEC - Proposals with Step 1 Negative Net Benefits												
[BEGIN CONFIDENTIAL]												
Tranche 1, Step 1 Ranking (I.e., before T&D Costs)										Tranche 1, Step 2, Recalculated		
Bid Identifier	Bid No.	Step 1 Rank (out of 58 Proposals)	Market Participant	Project Name	Queue #	Generating Capacity MW AC	Proposal Decrement	Step 1 - Net Benefit (\$/MWh) without T&D Costs	Step 1 - Net Benefit (\$) without T&D Costs (Negative \$ = Additional Costs to Customers)	Duke T&D Evaluation Team - Step 2 system upgrade costs (capital \$) [Using T-1 Step 2 data, i.e., base case & CPRE bids]	Step 2 - Net Benefit (\$) with T&D Costs (Negative \$ = Additional Costs to Customers)	“Maximum Allowable T&D Upgrade Costs”, [See: February 28, 2020 IA Memo] applied to T-1 Proposals.
Bid A		56						-\$0.1642	-\$204,219	* Unknown (minimum \$225,000)	-\$470,652	\$668,100
Bid B		57						-\$0.6567	-\$794,411	\$450,000	-\$1,327,276	\$1,233,800
Orion		58						-\$1.1137	-\$2,505,672	\$450,000	-\$3,038,538	\$1,589,300
[END CONFIDENTIAL]								Sum =	-\$3,504,302		-\$4,836,466	

CERTIFICATE OF SERVICE

I certify that a copy of Duke Energy Carolinas, LLC's Corrected Late-Filed Exhibit, in Docket No. SP-13695, Sub 1, has been served by electronic mail, hand delivery, or by depositing a copy in the United States Mail, 1st Class Postage Prepaid, properly addressed to parties of record.

This the 25th day of November, 2020.

A handwritten signature in black ink, appearing to read "Jack Jirak", written in a cursive style.

Jack E. Jirak
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