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N.C. Utilities Commission

STATE OF NORTH CAROLINA
UTILITIES COMMISSION
RALEIGH

DOCKET NO. E-7, SUB 831

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

In the Matter of
Application of Duke Energy Carolinas, LLC,)
for Approval of Save-a-Watt Approach,)
Energy Efficiency Rider and Portfolio of)
Energy Efficiency Programs)

REPORT OF
DUKE ENERGY CAROLINAS
AND THE PUBLIC STAFF

NOW COMES THE PUBLIC STAFF – North Carolina Utilities Commission and, pursuant to Ordering Paragraph No. 2 of the Commission's July 7, 2010, *Order Denying Motion for Clarification and Reconsideration* (the Reconsideration Order), the filing deadline having been extended by the Chairman upon oral motion, respectfully submits on behalf of itself and Duke Energy Carolinas, LLC (Duke Energy Carolinas or the Company) this report on the results of the parties' discussions regarding a procedure for identifying activities by the Company that will cause customers to increase demand or energy consumption. The background of this report is as follows.

On June 12, 2009, Duke Energy Carolinas, Environmental Defense, the Natural Resources Defense Council, the Southern Alliance for Clean Energy, the Southern Environmental Law Center, and the Public Staff filed an Agreement and Joint Stipulation of Settlement (Settlement Agreement) in the referenced docket. On February 9, 2010, the Commission issued its *Order Approving Settlement Agreement and Joint Stipulation of Settlement Subject to Certain Commission-Required Modifications and Decisions on Contested Issues* (the Save-a-Watt Order). Paragraph G.1 of the Settlement Agreement, as modified by the Commission, provides:

1. Net lost revenues mean revenue losses, net of marginal costs avoided at the time of the lost kilowatt-hour sale(s), incurred by the Company's public utility operation as the result of a new energy efficiency measure. Net lost revenues shall also be net of any increases in revenues resulting from any activity by the Company's public utility operations that cause (sic) a customer to increase demand or energy consumption, whether or not that activity has been approved by the Commission pursuant to R8-68. Programs or measures with the primary purpose of promoting general awareness and education of energy efficiency as well as research and development activities are ineligible for the recovery of net lost revenue. Pilot programs or measures are also ineligible for the recovery of net lost revenues, unless the Commission approves the Company's specific request that a pilot program or measure be eligible for the recovery of net lost revenues when the Company seeks

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approval of that pilot program or measure. Utility activities shall be closely monitored by the Company to determine if they are causing a customer to increase demand or consumption, and the Company shall identify and keep track of all of its activities that cause customers to increase demand or consumption, regardless of whether or not those activities are associated with demand-side management or energy efficiency programs, as provided in the Settlement Agreement, so that they may be evaluated by the parties and the Commission for possible confirmation as "found revenues." When authorized by Rule R8-69, and unless the Commission determines otherwise in a G.S. 62-133.9 DSM/EE rider proceeding, net lost revenues shall be recovered for 36 months for each vintage year, except that the recovery of net lost revenues will end upon Commission approval of (1) an alternative recovery mechanism, or (2) implementation of new rates in a general rate case or comparable proceeding to the extent that rates set in a general rate case or comparable proceeding are set to explicitly or implicitly recover those net lost revenues.

In addition, Commission Rule R8-68(b)(5) provides:

(5) "Net lost revenues" means the revenue losses, net of marginal costs avoided at the time of the lost kilowatt-hour sale(s), or in the case of purchased power, in the applicable billing period, incurred by the electric public utility as the result of a new demand-side management or energy efficiency measure. Net lost revenues shall also be net of any increases in revenues resulting from any activity by the electric public utility that causes a customer to increase demand or energy consumption, whether or not that activity has been approved pursuant to this Rule R8-68.

Ordering Paragraph No. 4 of the Save-a-Watt Order provides:

4. That Duke and the Public Staff shall be, and hereby are, requested to work cooperatively to develop practices and procedures which will ensure, to the maximum extent possible, that the Company is able to identify and keep track of all its activities that cause customers to increase demand or consumption, whether or not those activities are associated with demand-side management or energy efficiency programs, so that they may be evaluated by the parties and the Commission for possible confirmation as 'found revenues;'

This directive was reinforced in Ordering Paragraph No. 2 of the Reconsideration Order, which provides:

2. That the Public Staff shall meet with Duke, as expeditiously as possible, to discuss identifying and tracking the Company's activities and report the results of such meeting(s) to the Commission no later than Thursday, November 4, 2010.

Pursuant to these directives, Duke Energy Carolinas and the Public Staff have met and have been engaged in ongoing and productive discussions for several months. The results of the parties' discussions are summarized in the attachments to this letter. Attachment A is a proposed decision tree or elimination chart, and Attachment B is a set of examples showing how the chart would be used.

The proposed decision tree set forth in Attachment A provides a mechanism by which Duke Energy Carolinas can evaluate whether activities that may directly or indirectly result in increases in customer demand or energy consumption should be designated by the Company as producing "found revenues" and either filed with the Commission for a determination of their status or reported to the Commission for consideration at its discretion. The structure of the decision tree begins with the creation of a list of all Duke Energy Carolinas activities that may produce found revenues by directly or indirectly resulting in an increase in customer demand or energy consumption within the Company's service territory, followed by the elimination, or "filtering out," of activities that meet certain criteria. More specifically, an activity will be eliminated from the list if it meets one or more of the following criteria (the tree itself should be referred to for the precise language of each filter):

- (1) The increase in customer demand or energy consumption would have occurred regardless of the activity.
- (2) The increase is the result of a new customer account's participation in certain Duke Energy Carolinas economic development activities that have been found by the Commission not to result in found revenues.
- (3) The activity is conducted at the unsolicited request of a governmental unit for the purposes of growing the economy, creating jobs, or enhancing sustainability in the region.

If an activity is not eliminated for consideration by one of these filters, Duke Energy Carolinas will then evaluate whether the related increase in customer demand or energy consumption is a direct or proximate result of the activity. If it is determined to be so, the Company will designate the activity as one producing found revenues or submit it to the Commission for determination; if not, the Company may presume that the activity does not produce found revenues but will report it to the Commission as part of its annual DSM/EE cost recovery filing.

With regard to criterion (2) above, Duke Energy Carolinas has certain economic development activities already in place that it believes should be eliminated from found revenue consideration. The Company plans in the near future to file a list of these activities with the Commission, along with a request to eliminate the activities from those considered to produce found revenues. The Public Staff is currently working with the Company to produce a list of activities that both parties consider reasonable.

Duke Energy Carolinas and the Public Staff request the Commission to accept this letter and attachments and to find that the parties have complied with the directives of the Commission in its Orders of February 9, 2010, and July 7, 2010, in this docket.

Respectfully submitted this the 18th day of November, 2010.

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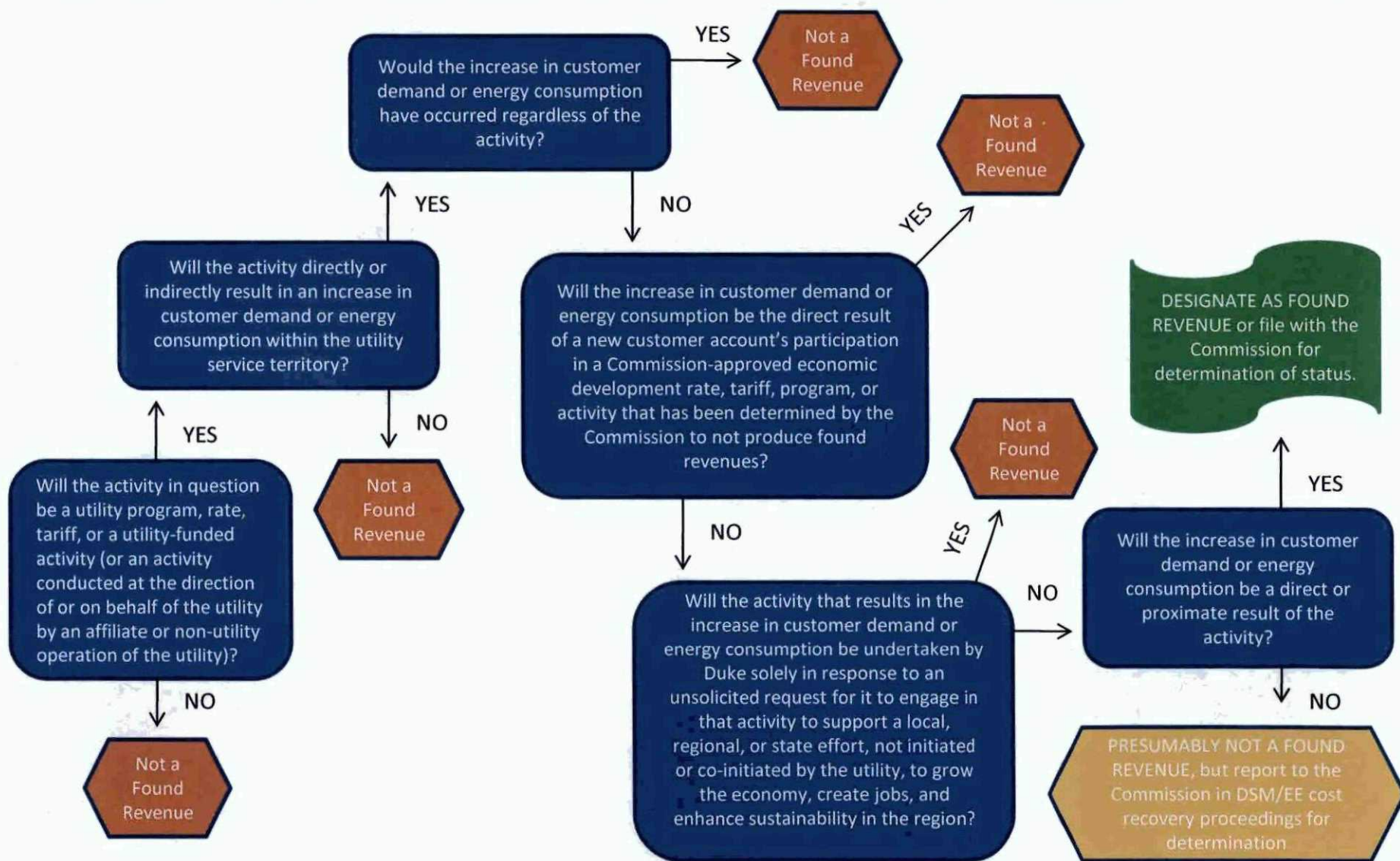
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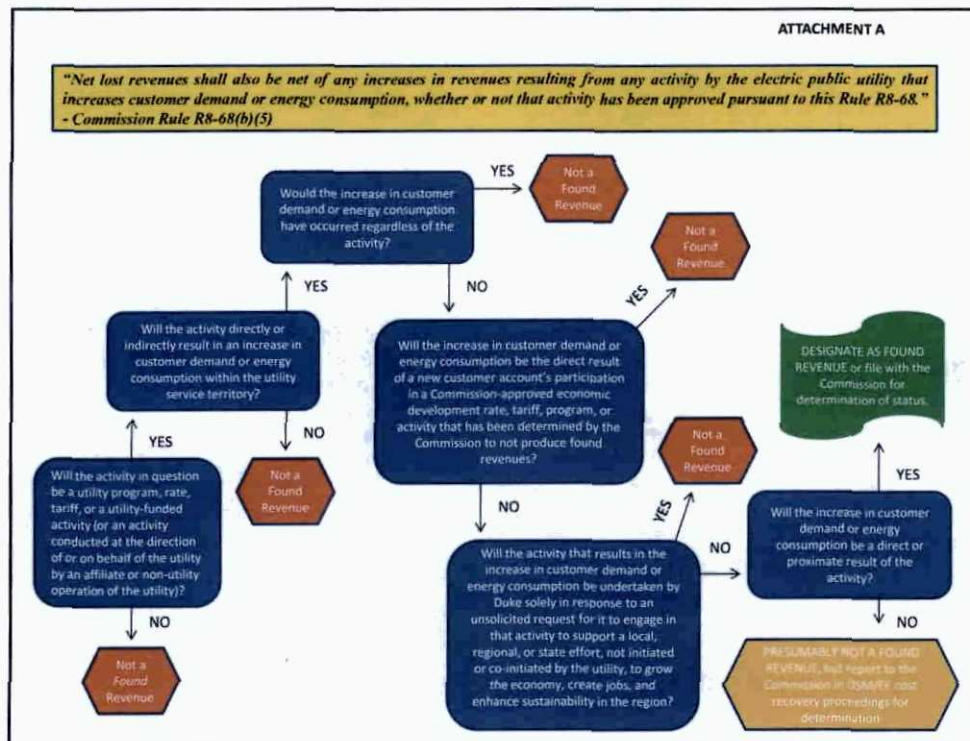
I certify that I have served a copy of the foregoing REPORT on all parties of record in this proceeding, or their attorneys of record, in accordance with Commission Rule R1-39, by United States mail, first class or better; by hand delivery; or by means of facsimile or electronic delivery upon agreement of the receiving party.

This the 18th day of November, 2010.

Antoinette R. Wike
Antoinette R. Wike

*"Net lost revenues shall also be net of any increases in revenues resulting from any activity by the electric public utility that increases customer demand or energy consumption, whether or not that activity has been approved pursuant to this Rule R8-68."
- Commission Rule R8-68(b)(5)*





An Example of an Activity Not Considered to be a Source of Found Revenues

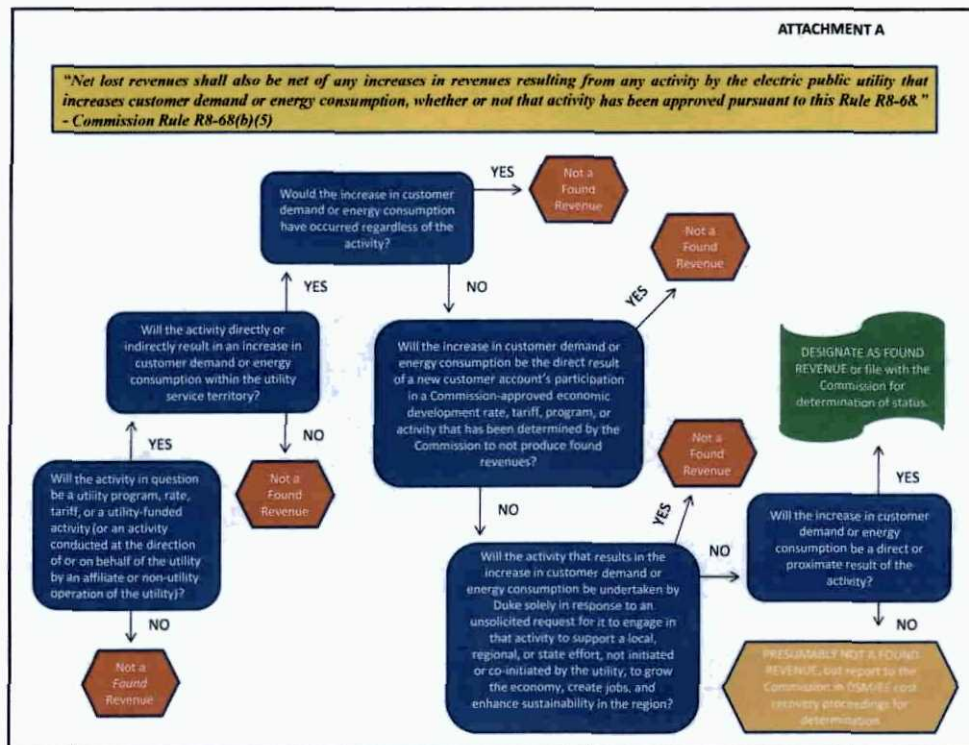
Apple locating its 1 billion dollar data center in Maiden, NC that was announced in June 2009. Through the work of Duke's three economic development functions along with the State of North Carolina offering economic incentives, Apple chose to locate this facility in Maiden, North Carolina.

Box 1: Yes, Duke was actively engaged in attracting and helping to land the Apple data center, which will add considerable load.

Box 2: Yes, Duke's economic development activities and the serving of the customer on its Commission-approved Economic Development tariff directly led to their locating in Maiden, NC.

Box 3: No, while the State of North Carolina and Catawba County also worked to get Apple to locate in Maiden, without Duke's efforts the data center would have likely located elsewhere.

Box 4: Yes, because the increase in consumption is the result of a new account that was associated with Duke's Commission-approved Economic Development tariff, the increase in consumption associated with this data center would not be considered a found revenue.



An Example of an Activity Considered to be a Source of Found Revenues

Duke Energy is working with a large business customer, who has a painting process as part of its business. Duke helps the customer to address a problem that it is having with paint not being completely cured by identifying that the customer should install an electric infrared preheater prior to its gas convection oven. While the electric preheater increases electric load, it allows the customer to increase line speed and gives the customer a positive benefit.

Box 1: Yes, working with the customer to identify the need to install the preheater is utility funded activity.

Box 2: Yes, Duke performing the technical analysis to identify the preheater solution and finding a vendor to work with the customer is what led to the increase in the customer's electric consumption.

Box 3: No, while the customer recognized the problem and likely eventually would have taken action, there were potentially other solutions that would have addressed the situation and not increased the customer's electricity consumption.

Box 4: No, the increase in consumption is not the result of a new account that was associated with Duke's economic development efforts.

Box 5: No, while Duke efforts will help maintain jobs by helping the economic viability of the customer the work is not part of a larger state, regional or local effort.

Box 6: Yes, the increase in consumption was direct result of Duke working with its customer to install the electric preheater, so the incremental sales associated with the preheater would be considered and reported to the Commission as found revenues.

Duke believes that just as with energy efficiency measures that there should be free ridership adjustment to take into account that the customer could have installed the electric preheater regardless of Duke's efforts.