

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION
DOCKET NO. E-2, SUB 1340
DOCKET NO. E-7, SUB 1310

In the Matter of)	
)	
Duke Energy Progress, LLC, and)	INITIAL COMMENTS OF
Duke Energy Carolinas, LLC, 2024)	CAROLINAS CLEAN ENERGY
Solar Procurement Pursuant to)	BUSINESS ASSOCIATION
Initial Carbon Plan)	
)	

Pursuant to the North Carolina Utilities Commission’s February 8, 2024 *Order Initiating Proceeding and Requesting Expedited Comments* (“Order”), the Carolinas Clean Energy Business Association (“CCEBA”) submits these Initial Comments in response to the Order and the Motion to Open 2024 RFP Dockets, Grant Flexibility to Administer 2024 RFP Through a Resource Solicitation Cluster, and For Extension of Time to File 2024 RFP filed by Duke Energy Carolinas, LLC and Duke Energy Progress, LLC (collectively, “Duke”) on February 5 (“Duke Motion”). These comments are in specific response to the Commission’s request that intervening parties address two subjects on an expedited basis: (1) Duke’s proposed elimination of a “shadow cost” mechanism for assigning a portion of the costs of Red Zone Expansion Plan (“RZEP”) transmission projects to bids that would use the increased capacity brought about by the RZEP for the purposes of comparison and ranking of bids, and (2) Duke’s motion for permission to use a Resource Solicitation Cluster (“RSC”) in the 2024 Procurement and for an extension of time to submit the details of that procurement.

I. RZEP “Shadow Cost” Issues

CCEBA supports Duke’s proposal to eliminate the use of a “shadow cost” mechanism in the evaluation and scoring of bids in the 2024 Procurement because the effects of that mechanism are contrary both to existing law and policy and to the successful implementation of the Carbon Plan process.

The first round of RZEP projects have been reviewed and approved by the North Carolina Transmission Planning Collaborative (“NCTPC”), and are now classified as “contingent” facilities included in the system baseline from and after the 2023 DISIS. Selection and approval of the RZEP recognizes the reality that proactive transmission planning is fundamental to enabling the addition of needed new generation at least total cost to ratepayers. Historically, transmission planning and buildout for new generation was something of an afterthought since the electric system featured a relatively small number of large generators whose siting was constrained by factors like available cooling water sources and rail connections. The advent of low-cost distributed generation has made the role of transmission far more important. Proactive transmission planning ensures that transmission construction and buildout is focused on projects that unlock the greatest amount of low-cost generation for ratepayers. The RZEP projects do exactly that. See *generally* Testimony of Dr. Dinos Gonatas, Docket No. E-100, Sub 179 (NCUC Sep. 2, 2022) at 2-8, 18-23 (discussing need for proactive transmission planning reform to effectively integrate renewable sources onto the grid).

At the outset it is important to note that assigning the cost of already-planned transmission system improvements to generators, which has never been proposed by Duke or ordered by the Commission, is not under discussion here. Requiring individual generators to bear the cost of transmission upgrades needed for the system as whole would be counter to sound transmission planning policy and contrary to established law. See *S.C. Pub. Serv. Auth. v. Fed. Energy Regulatory Comm'n*, 762 F.3d 41, 85 (D.C. Cir. 2014) (upholding FERC Rule 1000 and restating Court's endorsement of "assign[ing] the costs of system-wide benefits to all customers on an integrated transmission grid.") (quoting *Nat'l Ass'n of Regulatory Util. Commis. v. FERC*, 475 F.3d 1277, 1285 (D.C. Cir. 2007)). As FERC has held, system upgrade costs should not be assigned to a particular customer where those upgrades were part of a "comprehensive transmission system plan." *Jeffers South, LLC v. Midwest Indep. Transmission Sys. Op.*, 153 FERC ¶ 61,190, at P 44 (2015).

In addition, in its recent order rejecting without prejudice Duke's proposed revisions to Attachment N-1 to its Open Access Transmission Tariff ("OATT"), FERC, dismissed arguments by commenters that the cost of planned additions to Duke's transmission system identified through proactive planning, such as the RZEP improvements, should be allocated to generators. 185 FERC ¶ 61,244, *Order Rejecting Filing Without Prejudice*, (Docket No. ER24-314) at PP 48 and 59 (Dec. 29, 2023). FERC held that under the proposed new Attachment N-1, such costs would be allocated in accordance with the cost-allocation methodology contained in the current OATT – which is to say allocated to

ratepayers in accordance with a defined formula – and that such an approach was “sufficient to satisfy Order 890’s requirement that applicable transmission processes ‘address the allocation of costs of new facilities.’” *Id.* at P 59. ¹

As recognized by this Commission and the NCTPC, RZEP improvements that are approved by the NCTPC and incorporated into the utility’s transmission baseline are necessary for the successful and economically-efficient integration of the large amounts of low-cost renewable energy that need to be brought online in North and South Carolina over the next several years without overtaxing the transmission system. Without those upgrades, the system *as a whole* will not benefit from the integration of renewable energy and the system *as a whole* will face challenges. Because these projects benefit the entire grid and are incorporated into the baseline, assignment of costs to specific interconnection

¹ Paragraph 59 of the order reads as follows: “We are unpersuaded by protesters’ arguments that Duke’s proposal to use its existing cost allocation mechanism to allocate the costs of the new categories of projects—which NCEMC maintains includes formalization of a new category of Public Policy Projects in addition to the Duke-identified Multi-Value Strategic Transmission Projects—contravenes Order No. 890’s cost allocation principle. First, we disagree with NCEMC’s claim that Duke is proposing to add a new process for Public Policy Projects in addition to its proposed process for Multi-Value Strategic Transmission Projects. Duke’s currently effective Joint OATT already includes a process for planning local transmission projects driven by public policy needs. Second, Order No. 890’s cost allocation principle requires only that Order No. 890-compliant transmission plans ‘address the allocation of costs of new facilities.’ Here, Duke does not propose to revise the default cost allocation under Attachment N-1, which provides for all but ‘Joint Local Reliability Projects’ and ‘Joint Local Economic Projects’ to be recovered under the cost allocation policies in the Joint OATT. Therefore, the costs of Multi-Value Strategic Transmission Projects will be recovered under Duke’s formula rate. This is sufficient to satisfy Order No. 890’s requirement that applicable transmission planning processes ‘address the allocation of costs of new facilities.’”

customers is not warranted and is inconsistent with the authorities discussed above.

Given that the actual cost of the RZEP upgrades cannot be allocated to individual generators, one must ask what purpose would be served by allocating a “shadow cost” of such upgrades to generators who bid into a Duke competitive procurement.² CCEBA can think of no such purpose at this time. On the contrary, CCEBA agrees with Duke that the attribution of a shadow cost would have counterproductive results and supports the rationale put forth by Duke for its decision not to assume a shadow cost in the 2024 Procurement.

The fact that the shadow cost mechanism does not impose *actual* costs on interconnection customers in the Red Zone does not justify its use. In the context of a competitive procurement, the effect on potential generators is the same. They are placed at a competitive disadvantage and their bids are deemed “more expensive” because of costs they should not otherwise be required to bear alone.

The assignment of shadow costs thus poses a perverse practical implication in a competitive procurement regime. Assume, for instance, Generator A submits a bid at \$50 per MWh in an area where RZEP contingent upgrades are planned, while generator B submits a bid at \$53 per MWh outside of such areas with no required upgrades. If a shadow cost of \$5/MWh were attributed to Generator A because of the planned upgrades for the purposes of

² CCEBA recognizes that the Commission did require attribution of RZEP shadow costs in connection with Duke’s 2022 solar procurement but, as it did in 2022, CCEBA respectfully disagrees with that approach.

comparing it to other bids, bid B would end up appearing less expensive, and would be selected even though it has a higher Levelized Cost of Energy. If so, the ratepayers would pay for the more expensive of the two bids *and* the upgrades will still be built and paid for by ratepayers. The effect of this situation is higher costs for ratepayers and the potential for underutilized network improvements.

Similarly, if Generator B's project outside of the RZEP area nevertheless required some upgrades at \$1/MW, the "shadow cost" mechanism would still result in the selection of Generator B. In that event, the *more* expensive bid would get selected, and would bring along with it upgrades to the system which would otherwise not be needed, rather than driving generation to the location where upgrades had been planned and where the NCTPC had decided that transmission and development should be targeted as part of the least-cost plan to achieve the results mandated by House Bill 951.

Beyond promoting perverse results for ratepayers, as Duke has noted, use of the shadow cost could cause the planned upgrades to be utilized more by generators not participating in Duke's competitive procurement. Such a situation would occur if competitive bids under Duke's RFP are not selected because of having been saddled with attributed shadow costs for which they are not actually responsible. Projects that compete in the CPIRP procurement process should not be handcuffed or rendered artificially more expensive by use of the shadow cost mechanism; doing so merely renders those projects seemingly less

competitive and could delay full build out of resources in those areas that are served by the RZEP improvements.

Indeed, if otherwise competitive projects are *not* selected because of the shadow cost mechanism, ratepayer costs could *increase* due to the selection of otherwise uncompetitive projects outside the RZEP areas, while the area served by the RZEP upgrades will still be utilized by GSA, QF, and merchant facilities. In the end, use of shadow pricing could result in a suboptimal utilization of the RZEP upgrades by CPIRP resources that are actually disadvantaged in the procurement evaluation process by use of a fictional cost adder.

CCEBA joins Duke in recommending that the shadow cost mechanism not be part of the 2024 Procurement process. Removal of the shadow cost will enable CPIRP projects to benefit fairly and equally from the transmission resources to be developed in the RZEP areas.

II. Use of Resource Solicitation Cluster and Duke's Request for Extension of Time

CCEBA does not oppose the consideration of an RSC in the 2024 Procurement. However, CCEBA reserves the right to address the details of that RSC in stakeholder negotiations with Duke and in future filings. As in 2023, CCEBA will seek to have that RSC provide flexibility and optionality to bidders and will address those issues as the RSC is designed for the 2024 Procurement. *See, e.g., Joint Comments of Clean Power Suppliers Association and Carolinas Clean Energy Business Association on Proposal for Resource Solicitation Cluster*, Docket Nos. E-2, Sub 1317 and E-7, Sub 1290 , at pp. 6-9 (N.C.U.C. February 8, 2023). Because the 2023 Procurement is still underway, it is not yet

possible to determine any recommended changes to that process. Nevertheless, CCEBA does not oppose the further consideration of an RSC for 2024.

Because such additional information based on the outcome of the 2023 Procurement would help 2024 Procurement and because negotiations and continued stakeholder engagement are necessary for the design of an optimal procurement approach, including the details of an RSC for the 2024 Procurement, CCEBA does not oppose the extension of time sought by Duke in its motion.

Respectfully submitted, this 15th day of February, 2024.

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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 document 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 15th day of February 2024.

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