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VIA ELECTRONIC FILING

M. Lynn Jarvis, Chief Clerk
North Carolina Utilities Commission
4325 Mail Service Center
Raleigh, North Carolina 27699-4300

**RE: Duke Energy Progress, LLC and Duke Energy Carolinas, LLC's
Additional Reply Comments
Docket Nos. E-2, Sub 1169 and E-7, Sub 1168**

Dear Ms. Jarvis:

Please find enclosed for filing Duke Energy Progress, LLC's and Duke Energy Carolinas, LLC's Additional Reply Comments in the above-referenced dockets.

If you have any questions, please let me know.

Sincerely,

A handwritten signature in black ink, appearing to read 'Kendrick C. Fentress', written over a horizontal line.

Kendrick C. Fentress

Enclosure

cc: Parties of Record

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

DOCKET NO. E-2, SUB 1169

DOCKET NO. E-7, SUB 1168

In the Matter of)	ADDITIONAL REPLY
Petition for Approval of Community)	COMMENTS OF DUKE ENERGY
Solar Program to Implement N.C. Gen.)	CAROLINAS, LLC AND DUKE
Stat. § 62-126.8)	ENERGY PROGRESS, LLC

Pursuant to the North Carolina Utilities Commission’s (the “Commission” or “NCUC”) January 26, 2018 *Order Establishing Proceeding to Review Proposed Community Solar Program Plan* and the June 5, 2018 *Order Granting Motion for Leave to File Additional Reply Comments*, Duke Energy Carolinas, LLC (“DEC”) and Duke Energy Progress, LLC (“DEP” and together with DEC, the “Companies”) respectfully submit the following Additional Reply Comments in support of the Companies’ Community Solar Program Plan (“Program Plan” or the “Program”) filed in these dockets for Commission approval in compliance with N.C. Gen. Stat. § 62-126.8 (the “Community Solar Statute”) and Commission Rule R8-72. The Companies’ Additional Reply Comments respond to the reply comments filed by the Public Staff-North Carolina Utilities Commission (“Public Staff”), the North Carolina Sustainable Energy Association (“NCSEA”), the Sierra Club (“Sierra Club”), and NC WARN, Inc. (“NC WARN”).

INTRODUCTION

Throughout this proceeding the Companies have endeavored to create a Program that complies with the Community Solar Statute and Rule R8-72 and has the best chance

of success. Indeed, as discussed in the Companies' Reply Comments,¹ recognizing that the intervenors can be important partners in helping DEC and DEP make the Program successful, and mindful of the fact that this is a new program for the Companies in this State, the Companies have dedicated substantial time and effort to discussing the Program both internally and with stakeholders, and made a concerted effort to respond to intervenor concerns and incorporate their good ideas for this new program where possible.

For example, the Companies' Reply Comments and revised Program Plan submitted on June 4, 2018, reflected a concerted and conscious effort by DEC and DEP to respond to the initial comments offered by intervenors in this proceeding. As explained in their Reply Comments, the Companies' initial proposal to launch the Program outside of their existing billing systems through an upfront fee model was primarily based on their assumption that the most important factor for interested stakeholders was implementing the Program sooner rather than later. Initial comments on the proposal indicated that in general, however, intervenors were focused more on certain elements of the proposed Program that they worried would discourage participation and therefore threaten the Program's overall viability than on the timing of its deployment. The most significant of these issues included: the larger subscription fees resulting from using an upfront payment model rather than a subscription model; providing a credit to subscribers separate from customers' bills; the limit of project size to 1 megawatt ("MW"); and overall estimated Program costs.

¹ Reply Comments of Duke Energy Carolinas, LLC and Duke Energy Progress, LLC, Docket Nos. E-2, Sub 1169, E-7, Sub 1168 (June 4, 2018) ("Companies' Reply Comments" or "Reply Comments").

As shown by the structural Program modifications presented in their Reply Comments, the Companies valued and took seriously intervenors' concerns and suggestions. The modified Program structure aligns the launch of the Program with the new Duke Energy billing system, Customer Connect, which is currently scheduled to be implemented in DEP in early 2021 and DEC in early 2022. This approach allows the Program to use a subscription model and gives the Companies greater flexibility to implement ongoing subscription charges, and thereby decrease the upfront subscription fee, as well as provide monthly credits to customers on their bills, all of which were program components for which Intervenor specifically advocated. The Companies also adjusted the Program to allow projects sized up to a maximum of 5 MW to bid into the community solar requests for proposals ("RFPs"), thereby offering additional flexibility to take advantage of the increased efficiencies and cost savings that may be associated with larger facilities, and included the opportunity for subscribers to own renewable energy credits ("RECs"). These changes also specifically addressed intervenor comments.

Even though the Program modifications associated with the proposal to use a subscription model directly addressed their initial comments, NCSEA's and the Sierra Club's reply comments indicate that these parties are now more concerned with a one-year delay in the Program's implementation than with the availability of monthly charges and credits that appear on subscribers' bills. As discussed further below in Section I, the Companies continue to believe that aligning the Program's implementation with the launch of Customer Connect reasonably addresses intervenors' initial comments on the

Program and offers technological and administrative benefits that outweigh extending the implementation timeframe.

Intervenors' reply comments also continued to express concern about Program costs. The Public Staff² and Sierra Club³ acknowledge that precise cost estimates cannot be determined until the RFP is run. Both they⁴ and NCSEA,⁵ however, took issue with the projected costs presented in the Companies' Reply Comments.

The Companies, like these parties, want the Program to succeed. In order to succeed, the Program must commence utilizing the Companies' best information and experience to date, and, as the Companies have stated throughout this proceeding, they can apply lessons learned from Tranche 1 to future tranches. To that end, with these Additional Reply Comments the Companies ask that the Commission approve the structure of the Program as it has been proposed in the Companies' filings in this docket, as consistent with the Community Solar Statute and Rule R8-72. However, the Companies are not requesting approval of any estimates of Program costs or any estimated upfront or monthly charges or credits. Following Commission approval of the Program as presented, the Companies will run the RFP within 90 days of the Commission's order. Subsequent to the conclusion of the RFP, consistent with the recommendations of the Public Staff and Sierra Club, and in recognition of the lingering cost concerns, the Companies commit to share and discuss the RFP results and status with current intervenors, seek feedback on those results, and seek other opportunities to

² Reply Comments of the Public Staff at 6, Docket Nos. E-2, Sub 1169, E-7, Sub 1168 (June 25, 2018) ("Public Staff Reply Comments").

³ Sierra Club's Reply Comments at 8, Docket Nos. E-2, Sub 1169, E-7, Sub 1168 (June 25, 2018) ("Sierra Club Reply Comments").

⁴ Public Staff Reply Comments at 11-14; Sierra Club Reply Comments at 5-15.

⁵ NCSEA's Reply Comments at 4-7, Docket Nos. E-2, Sub 1169, E-7, Sub 1168 (June 25, 2018) ("NCSEA Reply Comments").

reduce Program costs through partnerships with intervenors or other interested parties. After this period of stakeholder engagement, the Companies will make a filing with the Commission in these dockets reporting on the outcome of the RFP and those discussions and requesting Commission approval of the final cost and charge/credit amounts resulting from the RFP as well as any relevant schedule or process information.

As the Companies and the Commission have previously noted, the Companies bear the ultimate responsibility of proposing and implementing the Program for the Commission's approval, consistent with the public interest and the specific requirements of N.C. Gen. Stat. § 62-126.8 and Commission Rule R8-72.⁶ Throughout this process, the Companies have aimed to balance the objectives stated in the Distributed Resources Access Act, N.C. Gen. Stat. § 62-126.1, *et al.*, of “encourage[ing] ... subscription to shared community solar energy facilities” and of avoiding cross-subsidization “by holding harmless electric public utilities’ customers that do not participate in such arrangements.”⁷ The Companies continue to believe that the Program Plan as currently proposed is reasonable and appropriate, as it serves the public interest and meets the objectives of the Distributed Resources Access Act and, as discussed herein, is consistent with the specific requirements of the Community Solar Statute and Commission Rule R8-72. The Companies therefore request that the Commission approve the revised proposed Program Plan as well as Rider SSR, Shared Solar Rider (NC) for DEC and Shared Solar Rider SSR-3 for DEP, as shown at Appendix A to the Companies’ Reply Comments, and

⁶ “[T]he Community Solar program is not a permissive pilot program suggested by the General Assembly; rather, it is a statutory mandate.” *Order Adopting Rule R8-72*, Docket No. E-100, Sub 155, issued December 19, 2017 at 14; Companies’ Reply Comments at 6.

⁷ N.C. Gen. Stat. §§ 62-126.2, 62-126.8(e)(7).

grant their request for exemption from N.C. Gen. Stat. § 62-126.8(c) as discussed further herein.

ADDITIONAL REPLY COMMENTS

I. The Revised Timing Of Program Implementation Is Reasonable Because It Allows The Companies To Take Advantage Of Technologies Customer Connect Offers And Avoid Higher Costs And Additional Transitions In The Future

In their Reply Comments, the Companies proposed to launch the Program in alignment with the implementation of Customer Connect, the new Customer Information System that is currently projected to be fully deployed in DEP in 2021 and DEC in 2022, in order to gain more flexibility to tailor Program billing and credits and to address intervenors' concerns noted above.⁸ The Companies explained that the advanced technology that will be available through Customer Connect will allow DEC and DEP to use a monthly subscription model for the Program and apply monthly subscription charges and credits, and therefore a reduced upfront fee.⁹

The Public Staff supported this modification, stating in its reply comments that it “believes that the benefits of launching the Program with Customer Connect, which may make the Program more attractive to potential subscribers are, on balance, worth a one to two year delay in Program implementation.”¹⁰ The Public Staff also noted that there is no required statutory timeline to implement the Program, unlike other new programs being implemented under House Bill 589, but that N.C. Gen. Stat. § 62-126.8(e)(4) simply requires that the Program Plan “include a program implementation schedule.”

⁸ Companies' Reply Comments at 8. The Companies became aware after filing that they had erroneously stated on page 4 of their Reply Comments that Customer Connect would be deployed in 2022 for DEP and 2023 for DEC. The correct timeframe for deployment is as stated on page 7 of their Reply Comments and also herein. The Companies apologize for the error and any confusion it caused.

⁹ *Id.* at 9-11.

¹⁰ Public Staff Reply Comments at 3.

The Public Staff commented that if the General Assembly had intended the Program to be implemented within a certain timeframe, it would have included that timeframe in the statute, and that the timeline for the Program's implementation is fully within the discretion of the Commission in its authority to approve, disapprove, or modify the Program.¹¹ The Public Staff also noted the Companies' initial estimation that the Program would achieve commercial operation in 2020-2021 even absent the alignment with the Customer Connect deployment, and concluded that "a delay of an additional one or two years is acceptable if it results in a Program with lower costs and a better customer experience that cannot otherwise be achieved economically without the Customer Connect software."¹²

The Public Staff recommended the Commission encourage the Companies to seek to accelerate implementation of the Program where possible, and encouraged the Companies to evaluate whether Customer Connect software could be used to implement the Program before full deployment of the billing system. They also recommended that the Commission require the Companies to include in their annual filing an update on the deployment of Customer Connect and any progress in the Companies' ability to use the software to issue monthly on-bill credits and charges for the Program.¹³

NCSEA, the Sierra Club, and NC WARN opposed the timeline contained in the Companies' revised Program proposal. NCSEA expressed confusion about when Customer Connect would be deployed, and described even an additional one-year delay of the Program's implementation in each of the DEC and DEP service territories as

¹¹ *Id.* at 3-4.

¹² *Id.* at 4.

¹³ *Id.* at 5.

unacceptable.¹⁴ NCSEA criticized the Companies for not comparing their proposal to a model “where on-bill credits and monthly payments are implemented *immediately*, such as a third-party solution offering service of on-bill credits and monthly payment repository or some other cost-neutral or cost-beneficial method to implement the new program immediately.”¹⁵ NCSEA does not appear to share the Public Staff’s position that the ability to have on-bill credits and a monthly subscription Program outweigh the one-year delay.¹⁶

Sierra Club also expressed concern about the delay in implementation. As an alternative, the Sierra Club suggested that the Companies evaluate whether they can, for purposes of Tranche 1, utilize Clean Energy Collective’s (“CEC”) services to bill customers the monthly fee or credit, in lieu of an on-bill credit.¹⁷ Sierra Club stated that while this alternative “would likely not allow Tranche 1 customers to receive direct on-bill credits,” it “considers a shorter Tranche 1 timeline that is not linked to Customer Connect to outweigh the need for on-bill credits in this first tranche.”¹⁸

NC WARN also disagreed with the extended implementation timeline associated with the proposal to launch with Customer Connect, and suggested that the Companies can implement a 40-MW program “within the next year,” with payments and credits entered manually or accomplished by modifying existing billing software.¹⁹

The Companies continue to believe that launching the Program in alignment with the deployment of Customer Connect is the best alternative. This approach addresses the

¹⁴ NCSEA Reply Comments at 2-3.

¹⁵ *Id.* at 4.

¹⁶ *See id.* at 4.

¹⁷ Sierra Club Reply Comments at 15.

¹⁸ *Id.* at 16.

¹⁹ NC WARN’s Reply Comments at 3-4, Docket Nos. E-2, Sub 1169, E-7, Sub 1168 (June 25, 2018) (“NC WARN Reply Comments”).

majority of intervenors' initial comments, utilizes technology that Duke Energy is developing (without regard for community solar), and thereby avoids additional costs that would be incurred by using a third party such as CEC to do what Customer Connect will accomplish. It therefore offers a streamlined pathway for future tranches by allowing the Companies to continue to use the same billing system for those Program iterations and avoid having to transition the Program from one (third party) billing system to Customer Connect once it launches. Finally, the Companies agree with the Public Staff that the benefits offered by using Customer Connect outweigh the limited extension of time involved in bringing the Program online to customers with the new billing system.

A. Clarification of Customer Connect Implementation Timeline

As an initial matter, as several parties noted, one of the Companies' statements regarding the expected timeline for Customer Connect to become operational made in their Reply Comments was not consistent with the others.²⁰ The Companies' statement in their Reply Comments that the new billing system would be implemented in DEC in early 2022 and DEC in early 2023²¹ was made in error. To clarify, the Companies currently project Customer Connect to be operational for DEP in 2021 and DEC in 2022. This time frame is consistent with the Companies' other statements about the Customer Connect time line in their Reply Comments,²² and with the testimony provided in DEC's recent base rate case.²³ It is also, as noted by the Public Staff, only one additional year

²⁰ NCSEA Reply Comments at 2-3; Sierra Club Reply Comments at 15.

²¹ Companies' Reply Comments at 4.

²² Companies' Reply Comments at 7.

²³ See Direct and Rebuttal Testimony of Retha Hunsicker, Docket No. E-7, Sub 1146, Tr. Vol. 18 pp. 261, 272-275.

beyond when the Companies projected to launch the Program without Customer Connect (2020 for DEP and 2021 for DEC).²⁴

The Companies agree with the Public Staff's opinion that updates on the deployment of Customer Connect would be relevant with respect to the implementation of the Program, but note that the Commission has already recently directed them to file such comprehensive annual reports on the development, spending, and accomplishments of the Customer Connect program in the Companies' general rate cases in Docket Nos. E-2, Sub 1142 and E-7, Sub 1146. The Commission has also already approved the format for such reports in its June 12, 2018 *Order Accepting Reporting Form and Extending Due Date*, in Docket No. E-2, Sub 1142, which also established February 15 as the annual due date. To the extent developments in the Customer Connect program are relevant to the development of the Community Solar program and are not already covered by the comprehensive annual reports filed for Customer Connect, the Companies will include that information in their annual Community Solar annual reports. In addition, in response to the Public Staff's suggestion that they evaluate whether Customer Connect software could be used to implement the Program before full deployment of the billing system, the Companies note that they remain dedicated to launching the monthly subscription process for customers as soon as is feasible with Customer Connect. The Community Solar Program as proposed, however, requires the complete functions of a customer servicing system: customer set-up, move in/move out, billing, payment processing, collections, etc. Accordingly, the Companies would not be able to selectively use any of these functions of Customer Connect for Community Solar participants in advance of full implementation for customers, scheduled for 2021/2022.

²⁴ Public Staff Reply Comments at 4.

B. Launching The Program With Customer Connect Addresses A Number Of Intervenors' Initial Concerns

Because Customer Connect will not be available until 2021 in DEP and 2022 in DEC, the Companies did not originally believe that interested parties would support opening the Program to customer enrollment with the new billing system. In addition, attempting to utilize the Companies' existing billing systems to launch the Program would – given the prohibition on subsidization by non-participating customers contained in N.C. Gen. Stat. § 62-126.8(e)(7) – render the Program cost-prohibitive from the outset. The Companies therefore proposed to implement the Program outside of their existing billing systems. While this approach would have made the Program viable, it did not feature a monthly subscription model or subscriber credits on customer bills. The Companies estimated the upfront cost to be \$500 per block if the power purchase agreement (“PPA”) cost was \$65/MWh and proposed that each subscriber receive a yearly check as the credit for production.

In its initial comments, the Public Staff stated its concern that the high upfront fee model combined with off-bill annual credits would depress customer interest in the Program, which as the Companies noted in the Petition was vital to the Program's success.²⁵ The Sierra Club commented that if the Program incorporated an upfront charge, that fee should only include reasonable overhead costs and not PPA costs.²⁶ Sierra Club also suggested that the PPA component could be allocated to customers on a monthly basis rather than in the initial subscription fee, which would decrease the upfront

²⁵ Initial Comments of the Public Staff at 4, Docket Nos. E-2, Sub 1169, E-7, Sub 1168 (Apr. 13, 2018) (“Public Staff Initial Comments”).

²⁶ Sierra Club's Initial Comments at 14, Docket Nos. E-2, Sub 1169, E-7, Sub 1168 (Apr. 13, 2018) (“Sierra Club Initial Comments”).

financial burden on customers.²⁷ While NCSEA did not oppose the upfront charge, it advocated for monthly bill credits. NCSEA also stated that while it “recognize[d] that Duke is bound by the abilities of its current billing software and customer information system,” it “also note[d] that DEC and DEP are proposing to implement a new customer information system” and asked the Commission to direct the Companies to find a way to provide on-bill credits for future tranches.²⁸

The proposal to launch the Program for participants in alignment with Customer Connect addresses all of these concerns. First, the advanced technology that will be available through Customer Connect will allow the Companies to apply monthly subscription charges and credits, and therefore to apply a subscription model to the Program. Under this model, a set monthly subscription fee per block will reflect the total cost of the PPA for the facility associated with that block based on output forecasts, as well as ongoing program management and software license fees. As the Companies explained, removing PPA costs from the upfront fee and recovering these costs through a monthly subscription fee responds directly to the Sierra Club’s suggestions, although spreading this recovery over the term of the subscription increases the risk that the Companies will not recover those Program costs. The subscription model also allows for monthly credits to subscribers, rather than the annual credit originally proposed, another change made specifically in response to intervenor comments.

In addition, because the monthly subscription fee will cover PPA and ongoing Program administration costs, the shift to a subscription model allows the Companies to reduce the initial subscription fee, which will be applied on a per customer basis, to a

²⁷ *Id.*

²⁸ NCSEA’s Initial Comments at 5-6, Docket Nos. E-2, Sub 1169, E-7, Sub 1168 (Apr. 13, 2018) (“NCSEA Initial Comments”).

level that pays for marketing expense and – for Tranche 1 – set up of the project associated with that subscription in the vendor software. Applying the upfront subscription fee on a customer basis also recognizes the potential for customers to subscribe to multiple blocks of a community solar project. This change directly responded to concerns regarding the level of the upfront charges in intervenors’ initial comments.

The proposal to launch the Program in alignment with Customer Connect also directly responded to intervenor comments by allowing the Companies to reflect both the monthly subscription fee and monthly credits on customers’ bills. In its initial comments, the Public Staff stated that directly linking a Program subscription to the charges and credits included on a customer’s electricity bill is more likely to encourage subscriber interest and keep the subscriber committed to the Program for the full contract term, and noted that the modified structure was consistent with the definition of “subscription” at N.C. Gen. Stat. § 62-126.3(15).²⁹ Other intervenors expressed similar comments,³⁰ and some parties raised the issue of whether annual off-bill credits would create income tax or securities issues.³¹ With the improvements in the billing systems resulting from the deployment of Customer Connect, the Companies will be able to show both monthly subscription charges and credits on customers’ bills. Subscribers will therefore be able to track charges and credits on a monthly basis and see those amounts as line items on their regular monthly electricity bills. Launching in alignment with Customer Connect deployment therefore directly addresses many of intervenors’ concerns, specific

²⁹ Public Staff Initial Comments at 6.

³⁰ NCSEA Initial Comments at 5-6; Sierra Club Initial Comments at 17-18; NC WARN’s Initial Comments at 8, Docket Nos. E-2, Sub 1169, E-7, Sub 1168 (Apr. 13, 2018) (“NC WARN Initial Comments”).

³¹ Sierra Club Initial Comments at 16-17; NC WARN Initial Comments at 8.

suggestions, and takes advantage of the benefits offered by the new billing system as suggested by NCSEA.³²

C. Using A Third Party Vendor For These Services Would Unnecessarily Increase The Cost Of The Program

As explained in their Reply Comments, in connection with the launch through Customer Connect, the Companies intend to contract with CEC, the largest community solar developer in the country, to deploy a real time application, a customer portal and program administration software. The same tools will be used for the Companies' South Carolina Shared Solar program, which will launch in DEP on July 17, 2018.

As noted above, NCSEA criticized Duke for not comparing its proposal to a model "where on-bill credits and monthly payments are implemented *immediately*, such as a third-party solution offering service of on-bill credits and monthly payment repository or some other cost-neutral or cost-beneficial method to implement the new program immediately."³³ Also as noted above, Sierra Club suggested that the Companies evaluate whether they can, for purposes of Tranche 1, utilize CEC's services to bill customers the monthly fee or credit, in lieu of an on-bill credit.³⁴ Sierra Club stated that while this alternative "would likely not allow Tranche 1 customers to receive direct on-bill credits," it "considers a shorter Tranche 1 timeline that is not linked to Customer Connect to outweigh the need for on-bill credits in this first tranche."³⁵

As demonstrated by the correspondence from CEC attached as Appendix A hereto, while CEC is capable of leveraging its technological abilities to accelerate Program implementation, this approach would increase Program costs in contravention of

³² See NCSEA Initial Comments at 5.

³³ NCSEA Reply Comments at 4.

³⁴ Sierra Club Reply Comments at 15.

³⁵ *Id.* at 16.

NCSEA's and Sierra Club's interest as stated throughout their comments in reducing costs. As CEC explains, the alternative to implementing an automated integration with the Companies' billing system, as it has done for almost a decade with other utility community solar programs, is to manually run the billing component of the program until Customer Connect comes online. As CEC notes, "[w]hile a billing system integration may sound expensive at first blush, compare it to having multiple staff members create invoices, send the invoices to customers, ensure that payments are made against those invoices, pay any fees associated with credit cards or ACH payments, ensure adequate staff to follow-up with customers when credit cards expire or bank account numbers change, and deal with the complexity of a multi-part solution."³⁶ Based on CEC's first-hand experience with different billing/crediting methodologies, its opinion is that customer experience improves significantly with the availability of on-bill crediting, as evidenced by "a much lower rate of attrition and fewer customer service calls for these programs."³⁷

Moreover, while CEC is capable of providing this service, it cautions that it "may incur additional costs to Duke to support the 'manual' execution of invoicing/crediting outside of their primary billing system," including custom work from CEC to accommodate the temporary solution within their software service, the efforts required to support the temporary processes, and the Companies' labor costs associated with invoicing/crediting through a separate platform.³⁸ CEC notes in addition that, once Customer Connect is available, there will be costs associated with transitioning from the temporary solution to Customer Connect, including data migration and the integration

³⁶ Appendix A at p. 1.

³⁷ *Id.*

³⁸ *Id.*

between CEC's software solution and Customer Connect. While intervenors have expressed concern regarding overlap between CEC and Customer Connect (which as discussed below are unfounded), using CEC to perform the billing and crediting services "would guarantee significant overlap between CEC's software and Customer Connect, and Duke would essentially absorb a multiple of the cost by implementing both a short and long-term solution."³⁹

As discussed in its general rate cases, Duke Energy's plans to implement Customer Connect will proceed separately from the Community Solar Program. Given this reality, and based on the experienced feedback of CEC, the Companies believe that the most reasonable approach is to capitalize on the abilities offered by Customer Connect for community solar, rather than incurring additional costs by using an outside vendor to do the tasks that Customer Connect will ultimately perform. It also avoids the administrative burden of having to transition the Program from the third-party vendor to Customer Connect once Customer Connect comes online in 2021/2022.

D. Launching In Alignment With Customer Connect Is Consistent With The Community Solar Statute And Rule R8-72

NCSEA claimed that the extension of the timeline to launch the Program associated with aligning it with Customer Connect lacks statutory support,⁴⁰ but did not explain why. The Companies believe that the timeline for launching in alignment with Customer Connect is indeed consistent with the Community Solar Statute, as well as Rule R8-72. First, during the lead-up to the availability of Customer Connect and the offering of the Program for customer participation, the Companies' development of the Community Solar offering to customers will move forward. During this time, the

³⁹ *Id.*

⁴⁰ NCSEA Reply Comments at 2-4.

Companies plan to continue working on Program implementation, including running the RFP and determining more precise cost and timing information for stakeholder discussion and Commission approval as discussed below. Second, as the Public Staff noted, the Community Solar Statute does not prescribe a timeframe for implementing the Program. Third, the Companies agree with the Public Staff that the benefits associated with waiting to launch to align with Customer Connect – on-bill charges and credits, reduced upfront charge, monthly subscription – greatly outweigh any detriment associated with waiting for one additional year, because they will encourage participation in the Program. Finally, because Duke Energy’s development of Customer Connect is a company-wide effort that is not specifically tied to the Program, the Program cannot drive Customer Connect’s implementation schedule, and the shift to this model will necessitate aligning the timing of the Program facilities coming online with the implementation of Customer Connect.

II. Commission Approval Of The Program Structure As Proposed Will Allow The Companies To Move Forward With An RFP And Determine More Precise Program Costs And Timeline Based On RFP Results

With the modifications to the Program associated with launching with Customer Connect, upfront costs decrease, and—with the larger subscription size discussed below—potential credits increase. Specifically, the Companies projected that the original estimated \$500 upfront fee (for a \$65/MWh PPA) could be reduced to an estimated \$295, assuming no change in the PPA cost. The Companies also estimated the monthly subscription fee to be \$15, based on projected PPA costs, including the avoided cost as well as the RECs associated with projected output, and estimated ongoing Program administration costs. With a projected \$15 monthly charge, assuming an estimated \$8

monthly credit based on an estimated avoided cost rate of \$50/MWh, the subscriber pays a net amount of \$7. The Companies clarified that, while based on these assumptions the Program is still a premium for customers, various factors could result in reduced upfront and monthly costs. The monthly charge could be less than \$15 depending on the bids received in the RFP and resulting PPA prices, and in that case, the net amount paid will be lower or could become a net credit. A larger sized project is projected to result in lower upfront and monthly fees. Participation by a large customer that subscribes to multiple blocks of a project could reduce the cost to market a Program site and thus reduce the upfront fee. Given all of these considerations that cannot be known at this time, the Companies explained that more precise cost information can be determined after the RFP.⁴¹

Intervenors' reply comments expressed concern with the overall costs resulting from the new structure. The Public Staff acknowledged that many of the Program costs cannot be known at this time due to the uncertainty regarding the size of the project and the cost of the PPA that will result from the RFP.⁴² The Public Staff also recognized that "there is no guarantee that the subscription model will result [in] a financial savings to subscribers and the Program may remain a premium program," noting the statute's requirement of a bill credit at avoided cost and its prohibition on cross-subsidization by non-participating customers.⁴³ The Public Staff also, however, commented that the monthly charge has high administrative costs compared to the initial proposal, even though the upfront fees, especially for 5 MW projects, appear to be more affordable than

⁴¹ Companies' Reply Comments at 9-11.

⁴² Public Staff Reply Comments at 6.

⁴³ *Id.* at 11.

the upfront fees presented in the initial Program proposal.⁴⁴ They also commented that the Companies based their cost estimates on “a relatively high” PPA cost of \$65/MWh and an avoided cost of \$50/MWh, and stated that these are conservative estimates, and that the Companies “will most likely be able to obtain a PPA price much closer, or perhaps even below, the avoided cost.”⁴⁵ The Public Staff also noted that Program costs decline as project size increases, as well as the Companies’ statement that they anticipate that a 5 MW project may result in a lower PPA price. They expressed concern that the revised Program results in greater costs to subscribers, and suggested that Program costs should be spread over the entire 40 MW of community solar authorized by the statute. The Public Staff suggested that to make the Program more economically attractive to potential subscribers, the Commission should encourage the Companies to pursue larger 3 or 5 MW projects and allocate fixed costs beyond Tranche 1.⁴⁶ The Public Staff also stated that the Companies should be required to incorporate revised overhead costs in future annual reports as estimates become more accurate.⁴⁷

NCSEA acknowledged that the Companies’ modified Program includes on-bill credits, monthly charges and a lowered upfront cost, but concluded that “the associated new costs to the program are untenable.”⁴⁸ NCSEA suggested that “customers may reap more financial benefits and achieve greater personal satisfaction by forming a limited liability corporation and with [their] neighbors to develop a solar project and pursue a [PURPA] standard option 10 year PPA for Qualifying Facilities (QFs) in North Carolina

⁴⁴ *Id.* at 6.

⁴⁵ *Id.* at 11-12.

⁴⁶ *Id.* at 6, 11-13.

⁴⁷ *Id.* at 14.

⁴⁸ NCSEA Reply Comments at 6.

contracting to sell one MW or less of capacity than subscribe to this proposed revised ... Program.”⁴⁹

Sierra Club does not believe that the premium Program costs minimize costs and maximize benefits as required by R8-72, even though it acknowledged that the one-time fee and monthly charges could decrease. Sierra Club recommended that the Companies re-evaluate cost allocation after determining the PPA price, with the goal of reducing the net monthly charges as close to \$0 as possible. They also suggested that the Companies could allocate part of the monthly charge to the one-time fee to reduce overall costs. (5-13)⁵⁰

NC WARN commented that under the proposed Program, subscribers would “lose half their investment.”⁵¹

A. The Companies Will Be Able To Determine More Precise Cost And Credit Information Following The RFP

The Companies continue to believe, and it appears that other parties agree, that customer participation in the Program is vital to its success. DEC and DEP also understand that the level of the upfront and monthly subscription fees will drive Program enrollment and are committed to taking appropriate steps to limit costs and to negotiate favorable PPAs with community solar developers. However, while the Companies believe their proposal comports with the goals of the statute and rule to the extent possible prior to conducting the RFP, due to the novelty of this type of program in North Carolina for the Companies, this proceeding has been an iterative process that has presented different challenges than perhaps were envisioned during the rulemaking

⁴⁹ *Id.*

⁵⁰ Sierra Club Reply Comments at 5-13.

⁵¹ NC WARN Reply Comments at 3.

process undertaken in the fall of 2017. For example, as explained above, the amount of Program charges and credits will largely depend upon the bids received in the RFPs and the resulting PPA price to be paid to winning bids.⁵² In addition, as noted in the revised Community Solar Tariffs submitted with the Companies' Reply Comments, the upfront and monthly subscription fees will be unique to each site. Further, it is not possible to finalize a marketing budget for the Program until the RFP has been conducted and projects selected.⁵³ As noted above, the Public Staff and Sierra Club recognize that the exact amount of Program charges and credits, PPA costs and avoided costs cannot be fully determined until after the RFP.

The Companies believe that Commission approval of the Program as presented at this time will allow them to move forward with the RFP. Therefore, to move forward with implementing the Program and to comply with the Community Solar Statute and Rule R8-72, the Companies request that the Commission approve the Program as it has been described in the Companies' filings in this docket, without specifically approving particular estimates of charges and credits. After the RFP has been conducted, the Companies will engage with stakeholders to review the results of the RFP and will submit in these dockets a request for Commission approval of the final estimates of Program charges and credits. The Companies project that they can issue the RFP within 90 days of the Commission's order approving the Program as presented. They further commit to consult with the current intervenors no later than 90 days after the bids are closed, whether the Companies have accepted the bids or not, to update those parties on the Program's status. As NCSEA pointed out, there is time between now and the

⁵² See Rule R8-72(c)(1)(x).

⁵³ See Rule R8-72(c)(1)(vii).

anticipated deployment of Customer Connect to accomplish these implementation discussions and determine accurate cost and credit levels.⁵⁴ The Companies agree with the Public Staff's suggestion to include more precise cost information in their annual reports on the Program; this post-RFP request for approval may be filed independent of the annual reporting schedule in order to provide transparency as to costs and charges as soon as those are determined.

B. Post-RFP Discussions Can Address Remaining Timing And Process Issues

The Public Staff recommended that the Commission require the Companies to provide further details on the implementation schedule for the full 20 MW in each of DEC and DEP's service territories.⁵⁵ Sierra Club contended that the proposal does not adequately describe the subscription process or timeline, and asks when subscribers will pay the upfront charge, when the Companies will begin marketing the Program, and what constitutes sufficient customer interest to allow Tranche 1 to move forward. Sierra Club also noted that the federal Investment Tax Credit will begin to decline in 2020 and wants the Companies to plan to execute Program PPAs before that time.⁵⁶

The Companies believe that the process and timeline plans that they have presented in their filings in these dockets, and that are contained in the Community Solar Tariffs appended to the Companies' Reply Comments, meet the requirements of the statute and Rule R8-72 with regard to describing the process for subscribing to the Program as much as is possible at this point in time. However, in addition to committing to stakeholder discussions on and filing for Commission approval of Program charges

⁵⁴ See NCSEA Reply Comments at 9.

⁵⁵ Public Staff Reply Comments at 14.

⁵⁶ Sierra Club Reply Comments at 16-17.

and credits following the RFP, the Companies propose to use those post-RFP discussions to address any lingering questions about timing and procedure that can be addressed at that point in time, and to request Commission approval of a further developed Program implementation schedule consistent with R8-72(c)(1)(xiv) together with the request for approval of charges and credits. After the RFP is conducted, and depending on how those discussions develop, the Companies will be in a better position to plan for a more detailed implementation process than can be accomplished now.

C. It Is Premature To Require The Companies To Spread Costs Across Multiple Tranches

The Public Staff commented that fixed Program costs such as program management and IT should be “spread out to cover 40 MW of subscribed community solar facilities,” and that Tranche 1 “should reflect only a fraction of the total costs of setting up and managing the Program.”⁵⁷ Sierra Club suggested that to the extent the proposed IT costs are necessary, they should be divided and allocated evenly between Tranche 1 and future tranches, stating that “[t]his will decrease Tranche 1 program costs and will help prevent Tranche 1 subscribers from subsidizing subscribers in future tranches.”⁵⁸ Sierra Club commented that “[w]hile Duke may voice concerns about the risk of under-recovery if it spreads IT costs over multiple tranches and Tranche 1 is unsuccessful, lower program costs in Tranche 1 will help the ... Program succeed, which will enable subsequent tranches – and program cost recovery.”⁵⁹

While the Companies will do their best to achieve Program success, the scope of future Program tranches is not yet known or approved. At the least, as the Public Staff

⁵⁷ Public Staff Reply Comments at 12-13.

⁵⁸ Sierra Club Reply Comments at 9.

⁵⁹ *Id.*

has supported,⁶⁰ a delay in Program implementation may be necessary if there is not sufficient interest to support Tranche 1. It would therefore be inappropriate and present unnecessary risk to the Companies to require at this time that the costs to implement Tranche 1 be spread over future tranches. Once the Tranche 1 RFP bids have been received and analyzed, if the Companies determine that based on projected costs they can fully subscribe more than one project in one or both service areas, the Companies will consider how the Tranche 1 costs might be spread across future tranches.

D. Post-RFP Cost Determinations Will Include Avoided Cost

In their initial proposal, the Companies estimated \$65/MWh PPA cost and \$50/MWh avoided cost credit. In its initial comments, Sierra Club stated that because solar prices have decreased substantially since 2015, PPAs entered into in 2018 may have significantly less cost than \$65/MWh.⁶¹ In their Reply Comments, the Companies explained that a number of variables, including for example recently imposed federal tariffs on solar panels, could impact whether the cost of solar increases or decreases, and will therefore be reflected in the costs of Program project PPAs. The Companies also stated that the increase in the size limit of projects eligible to bid into the Program RFP to 5 MW may result in a lower per MWh price for the PPA. The Companies noted that, for purposes of their Reply Comments, they continued to assume a \$65/MWh PPA price. The Companies explained that this estimate is appropriate as it facilitates comparison between the original Program proposal and the revised proposal discussed herein, and is based on updated bids for the South Carolina shared solar RFP received in 2017.⁶²

⁶⁰ Public Staff Initial Comments at 13; Public Staff Reply Comments at 15-16.

⁶¹ Sierra Club Initial Comments at 4-5.

⁶² Companies' Reply Comments at 25.

In its reply comments, NCSEA stated that the estimated \$65/MWh PPA cost rate “has no connection to North Carolina law or the North Carolina avoided cost rate,” and that the discrepancy between this amount and the \$50/MWh avoided cost credit is not supported by evidence or statute. NCSEA pointed to the Companies’ statements in biennial avoided cost proceedings that solar costs are declining to state that “there is no legitimate reason for the relatively large discrepancy between the PPA rate and the avoided cost rate allotted to the customers by statute.”⁶³ NCSEA recommended that the Companies submit a revised proposed PPA contract with more specific prices. NCSEA also supported a recurring Commission approval process wherein the Companies’ proposed PPAs can be resubmitted on a yearly basis to allow the Commission to review and reflect current variables related to the PPA pricing.⁶⁴

In its reply comments, Sierra Club acknowledged that the avoided cost is an estimate and that the RFP will establish the PPA price that will actually be used for Tranche 1. However, Sierra Club also asked the Companies to include a provision in their shared solar RFP that they will not accept bids above the projected 20-year avoided cost rate that is projected at that time.⁶⁵

The Companies note that simply bidding in a cost that is less than avoided cost does not necessarily result in a proposed project being cost-neutral (or cost-negative) for subscribers; other costs relating to marketing and project management for a particular project also impact a project’s final cost. As a result, a project could bid in at a price less than avoided cost but, when these other factors are considered, the total price could exceed avoided cost. The Companies are therefore willing to specify in the RFP that they

⁶³ NCSEA Reply Comments at 7-8.

⁶⁴ *Id.* at 8-9.

⁶⁵ Sierra Club Reply Comments at 7.

will not accept projects for which the total costs are greater than avoided cost, which DEC and DEP believe is consistent with Sierra Club's recommendation.

With regard to NCSEA's concerns, the Companies will be able to determine PPA and avoided costs more accurately after the RFP has concluded, and propose to include avoided cost in the discussions to be held with stakeholders at that time, and to report on the final determined avoided cost in the notice filing to the Commission discussed above.

E. Companies' Work Will Not Overlap With CEC Work

Sierra Club expressed concern that some of the services that CEC will provide for the Program are unnecessary for Tranche 1 and do not justify an increase in costs.⁶⁶ Sierra Club also commented that some CEC services could be duplicative of Customer Connect or other administrative costs, and asked that the Companies demonstrate that the CEC services do not duplicate costs included as one-time or monthly fees and that they do not duplicate services that can be provided by Customer Connect.⁶⁷

As demonstrated by the attached correspondence from CEC, the services that CEC will provide under the licensing arrangement for the Program will not duplicate services provided by the Companies:

- **IT Costs** – CEC offers a customer-facing portal (MyOwnCleanEnergy.com) as part of its base software package. There are no additional costs to Duke to provide this product to its customers as CEC does not charge an additional amount for MyOwnCleanEnergy. The portal includes tools that provide real-time monitoring of project capacity, monthly customer credits/charges, quantity of solar produced, and calculated environmental benefits. These features have proven to be excellent

⁶⁶ Sierra Club Reply Comments at 8-9.

⁶⁷ *Id.* at 10.

customer engagement mechanisms for dozens of other programs CEC has implemented and rarely duplicate services offered through utility billing systems such as Customer Connect. Furthermore, because the product is part of CEC's base package offering, any possible overlaps are entirely cost neutral.

- **Marketing costs** – CEC is not providing marketing services to Duke and, therefore, there is no additional cost or overlap with Customer Connect services.
- **Labor costs** – There are no additional labor costs from CEC associated with managing the program. All costs are included in upfront custom software development fees (as needed) and CEC's software licensing structure. Any Labor costs identified are for Duke Energy staff which CEC does not have visibility into.
- **Call center costs** – CEC is not providing call center services to the Companies and, therefore, there is no additional cost or overlap with Customer Connect services.
- **Customer engagement costs** – CEC is not providing customer engagement services to the Companies and, therefore, there is no additional cost or overlap with Customer Connect services. The Companies' customer outreach and support teams can leverage CEC's platform for customer engagement, including its messaging capabilities and content management system (for updates to the marketing website). These features are included CEC's base software package, and no additional labor is required by the CEC staff.

III. Other Components Of Program Structure Have Achieved Majority Consensus And Are Appropriate For Approval As Part Of That Structure

Consensus between most parties has been achieved on several key components of the Program structure for which the Companies are asking the Commission's approval. The Companies believe these Program components are consistent with the Community Solar Statute and Rule R8-72 and will increase their flexibility in implementing Tranche 1 of this new Program as well as improve its chances of success.

A. Project Size And Selection

As stated throughout this proceeding, the Companies intend to procure solar energy for Tranche 1 of the Program through PPAs with qualifying small production facilities, as defined in 16 U.S.C. § 796.

Based on the comments received, and due to their expectation that shifting to a subscription model with a decreased upfront fee should facilitate the effort to attract subscribers and fully subscribe projects, the Companies modified their initial proposal, which would limit Tranche 1 PPAs to facilities with capacity of 1 MW or less, to allow for Tranche 1 PPAs with community solar energy facilities with capacities up to 5 MW as permitted by N.C. Gen. Stat. § 62-126.8(b). The Companies agreed with NCSEA that smaller facilities are more likely to be located geographically close to subscribers and are easier to fully subscribe, while larger facilities offer economies of scale that could translate to lower subscription fees. By increasing the range of projects that may bid into the RFP, the Companies will be able to select the projects that offer the best economic benefit for subscribers.⁶⁸ The Companies have also communicated to parties with whom they have discussed the issue that DEC and DEP will also consider projects that were unsuccessful in the Tranche 1 RFP of the Competitive Procurement of Renewable Energy ("CPRE") program.

⁶⁸ Companies' Reply Comments at 16-17.

The Public Staff supported the Companies' proposal to revise the Program Plan to accept bids for projects up to 5 MW, stating that it hopes this change will attract least cost projects. The Public Staff also recommended that the Commission require the Companies to provide a summary in its annual Program reports of the subscription thresholds reached in the South Carolina community solar program and a description of the project sizes and PPA prices achieved in that program, and whether North Carolina can expect to achieve similar prices and interest in participation.⁶⁹

The Public Staff also supported the Companies' proposal to consider bids submitted to CPRE Tranche 1 that are not selected. Citing the requirement of Rule R8-72(c)(1)(xiii) that the Companies provide "a description of the offering utility's intended method of procurement of solar energy for the Program, including a cost estimate and justification for each method proposed," the Public Staff recommended that the Commission require the Companies to "provide more information in accordance with this requirement regarding any alternative methods of procurement to a community solar RFP in order to provide transparency and assurance that the Companies are making reasonable efforts to achieve cost effective PPA prices for all community solar energy facilities."⁷⁰

NCSEA stated that it generally supports the expansion of the potential facility sizes allowed in the RFP process, except to the extent that this change, and the increased solar block size, "have caused Duke to increase the delay in implementation of the [Program] or have caused the proposed exponential increase in customer costs."⁷¹ Sierra Club supported the increased size threshold.⁷²

⁶⁹ Public Staff Reply Comments at 10.

⁷⁰ *Id.* at 6-7.

⁷¹ NCSEA Reply Comments at 5, n. 4.

⁷² Sierra Club Reply Comments at 3-4.

The Companies are willing to include in the Program's annual reports the information requested by the Public Staff, including whether they will utilize their proposed alternative of selecting a project that was not successful in the CPRE RFP. At this time, however, the Companies have discussed all methods of procurement in their comments and do not have any additional methods under consideration. In response to NCSEA, the expansion of the facility size permitted, and the modification to the block size discussed below, have not had any impact on the Program's implementation timeline. As discussed above, specific Program costs will be reviewed after the RFP.

B. Increased Size Of Subscription Block

In their Reply Comments, the Companies increased the proposed size of the subscription block from representing 220 watts of solar energy, projected to produce 35 kilowatt-hours ("kWh") per month, fixed over the term of the Program, so that each subscription block will represent 1 kilowatt ("kW") of solar energy, fixed over the Program term, which is projected to produce 159 kWh per month on average. The Companies explained that this change will align the Program with their South Carolina community solar program, which will also utilize Customer Connect when it is available, and therefore facilitate implementation in the billing system in both states. As the Companies also noted, while this change will result in fewer subscriptions per project, it will also produce greater avoided cost credits over the course of the 20-year term due to the larger block size.⁷³

In their reply comments, the Public Staff noted that N.C. Gen. Stat. § 62-126.8(b) allows Program subscriptions to be sized to supply 100% of the maximum annual peak demand of electricity of each subscriber at the subscriber's premises. The Public Staff

⁷³ Companies' Reply Comments at 17-18.

noted that as the average annual peak demand at a residential premise is 3.5 kW, a typical residential customer could subscribe to a maximum of three blocks. The Public Staff commented that subscriptions should be sized so that customers may partially or fully offset their expected usage without accruing excess credits, and stated its belief that the larger 1 kW subscription size allows a customer to offset more consumption and avoid overpaying for the upfront costs of administering the program, since multiple blocks would be administered on the same bill.⁷⁴

As with project size, NCSEA stated that it does not specifically object to the increased solar block size, except to the extent that this change causes the further delay in Program implementation or increased costs.⁷⁵ Sierra Club acknowledged that this modification may make the Program easier to subscribe and increase customer interest, and while it did not object in principle to the increased block size, expressed concern about the resulting Program cost over the 20-year period.⁷⁶

No further delay in the Program's implementation will be caused by the increased subscription block size. With regard to any cost impacts of this modification, the Companies propose that such concerns be addressed in the stakeholder meeting to be held after the conclusion of the RFP.

C. Subscribers Will Have Option To Own RECs Associated With Their Subscriptions

In response to the Public Staff's initial comments, the Companies modified their original proposal to retire RECs associated with Program projects on subscribers' behalf, such that subscribers now will have the option of owning any RECs associated with their

⁷⁴ Public Staff Reply Comments at 5-6.

⁷⁵ NCSEA Reply Comments at 5, n. 4.

⁷⁶ Sierra Club Reply Comments at 5-6.

subscription, provided that the subscriber pay all fees and apply to create a REC tracking account with an appropriate system—i.e. NC-RETS. The Companies explained that, while they do not expect many subscribers to make this election given the associated administrative obligations, and still believe absent N.C. Gen. Stat. § 62-126.8(e)(8) that the Companies’ retirement of the RECs on customers’ behalf is appropriate, allowing subscribers this option is consistent with the statute and should not impose too heavy an administrative burden on the Companies given that a subscriber who chooses to own the RECs must comply with the associated financial and administrative obligations. The Companies committed to provide clear information regarding the fees and administrative obligations that would apply if the subscriber chooses to own the RECs at the time that a customer subscribes to the Program.⁷⁷

No party objected to this change in their reply comments.

D. Request For Exemption From N.C. Gen. Stat. § 62-126.8(c)

In their reply comments, the Companies renewed their request for exemption from the requirement of N.C. Gen. Stat. § 62-126.8(c) that subscribers be located in the same county or a county contiguous to where the community solar facility is located, to allow a Program facility to be located up to 75 miles from the county of subscribers. The Companies reiterated their explanation as stated in the Petition that exemption is in the public interest because it will allow the Companies to target Program marketing efforts at the widest possible audience, including in more populated areas, and to seek development opportunities in locations that minimize the upfront subscription cost, thereby attracting more subscribers and increasing the chances of Program success. The Companies stated that they do not expect that it will be possible to correlate the exemption, if granted, to

⁷⁷ Companies’ Reply Comments at 18-20.

cost savings, in light of the numerous variables that will impact the actual costs of the Program discussed in these Reply Comments, but committed to include in their annual Program reports an update on whether the exemption is utilized for a particular Program project.⁷⁸

The Public Staff stated its continued support for the proposed exemption, stating that it finds persuasive the argument that the exemption will help lower Program costs and increase subscription interest. The Public Staff also stated its belief that it is in the public interest to grant the exemption for the initial community solar offering, as the Program Plan as a whole has the highest chance of success if the initial offering is successful, and recommended approval of the exemption request for Tranche 1, with future exemption requests to be evaluated on an individual basis.⁷⁹

Sierra Club stated its agreement that a larger geographic area will provide the Companies with greater flexibility to find a lower-cost PPA and does not object to the exemption request for purposes of Tranche 1, if the Companies agree to a process to finalize Tranche 1 costs after the RFP is completed and project size and PPA price are established. Sierra Club stated that this would alleviate its concern that the exemption and the larger geographic area it would create for Tranche 1 costs would result in increased Program costs.⁸⁰

The Companies continue to believe that the exemption would be in the public interest for the reasons discussed in the Petition and the Reply Comments, and consistent with Public Staff's reply comments. With regard to Sierra Club's suggestion, as discussed above, the Companies propose to finalize Tranche 1 costs through stakeholder

⁷⁸ *Id.* at 33-35.

⁷⁹ Public Staff Reply Comments at 9.

⁸⁰ Sierra Club Reply Comments at 5.

discussions and report that cost information to the Commission after the conclusion of the RFP.

IV. The Proposed Changes To The Transferability/Portability Of Subscriptions Are Appropriate In Light Of The Plan To Launch With Customer Connect And To Avoid Securities Concerns

As explained in the Companies' reply comments, under the revised proposal, portability within each utility service area will remain permissible; a subscriber who moves to a new location within the service area of the utility in whose Program the subscriber is participating, whether or not a customer in that location would otherwise be eligible to subscribe, will be permitted to maintain the subscription. Customers would not, however, be allowed to carry a subscription with them if they move between or outside of the DEC or DEP service areas, and no transfers of subscriptions will be permitted. The Companies explained that these adjustments were consistent with the comments offered by Sierra Club and the Public Staff, would alleviate the administrative burden of managing the Program and, with respect to transferability, avoid the risk of securities regulation that may arise with subscription transfers. The Companies also clarified that subscriptions may be cancelled for any reason including moving outside a utility's service area, and that they would maintain a waitlist for each utility's Program and would offer a cancelled subscription to the next customer on that waitlist to keep each facility fully subscribed.⁸¹

In their reply comments, the Public Staff supported these changes because they comply with the statutory language and Rule R8-72, which require the community solar subscriber to be a customer of the offering utility, and they limit the risk the subscription will be determined to be a security subject to federal securities regulation. The Public

⁸¹ Companies' Reply Comments at 15-16.

Staff also supported the subscriber's ability to cancel and the Companies' plan to maintain a waitlist, and recommended that the Commission require the Companies either to refund a pro rata share of the upfront fee to the departing customer, or similarly discount a replacement subscriber's upfront fee, to ensure that the Companies are not collecting double the upfront fee for the same subscription block.⁸²

Sierra Club recommended that subscribers maintain the ability to designate a beneficiary in cases of death or divorce, which would include acknowledgement by the beneficiary of the monthly payment obligation associated with the subscription.⁸³ Sierra Club also stated that the Companies did not describe when a customer may cancel a subscription for reasons other than discontinuing electric service, and recommended that subscribers also be permitted to cancel a subscription if the Program waitlist has customers willing to purchase the current subscription at that time. Sierra Club said that the Companies did not describe the one-time fee that customers on a waitlist will pay if a current subscriber leaves the program, and agreed with the Public Staff that customers who cancel a subscription should be returned a pro rata share of their one-time fee based on the number of months they were enrolled, and the waitlisted customer should pay the same pro rata one-time fee to subscribe. Sierra Club did not object to the Companies' proposal to allow customers who move within their existing service territory to keep their subscriptions, and considers the statutory requirement (same or adjacent county) to be fulfilled if the customer initially enrolls in the Program within the appropriate geographical requirements.⁸⁴

⁸² Public Staff Reply Comments at 7-8.

⁸³ Sierra Club Reply Comments at 18.

⁸⁴ *Id.* at 19-20.

There will be no double counting, because the costs covered by the upfront subscription fee relate to bringing the customer into the Program, rather than ongoing expenses. For this reason the Companies do not consider it appropriate to refund a portion of a departing customer's upfront fee or to charge a customer entering the Program off the waitlist a pro rata amount. Refunding portions of upfront fees to customers who wish to cancel their subscriptions would also result in more manual work for the Program, which would increase administrative costs.

With regard to Sierra Club's comments on transferability, the Companies cannot maintain their original proposal to allow transfers of subscriptions upon death and divorce, which was reasonable when the Program would be implemented manually, if as currently proposed the Program will be launched in alignment with Customer Connect. In addition, prohibiting subscription transfers avoids the potential risk of securities regulation as the Companies and the Public Staff have noted.

V. Intervenor's Have Not Offered A Feasible Way To Incorporate An LMI Component Into Tranche 1 Of The Program That Does Not Increase Program Costs

In their reply comments, the Companies stated that they continue to believe that the best approach with regard to incorporating a low- and medium-income component ("LMI") into the Program is to utilize the learnings and experience gained through Tranche 1 to evaluate the potential for low-income customers to participate in the Program in the future. As the Companies discussed in the rulemaking proceeding that resulted in Rule R8-72 (Docket No. E-100, Sub 155), and as noted throughout this proceeding, the prohibition on subsidization of the Program by non-participating customers contained at N.C. Gen. Stat. § 62-126.8(e)(7) complicates the Companies'

ability to include an LMI component that does not increase subscription fees for other customers, which the majority of intervenors' comments were concerned with minimizing, and which all intervenors' reply comments focused on. That is because the incorporation of an LMI component will necessarily increase the costs to administer the Program. As the Companies have also noted before, community solar initiatives that include LMI components in other states also often are not subject to the prohibition on subsidization that applies to the Companies.⁸⁵

In their reply comments, the Public Staff noted that the Companies are limited by the statute's requirement to hold non-participating customers harmless, and that other states and utilities that have an LMI option as part of their community solar program have usually done so through state incentives or a specific set-aside for those customers, neither of which is authorized by North Carolina. The Public Staff also noted that an LMI option may result in cost-shifting, which would directly conflict with the requirements of the statute and Commission Rule R8-72 to avoid cross-subsidization of the Program.⁸⁶

NCSEA expressed concern that under the proposed tranche-based program, Tranche 1 customers may be unfairly burdened with additional costs that later tranches may not have to incur, and that such higher costs and monthly fees for Tranche 1 will render the program difficult to get off the ground. NCSEA also stated its general support for the Companies "continuing to consider potential alterations to the program to make it more cost-effective and financially reasonable for more customer classes, including specifically low-income customers." NCSEA supports the Sierra Club's proposal for

⁸⁵ Companies' Reply Comments at 26-28.

⁸⁶ Public Staff Reply Comments at 14-15.

third parties to provide independent funding assistance to low-income subscribers, noting that the Companies do not object to this proposal. NCSEA also asks the Companies to provide customers with the ability to make donations to support LMI customer access to the Program, via an online portal or a request to customers to be recurring monthly donors to low-income solar projects, “including projects that would fall under the Community Solar Program.”⁸⁷

Sierra Club asked the Companies to make a firm commitment to an LMI component in future tranches and, for Tranche 1, commented that it would be appropriate to evaluate opportunities to leverage any available third-party funding for an LMI program during a post-PPA review and determination of final program costs. Sierra Club also asked that the Companies include LMI program updates in their annual reporting.⁸⁸

The Companies agree with the Public Staff that the incorporation of an LMI component to the Program would result in cost-shifting in contravention of the Community Solar Statute. This issue has been debated throughout this proceeding, and the Companies will not repeat all of those arguments here. Sierra Club’s and NCSEA’s proposals for incorporation LMI would normally be viable alternatives, but under the statutory restrictions contained in the law, because they would make the Program more expensive, they are not viable here. The Program is consistent with the Community Solar Statute and Rule R8-72 and should not be required to incorporate LMI when doing so would increase and shift costs. As stated before, however, the Companies do not object to third parties donating funds to assist in subscription.

⁸⁷ NCSEA Reply Comments at 9-10.

⁸⁸ Sierra Club Reply Comments at 18.

CONCLUSION

WHEREFORE, based on the foregoing, the Companies respectfully request that the Commission (1) accept these Additional Reply Comments, (2) approve the Companies' Community Solar Program Plan as discussed herein, the revised Schedule SSR for DEC and Schedule SSR-3 for DEP as attached to the Companies' June 4, 2018 Reply Comments, and the Companies' request for exemption from N.C. Gen. Stat. § 62-126.8(c), and (3) grant any additional relief that the Commission deems appropriate.

Respectfully submitted, this the 16th day of July, 2018.



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The following response statements address specific references to Clean Energy Collective (CEC) in the Summary of Additional Reply Comments published in June 2018 regarding the Community Solar Program Plan and Tariffs NCUC Docket Nos. E-2, Sub 1169 and E-7, Sub 1168. These responses speak to concerns over the potential duplication of functionality and associated costs of implementing CEC's software services (Community Solar Platform™ or CSP™) in conjunction with Customer Connect to meet the needs of North Carolina's community solar program. Further, CEC addresses the unique capabilities CSP™ provides and offers cautionary guidance regarding the additional costs of leveraging their solution to accelerate the program rollout (as a remedy to the delayed Customer Connect implementation).

Customer Connect timeline - While Duke awaits final implementation of Customer Connect, CEC's software solution can provide capability for billing/crediting customers in Tranche 1 in lieu of an on-bill credit. However, it's worth noting that moving away from an automated technology solution will likely be *more* expensive, not less. CEC has over 9 years' experience implementing automated integrations with utility billing systems. This makes the process of setting up an on-bill credit integration relatively straight forward. The alternative is conducting all that work manually for a period of several years. While a billing system integration may sound expensive at first blush, compare it to having multiple staff members create invoices, send the invoices to customers, ensure that payments are made against those invoices, pay any fees associated with credit cards or ACH payments, ensure adequate staff to follow-up with customers when credit cards expire or bank account numbers change, and deal with the complexity of a multi-part solution.

Further, CEC has first-hand experience with various methodologies for billing/crediting, and it is our experience that the customer experience is significantly improved when the option to provide on-bill credits is available. This is evidenced by a much lower rate of attrition and fewer customer service calls for these programs.

All that said, should the decision makers choose to pursue alternative options, CEC can deliver the required solution. However, please note that solution may incur additional costs to Duke to support the "manual" execution of invoicing/crediting outside of their primary billing system. These costs include custom work from CEC to accommodate the temporary solution within their software service, the efforts required to support the temporary processes, and Duke's labor costs associated with invoicing/crediting through a separate platform. Additionally, once Customer Connect is available, there will be costs associated with transitioning from the temporary solution to Customer Connect. This would include data migration and the integration between CEC's software solution and Customer Connect. Pursuing this option would guarantee significant overlap between CEC's software and Customer Connect, and Duke would essentially absorb a multiple of the cost by implementing both a short and long-term solution.

IT Costs - CEC offers a customer-facing portal (MyOwnCleanEnergy.com) as part of its base software package. There are no additional costs to Duke to provide this product to its customers as CEC does not charge an additional amount for MyOwnCleanEnergy. The portal includes tools that provide real-time monitoring of project capacity, monthly customer credits/charges, quantity of solar produced, and calculated environmental benefits. These features have proven to be excellent customer engagement mechanisms for dozens of other programs CEC has implemented and rarely duplicate services offered through utility billing systems such as Customer Connect. Furthermore, because the product is part of CEC's base package offering, any possible overlaps are entirely cost neutral.

Marketing costs – CEC is not providing marketing services to Duke and, therefore, there is no additional cost or overlap with Customer Connect services.

Labor costs – There are no additional labor costs from CEC associated with managing the program. All costs are included in upfront custom software development fees (as needed) and CEC's software licensing structure. Any Labor costs identified are for Duke Energy staff which CEC does not have visibility into.

Call center costs – CEC is not providing call center services to Duke and, therefore, there is no additional cost or overlap with Customer Connect services.

Customer engagement costs – CEC is not providing customer engagement services to Duke and, therefore, there is no additional cost or overlap with Customer Connect services. Duke's customer outreach and support teams can leverage CEC's platform for customer engagement, including its messaging capabilities and content management system (for updates to the marketing website). These features are included CEC's base software package, and no additional labor is required by the CEC staff.

CERTIFICATE OF SERVICE

I certify that a copy of Duke Energy Progress, LLC's and Duke Energy Carolinas, LLC's Additional Reply Comments, in Docket Nos. E-2, Sub 1169 and E-7, Sub 1168 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 16th day of July, 2018.



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