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From: Jim Price <jimpricehydro@bellsouth.net>
Sent: Friday, September 08, 2017 6:10 PM
To: Statements
Subject: Filing of Reply Comments in Docket E-100 Sub 150 Competitive Bidding
Attachments: JorReplyCommentsE100Sub150,Sep8,2017.doc

Please accept the attached reply comments for Docket E-100 Sub 150, Rulemaking Proceeding to Implement G.S. 62-110.8.. It is filed on behalf of James B. Price and the NC Small Hydro Group.

Jim Price, Jordan Hydroelectric Limited Partnership, P.O. Box 903 Gatlinburg, TN 37738 Cell: (803) 215-4165 E-mail: jabboprice@bellsouth.net

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DOCKET NO. E-100, SUB 150

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

In the Matter of Rulemaking Proceeding to Implement G.S. 62-110.8

J.B. Price's RESPONSE TO INITIAL COMMENTS OF DUKE ENERGY CAROLINAS, LLC AND DUKE ENERGY PROGRESS, LLC

Submitted Via Email

Reply Comment on E-100 Sub 150 Rulemaking Proceeding to Implement Session Law 2017-192 9HB 589)

Dear Chief Clerk and Commission Staff:

This is a filing of a reply comment on E-100 Sub 150 by Jim (James B.) Price, owner of the Jordan Hydroelectric Project at Jordan Dam near Moncure, NC in Chatham County, and a consuming electricity user. The Jordan Hydroelectric Project is a Small Power Producer with a capacity of 4400 kw. Price is replying (filing) on his own behalf as owner of Jordan Hydro and on behalf of the NC Small Hydro Group. These comments are in response to the Commission's Order Initiating Rulemaking Proceeding issued on July 28, 2017 in the above docket and supplement initial comments made by Price on August 16, 2017 in this same docket.

The NC Small Hydro Group (Hydro Group) is an informal, unincorporated association of 17 small hydro operators and owners of hydroelectric projects in North Carolina; these small hydro projects have capacity less than 5 MW for each project. All these member projects are located in NC and sell power to Duke Power, Inc. The Hydro Group is represented by Andrew Givens, a lobbyist in NC, and individual members, as in this submittal.

Price, acting through Jordan Hydroelectric Limited Partnership, completed construction of the Jordan Hydroelectric Project in 2012 and has sold power from the facility to Progress Energy and Duke Energy Progress, LLC (Duke) under a 10 year standard contract, as approved by the Commission for the past 5.5 years. Our contract with Duke must be renewed in 2019; the original contract stated that it would be renewed upon expiration under the same terms and conditions.

Our grave concern is that the new capacity payment calculation proposed by Duke in E-100 Sub 148, in Section 1.(b)(b.3) of G.S. 62-156, and in House Bill 589 (the Bill) would be applied to renewal of power sale contracts for existing projects, as well as to contracts for new additional generation. We have hope the NCUC will agree with this interpretation of the Bill. If that does not happen, we expect our gross revenue would decrease by as much as 40% and most small hydro projects would have a decrease of 30% to 40% in gross revenue when they renew their contacts to sell power. We also expect that other Small Power Producers in NC would experience similar catastrophic losses in revenue. It is unlikely that most of these small hydro projects, as well as other small PURPA projects, will remain feasible with such an extreme decrease in revenue and cease to generate power.

Although this docket is for comments on Part II of HB 589 and only concerns competitive bidding, we could be forced into competitive bidding by the revenue loss caused by reduced capacity payments under Part I this very legislation. So we are taking this opportunity to provide comments for the Commission's consideration in anticipation that in the future for our existing project or a new Project competitive bidding might be necessary.

Points of Fact Supporting Our Position

Interpretation of Section (b)(3) of G.S. 62-156, or HB 589 (the Bill) signed by Gov. Cooper in July 2017, is confusing in its application to renewal power sale contracts for existing projects. This section (b)(3) of the Bill redefines how capacity payments are made in avoided cost payments to small power producers. It states: "A future capacity need shall only be avoided in a year where the utility's most recent biennial integrated resource plan filed with the Commission pursuant to G.S. 62-110.1(c) has identified a projected capacity need to serve system load...". The confusing part of this new definition of payments for capacity is that it calculates capacity payments that greatly (>25%) reduce the annual payment for capacity for a facility selling power under PURPA 1978. The confusion is whether the capacity payment revision applies to new, additional capacity or to the renewal of a contract between the utility and a small power producer that has expired and must be renewed according to the previous contract.

For the following reasons of fact and established positions from previous years, Price and the Hydro Group believe that section of the Bill, which would not pay Small Producers in years when the recent IRP does not show a need for more capacity, should not apply to contract renewal for an existing project.

1. The reduced capacity payment would likely make many existing PURPA projects infeasible by reducing the annual gross revenue for Small Power Producers by about 25% to 40%. Consequently, most of these existing small power producers will probably not remain a feasible business that can continue generating in NC and sell power at such a reduction in their gross revenue. So several small businesses would have to cease producing power in NC.
2. Small Power Producers must deliver capacity to the grid and the purchasing utility to sell energy on peak in every year. This is the basis on which a capacity payment is made; it is not the same as a regulated utility, which is paid annually for its installed capacity regardless of how much energy it produces. Without the delivered capacity there would be no energy sold by the Small Producer. The capacity is necessary to be able to produce the energy. So section (b)(3) of the Bill would have Small Producers deliver capacity to the grid, the purchasing utility and ultimately the customers without being paid for it.
3. CSP schedule (CSP 25, Oct. 31, 2008) and the Application for Standard Contract (Oct. 6, 2009) both specify that subsequent contracts will be based on similar terms and conditions. This CSP Schedule and Standard Contract apply to the Jordan Hydroelectric Project as executed in 2009. Most of the CSP schedules and Standard Contracts for Small Power Producers have similar conditions. This requirement mandates a capacity payment for all power delivered during the peak period in all years of generation. So renewal of the contract is required to continue the capacity payment terms that were part of the original contract.

4. Section (b)(3) of the Bill requires use of the recently filed IRP by the utility to define when a capacity payment would be made. With no capacity payment to be made in years for which the utility estimates no new capacity need. This condition could be applied to a new project providing new, additional capacity, which was not included in the previous IRP from the utility. But the previous IRP should have included the capacity available from all existing projects, because they are part of the generators that were supplying capacity and energy at that time for which the IRP was applicable.
5. It would be unfair to the utility and illegal not to pay them the full capacity payment in years of low demand when some capacity they built and paid for was not needed. Just because there is less demand in a certain year, the utility rate and total payment that is based on capacity estimated to be necessary in a previous period should be paid to the utility. It would not be fair to pay the utility a capacity payment for only the capacity that is used in that year. The same rationale applies to a Small Producer that has built, paid for and had capacity approved through a CPCN; the Small Producers should be paid for its capacity committed to serve NC customers for every year in which it is delivered.
6. Since about 1982 NC UC and NC GA have supported renewal power and provided payment for capacity generated and delivered to the utility. The payment to these projects for capacity and energy delivered to the grid was expected to continue into the future; a precedent was established that made this industry worth financing. This is the same expectation of payment as stated in item 5 above; the utility expects its approved rates and payment for capacity to be continued to repay its investment on behalf of its customers. So for 35 years Small Power Producers have built capacity with the anticipation that North Carolina was supporting their efforts and would not reverse its support and leave them with an infeasible project, because the price paid for power was no longer sufficient to pay the necessary operating costs. There is no way the Small Producer can recover its initial expense to build the plant except through the avoided cost payments it receives for delivered energy and capacity.
7. Apparently, Duke is so concerned over new and existing solar power that they want the ratepayers to only pay for capacity according to the Utility's IRP, but Duke does not want customers to pay for capacity benefits that the Small Power Producers provide the ratepayers from their existing plants in every year. Even though the Utility may have valid complaints about the amount of solar power and wind power that will be added to the grid, the solution is not to put existing Small Power Producers out of business, and reduce capacity payments so that new projects are discouraged. The amount of new projects allowed could be limited as the NC UC determines is prudent and consistent with PURPA regulations. PURPA was not established to destroy central station utilities, similarly non-market reductions in PURPA rates should consider harm that could be done to existing PURPA projects.
8. Part of the rationale used by the NC General Assembly in passing HB 589 was a reduction in power prices to rate payers. By destroying the fair economic repayment to Small Power Producers in Part I, the opposite goal is accomplished. The Small Producers receive wholesale rates for their power from customers, but the central station utilities receive retail rates for their production. The difference in payment is quite significant. For example, at present Small Power Producers are receiving about 6 to 8 cents per kilowatt-hour for their power delivered to the ratepayers through the utility. Duke is charging in 2018 a retail rate of

about 12 cents per kilowatt-hour to residential customers. So the effect of Part I of HB 589 is to cost the customers more for their power by eliminating the Small Power Producers with their lesser sale price.

Of course, without the transmission facilities and backup power provided by Duke, the needed electricity would not always be available to the customers. The central utility stations could exist without the distributed Small Power Producers, but the Small Power Producers could not exist and deliver power as needed without the central stations that provide and stabilize the grid and provide transmission service. So the benefit of renewable power from Small Producers comes with the cost of requiring the transmission and backup from the central generating stations.

9. The various sources of renewable power have different features. The Hydro Group provides power to the grid using well-established hydroelectric power. The benefit is generation on any day and at any time that sufficient is available. Some hydroelectric projects use reservoirs, which could store water for generation during peak periods. Although this benefit is not presently available to the Jordan Hydroelectric Project at Jordan Lake, operation of the lake could be altered so it would be able to store power off peak to a reasonable extent. Hydro projects have a higher development cost, which is 3 or 4 times more than similarly sized solar and wind projects. So the capacity cost that must be repaid for a hydro project to be economical is larger and more necessary for hydro projects to be viable.
10. As stated by Mr. Yates of Duke on pages 5 and 6 in his testimony in E-100 Sub 148, power sales in NC are at a crossroad, especially with regard to solar generation. We agree but have a different opinion on what the next step should be. Apparently, Duke wants the next step to be limitation of non-utility power stations as well as reducing capacity payments to Small Producers. That is a decision that NCUC must consider, and they should, especially for new additional capacity, however, the capacity payments for existing small producers should continue as they have for the previous 35 years in Standard Contracts. The crossroad benefit is that NC along with a few other states where inexpensive solar and wind power have proliferated can choose how much generation they want from both the utility central stations, which are usually fossil-fueled, and how much generation they want from renewable producers of different resources, such as solar, hydropower, wind, landfill gas, wood waste, animal waste, etc. This is an opportunity for choice that was not foreseen in PURPA. It was not clear that non-utility generation could increase to the amount of MW's that the central station capacity could be reduced without loss of available power. We hope NCUC appreciates the rare opportunity they have to choose their preferred power sources, and that they do so wisely. The choice should not destroy the feasibility of any of the existing generating resources that were purchased with a reasonable expectation of continued payments through a CPCN or whatever.

In summary, our comment is the NC Small Hydro Group does not believe it is fair, given our existing contract and history of providing capacity, to not be paid a sufficient amount for providing such benefits in the future, through any renewals of our contract. This principle should be followed whether the contract is through competitive bidding or using a negotiated or standard contract. We must provide a capacity benefit to deliver energy on peak to the ratepayers; it is unfair for the ratepayers not to pay for that delivered benefit in each year.

Contrary to the capacity payments made annually to a utility regardless of the amount of demand in each year, our Small Power Producer plants only receive payment for delivered capacity through generation during the peak period. If the Small Power Producer does not generate during the peak period, it is not paid for capacity. Before the hydro plants are built they must have reasonable assurance of a power payment that supports the building and operating cost.

Any requirements for competitive bidding that would apply to our hydroelectric generating facility should include payment for capacity based on the avoided capacity cost in each year for which we provide capacity.

Thanks for the opportunity to comment. We look forward to explaining any points that are not clear.

Respectfully submitted,

A handwritten signature in black ink that reads "James B. Price". The signature is written in a cursive, flowing style.

James B. Price
President, W.V. Hydro, Inc.
General Partner of Jordan Hydroelectric Limited Partnership
Member of NC Small Hydro Group