McGuireWoods LLP
501 Fayetteville St.
Suite 500
Raleigh, NC 27601
Phone: 919.755.6600
Fax: 919.755.6699
www.mcguirewoods.com

Andrea R. Kells
Direct: 919.755.6614

McGUIREWOODS

akells@mcguirewoods.com

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VIA Electronic Filing

Ms. Kimberley A. Campbell, Chief Clerk
North Carolina Utilities Commission
Dobbs Building
430 North Salisbury Street
Raleigh, North Carolina 27603-5918

Re: Docket No. E-100, Sub 167
Sub 158 Additional Issues Initial Report

Dear Ms. Campbell:

Pursuant to the *Order Granting Continuance and Establishing Reporting Requirements* issued by the North Carolina Utilities Commission ("Commission") in Docket No. E-100, Sub 167 on October 30, 2020 ("Continuance Order"), Virginia Electric and Power Company, d/b/a Dominion Energy North Carolina ("DENC" or the "Company") hereby files its proposal for addressing each of the additional issues set forth in the Commission's April 15, 2020 *Order Establishing Standard Rates and Contract Terms for Qualifying Facilities* ("Sub 158 Order") in Docket No. E-100, Sub 158 ("Sub 158 Additional Issues) that apply to DENC. On October 20, 2020, DENC together with Duke Energy Carolinas, LLC and Duke Energy Progress, LLC (the "Duke Utilities" and together with DENC, the "Utilities"), filed in this docket a Notification of Intended Compliance with N.C. Gen. Stat. § 62-156(b), Request for Continuance of Compliance with Certain 2020 Filing Requirements and Request to Prospectively Modify Timing of Biennial Proceedings ("Joint Request"). Among other things, the Joint Request requested a continuance of the issues other than updating inputs to the Utilities' avoided cost rates, as outlined in the Sub 158 Order, until November 1, 2021. In the Continuance Order, the Commission ordered the Utilities to address the Sub 158 Additional Issues by November 1, 2021, and directed the Utilities to file by December 7, 2020, a proposal, including a timeline, of how they intend to address each unresolved item. The Commission also directed the Utilities to file updates at least every 45 days thereafter informing the Commission of their progress ("Progress Updates"). With this letter the Company is providing its proposals and timelines for how it intends to address each of the Sub 158 Additional Issues that applies to DENC, that have not already been addressed in the Company's Initial Statement and Exhibits filed on November 2, 2020, in this proceeding.

Continued Evaluation of Line Loss Avoidance

In the 2016 biennial avoided cost case ("Sub 148 Case"), DENC proposed and was granted approval to eliminate the 3% adder to avoided energy rates that had traditionally been included to reflect the assumption that distributed QFs helped the utility avoid line losses from bringing power from elsewhere on its system to that location. DENC showed that with the amount of distributed QF generation connected in its North Carolina service area, there was a significant and growing amount of backflow onto the Company's system, such that QFs were no longer avoiding line losses for the Company. In its final order in the Sub 148 Case, the NCUC directed DENC to reevaluate the line loss issue for the 2018 avoided cost proceeding. In the 2018 biennial avoided cost case ("Sub 158 Case"), the Company proposed to continue not including the line loss adder based on an updated study of backflow at DENC's transformers located in North Carolina. The Sub 158 Order found that power backflow on substations in DENC's North Carolina service territory from solar generation on the distribution grid continues to increase such that avoided line loss benefits associated with distributed generation have been reduced or negated, and that it was appropriate for DENC to continue to not include a line loss adder in its standard offer avoided cost payments to solar QFs on its distribution network. (Sub 158 Order at 34-36, Ordering Paragraph 14.)

The Commission also found it appropriate to require the Utilities to "continue to study the impact of distributed generation on power flows on their distribution circuits and to provide the results of those studies as a part of their initial filings in the next biennial avoided cost proceeding." (Sub 158 Order at 36.) Prior to joining with the Duke Utilities in the Joint Request, the Company updated its evaluation of the amount of backflow on the North Carolina portion of its service area, but did not include the updated study with the streamlined filing submitted on November 2, 2020, based on DENC's determination that the analysis was included in the "Sub 158 Additional Issues" addressed by the Commission in the Continuance Order, to be addressed in the November 2021 filing. The updated study shows that the number of transformers experiencing backflow has increased as more distributed solar generation has become operational. Specifically, of the 41 transformers with connected distributed solar, the study showed 24 realizing consistent backflow (58.5%), an increase from the 16 out of 38 transformers (42%) consistently experiencing backflow in the 2018 study. The Company plans to update the backflow study again during the third quarter of 2021 for purposes of the November 2021 biennial avoided cost filing, and will update the NCUC on the progress and results of that updated study in future Progress Updates.

Installed Capacity Costs – Increments/Decrements

In the Sub 158 Order, the Commission directed the Utilities to "evaluate and apply cost increments and decrements to the publicly available CT cost estimates, including the use of brownfield sites, existing infrastructure, decrements for electrical and natural gas connections, and other balance of plant items, to the extent it is likely that this existing infrastructure is used to meet future capacity additions by the utility." The Commission determined this to be appropriate in light of the number of current facilities that have been built on brownfield sites and the number of plant retirements projected in the Utilities' IRPs. (Sub 158 Order at 33-34, Ordering Paragraph 9.)

For purposes of the November 2021 filing, DENC plans to model the avoided cost of incremental capacity need using a brownfield site. That modeling is anticipated to commence during the third quarter of 2021. The Company will also evaluate the other increments and decrements identified by the Commission in the Sub 158 Order for the potential to reflect those items in its avoided CT cost determination, and will update the Commission in forthcoming Progress Updates on its review of those factors.

Timeline for Delivery of LEO Form for Existing QFs

In the Sub 158 Case, the Public Staff asked that the Utilities clarify the point when an existing QF seeking to renew its PPA can establish a new legally enforceable obligation ("LEO") for calculating rates and determining when the facility will be eligible to receive a capacity payment. (Sub 158 Order at 56.) The Public Staff stated that the time period should be long enough to allow the QF to have sufficient information regarding the proposed rates to determine whether to seek to renew the contract, and to provide the utility with assurance regarding whether it may rely on the QF in its planning for future capacity needs. (Sub 158 Public Staff Reply Comments at 29.) DENC witness Petrie testified that a one-year notice period ahead of the expiration date of a current PPA, with the requirement to execute the PPA consistent with the currently effective LEO form, achieves the balance that the Public Staff identified between providing the QF with sufficient time to make an informed decision but not so much time as to result in inaccurate avoided cost rates. (Sub 158 Petrie Rebuttal at 12-13.)

The Commission did not rule on this issue in the Sub 158 Order, but based on its agreement with the Public Staff that this issue may become more important as more QF contracts approach their expirations, directed the Utilities to "provide further justification for the timeline of the delivery of the Notice of Commitment to existing QFs in their initial filing in the next biennial avoided cost proceeding, and the Commission may further consider the issue in that proceeding." (Sub 158 Order at 52-56.)

The Company continues to believe that the one-year notice period identified by witness Petrie strikes the appropriate balance on this issue for the reasons identified in his testimony, and plans to fully support that position in its November 2021 filing.

Performance Adjustment Factor Development Metrics

In the Sub 158 proceeding, the Public Staff suggested that the performance adjustment factor ("PAF") may be more appropriately derived using an (Weighted) Equivalent Unplanned Outage Rate ((W)EUOR). In the Sub 158 Order, for purposes of that proceeding, the Commission accepted DENC's proposed PAF of 1.07 for all QFs other than hydroelectric QFs with no storage capability and no other type of generation.

(Sub 158 Order at 119, Ordering Paragraph 11.) In addition, the Commission directed that the Utilities, "with input from the Public Staff, shall evaluate appropriateness of using other reliability indices, specifically the EUOR metric, to support development of the PAF prior to the next biennial avoided cost filing." (Id. at Ordering Paragraph 13.)

On November 30, 2020, the Company and the Public Staff had an initial discussion on this issue. DENC plans to reconvene with the Public Staff for further discussion during the first quarter of 2021, and will continue to discuss with the Public Staff and report on this issue in future Progress Updates.

Transmission & Distribution Impacts

In the Sub 158 Case, the Commission declined to adopt NCSEA's proposal that potential avoidance of future transmission and distribution capacity costs should be reflected in standard avoided cost rates, based on its finding that there was insufficient evidence to warrant an avoided capacity cost adder. The Commission also declined to adopt the Public Staff's recommendation for the Utilities to calculate a conditional avoided transmission capacity cost adder for standard offer contracts, which would be removed if certain conditions regarding backfeeding and load growth are met, finding that the evidence tended to show that intermittent QFs do not generically provide firm load reductions across the Duke Utilities' system. Further, the Commission found that the use of transmission and distribution capacity rates from DSM proceedings is not appropriate for use in calculating avoided capacity costs in that proceeding. The Commission did state its expectation that, in the negotiated contract setting, where project-specific characteristics must be considered, the Utilities should include an avoided T&D capacity adder if a project can provide real and measurable avoided transmission or distribution capacity benefits. The Commission also stated it would remain open to revisiting this issue in a future proceeding where evidence can be more fully developed, and directed the Utilities and the Public Staff to work together to more precisely define these issues for its consideration in the next avoided cost proceeding. (Sub 158 Order at 67-68.)

The Company and the Public Staff conducted an initial discussion on this issue during their November 30, 2020 conversation. DENC plans to reconvene with the Public Staff for further discussion during the first quarter of 2021, and will continue to discuss with the Public Staff and report on this issue in future Progress Updates.

Please do not hesitate to contact me should you have any questions. Thank you for your assistance with this matter.

Very truly yours,

/s/Andrea R. Kells

ARK:kjg

CERTIFICATE OF SERVICE

I hereby certify that copies of the foregoing letter regarding *Sub 158 Additional Issues Initial Report*, filed in Docket No. E-100, Sub 167, were served electronically or via U.S. mail, first-class postage prepaid, upon all parties of record.

This the 7th day of December, 2020.

/s/Andrea R. Kells
Andrea R. Kells
McGuireWoods LLP
501 Fayetteville Street, Suite 500
Raleigh, North Carolina 27601
Telephone: (919) 755-6614
akells@mcguirewoods.com

Attorney for Virginia Electric and Power Company, d/b/a Dominion Energy North Carolina