

February 20, 2024

VIA ELECTRONIC FILING

Ms. A. Shonta Dunston, Chief Clerk
North Carolina Utilities Commission
4325 Mail Service Center
Raleigh, North Carolina 27699-4300

*Re: Reply Comments of Duke Energy Carolinas, LLC and Duke Energy
Progress, LLC In Support of Motion
Docket Nos. E-2, Sub 1340 & E-7, Sub 1310*

Dear Ms. Dunston:

Enclosed for filing in the above-referenced proceedings are the Reply Comments of Duke Energy Carolinas, LLC and Duke Energy Progress, LLC In Support of Motion.

Please feel free to contact me if you have any questions.

Very truly yours

/s/ E. Brett Breitschwerdt

cc: Parties of Record

STATE OF NORTH CAROLINA
UTILITIES COMMISSION
RALEIGH

DOCKET NO. E-2, SUB 1340
DOCKET NO. E-7, SUB 1310

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

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)	
In the Matter of)	REPLY COMMENTS OF DUKE
Duke Energy Progress, LLC and Duke)	ENERGY CAROLINAS, LLC AND
Energy Carolinas, LLC, 2024 Solar)	DUKE ENERGY PROGRESS, LLC
Procurement Pursuant to Initial Carbon Plan)	IN SUPPORT OF MOTION
)	
)	

NOW COME Duke Energy Carolinas, LLC (“DEC”), and Duke Energy Progress, LLC (“DEP” and together with DEC, “Duke Energy” or the “Companies”), pursuant to the North Carolina Utilities Commission’s (“Commission”) February 8, 2024, *Order Initiating Proceeding and Expedited Comments* (“Order”), and respectfully submit these reply comments in response to comments filed on February 15, 2024 by the Public Staff – North Carolina Utilities Commission (“Public Staff”), Carolinas Clean Energy Business Association (“CCEBA”), the North Carolina Electric Membership Corporation (“NCEMC”), North Carolina Sustainable Energy Association (“NCSEA”), and the Southern Alliance for Clean Energy (“SACE”), Sierra Club, and Natural Resources Defense Council (“NRDC”) (collectively, “SACE, et al.”) in response to the Companies’ February 5, 2024 Motion (“Motion”).

In reply to the *Order*, and as evidenced by the other parties’ comments, the Companies request that (1) DEC and DEP be granted flexibility to utilize a Resource Solicitation Cluster (“RSC”) under the North Carolina Interconnection Procedures

(“NCIP”) to study the grid impacts of proposals bid into the planned 2024 solar and solar paired with storage procurement request for proposals (“2024 RFP”); and (2) the proposed schedule be extended for developing and filing the 2024 RFP proposal with the Commission, up to and including April 12, 2024, to allow the Companies to adequately prepare the 2024 RFP proposal as well as to engage with market participants to enhance their understanding of and provide input into the 2024 RFP. In reply to the *Order*, the Companies also provide additional support for their plans not to impose a red zone expansion plan (“RZEP”) shadow cost allocation for the 2024 RFP and to instead treat the RZEP transmission projects consistently with all other transmission system upgrades planned through the Companies’ participation in the Carolinas¹ local transmission planning process.

The Companies respond to the *Order* and the parties’ comments as follows:

REPLY COMMENTS

I. The NCIP RSC option continues to be a superior approach for administering the 2024 RFP generator interconnection study process.

In the Motion, the Companies explained that the Commission granted DEC and DEP flexibility to use an RSC for purposes of implementing the 2023 RFP and that thus far, utilization of the RSC for the 2023 RFP study process has proven successful.²

¹ The Companies have recently petitioned the Federal Energy Regulatory Commission (“FERC”) for approval of revisions to Attachment N-1 of the Companies’ Joint Open Access Transmission Tariff, which includes, amongst others, changing the name of the organization from the North Carolina Transmission Planning Collaborative (“NCTPC”) to the Carolinas Transmission Planning Collaborative (“CTPC”). See Duke Energy Carolinas, LLC and Duke Energy Progress, LLC’s Re-Filing of Proposed Revisions to Local Transmission Planning Process in Attachment N-1 of Joint OATT, Docket No. ER24-____-000 (Jan. 12, 2024).

² Motion at 5.

Accordingly, the Companies again propose to utilize an RSC for purposes of administering the 2024 RFP study process, which all parties support or do not oppose.

The Public Staff specifically opines that the utilization of an RSC was “beneficial in the 2023 RFP,”³ and led to a “less volatile” 2023 DISIS cluster, therefore supporting use of the RSC option for purposes of the 2024 RFP. The Companies agree with the Public Staff that utilization of the RSC option in the 2023 RFP has so far reduced the probability of a Phase 3 study in both the 2023 RSC and 2023 DISIS, creating more stable cluster studies.⁴

Similar to the on-going 2023 RFP study process, the Companies anticipate that aligning the 2024 RFP bid evaluation and selection process with the RSC study process will mitigate the risk of withdrawals later in the 2024 RFP study process and reduce the potential that a Phase 3 restudy will be required, thereby leading to a more efficient and successful generator interconnection study process and resource procurement.⁵ Accordingly, the Companies renew their request for flexibility to utilize an RSC option for purposes of the 2024 RFP.

II. The RZEP allocation shadow cost methodology should not be imposed in the 2024 RFP bid evaluation process.

As identified in the Motion and initial 2024 RFP stakeholder presentation,⁶ the Companies have determined that the RZEP allocation shadow cost methodology, which

³ Motion at 7-8.

⁴ Public Staff Comments at 8, n. 11.

⁵ Public Staff Comments at 8.

⁶ Motion at 4, Attachment 1 at Page 14 of 18.

was established for use in the 2023 RFP,⁷ is unnecessary to protect the interests of DEC's and DEP's customers and should not be imposed in the 2024 RFP bid evaluation process.

As background, in 2021, DEC and DEP evaluated the need to proactively identify and construct transmission network upgrades to address system constraints that repeatedly impeded generation interconnection requests in the high solar viability "red zone" areas of DEC and DEP transmission systems. In 2022, 14 RZEP projects were acknowledged as needed by the Commission's Carbon Plan Order⁸ and were subsequently approved to be included as part of the CTPC's 2022–2032 Local Transmission Plan in accordance with the Companies' FERC-approved Joint Open Access Transmission Tariff Attachment N-11 local transmission planning process.⁹ In the 2023 Carolinas Resource Plan filing, the Companies identified that the RZEP 1.0 projects are now being constructed as new CTPC-approved transmission expansion projects, while additional constraints identified in the DISIS 2022 Phase 1 studies have led to plans for a second phase of RZEP projects to address additional constraints in the DEC and DEP transmission system.¹⁰

As described in the *Order*, the Commission previously directed the Companies, in developing the 2023 RFP, to design a mechanism that evaluates bids for solar projects that

⁷ See *Order* at 2-3; Final 2023 RFP at 28-29, Docket Nos. E-2, Sub 1317, E-7, Sub 1290 (filed June 30, 2023).

⁸ Order Adopting Initial Carbon Plan and Providing Direction for Future Planning at 41, 113-14, Docket No E-100, Sub 179 (Dec. 30, 2022) ("Carbon Plan Order").

⁹ See Report on NCTPC 2022-2023 Collaborative Transmission Plan at 26-28, issued Feb. 2023, *accessible at* http://www.nctpc.org/nctpc/document/REF/2023-02-21/2022%20NCTPC%20Report%2002_21_2023_FINAL.pdf. Now that the RZEP projects are included in the CTPC's Local Transmission Plan, they are now being constructed by the Companies as new transmission expansion projects and are treated as contingent facilities for purposes of modeling system impacts and assigning costs to generators progressing through the Companies' FERC and state-jurisdictional generator interconnection study process. See Response to Order Requiring Answers to Commission Questions at 2-3, Docket Nos. E-2, Sub 1297 and E-7, Sub 1268 (June 3, 2022).

¹⁰ CPIRP Appendix L at 2-3, 25-27. The RZEP 2.0 projects remain subject to review and approval by the CTPC.

depend on the RZEP to include an allocated cost of utilizing the RZEP project(s)' transmission capacity for purposes of bid evaluation and ranking.¹¹ This directive led the Companies to formulate the RZEP shadow cost allocation methodology, which for each upgrade, uses the (i) RSC study calculated MW impact on RZEP upgrade, (ii) the MVA headroom created by the RZEP upgrade, and (iii) the cost of the RZEP upgrade, to calculate a “shadow cost” that is then imposed on a project utilizing RZEP capacity during step 2 of the bid evaluation.¹²

As addressed in the *Order* and highlighted by commentors, the issue of whether to impute a cost adder for new solar RFP projects that rely upon RZEP transmission expansion projects—effectively increasing the cost of these projects solely for purposes of RFP bid evaluation—received much focus in the initial Carbon Plan proceeding and 2022 solar RFP docket.¹³ The *Order* also recognized that the 2023 RFP proposal identified “preliminary consensus” that the shadow cost adjustment should not be utilized for the 2024 RFP.¹⁴ As detailed in the Companies' Motion, the Companies also recently discussed utilization of the RZEP shadow cost allocation methodology in the initial 2024 RFP stakeholder meeting. During the meeting, attending stakeholders supported removing the RZEP shadow cost for the 2024 RFP.

The comments by Public Staff and several intervenors, who represent numerous market participants and other interested stakeholders, support not imposing the RZEP

¹¹ *Order* at 2.

¹² See Final 2023 RFP, Attachment 1 at 28-29.

¹³ *Order* at 2-3.

¹⁴ *Order* at 3.

shadow cost allocation adjustment mechanism for the 2024 RFP bid evaluation process.¹⁵ The Public Staff states “the assignment of a shadow cost risks distorting the economic ranking of projects in future RFPs” and that it has “always believed that any use of a shadow cost for RZEP projects could only be administered in the short term due to changing system conditions.”¹⁶ NCSEA similarly acknowledges that utilization of the RZEP shadow cost has the potential to negatively impact the economic ranking of proposals, arguing that imposing a RZEP shadow cost could prioritize the selection of projects that do not utilize the RZEP upgrades, leading to an overall increase in bid prices.¹⁷ Both CCEBA and SACE et al. argue that because RZEP projects are incorporated into the utility’s transmission baseline, assigning costs to specific customers is unwarranted.¹⁸ The Companies generally agree with these comments as support for not utilizing the RZEP shadow cost adjustment mechanism for the 2024 RFP.

In response to the *Order*, the Public Staff and CCEBA also specifically highlight how imposition of the RZEP shadow cost in the 2024 RFP risks increasing costs to the Companies’ customers. The Companies specifically agree with the Public Staff’s hypothetical analysis of the comparable LCOE costs of RFP Projects A and B, when the RZEP shadow cost is implemented in future RFPs, as compared to a non-RFP Project C requesting interconnection in DISIS.¹⁹ Due to the risk of increased costs to customers, as

¹⁵ Public Staff’s Comments at 2, 4; CCEBA’s Comments at 2; SACE et al.’s Comments at 1; NCSEA’s Letter in Lieu of Comments at 2-3.

¹⁶ Public Staff Comments at 4.

¹⁷ NCSEA’s Letter in Lieu of Comments at 2-3.

¹⁸ CCEBA Comments at 4-5; SACE et al.’s Comments at 3.

¹⁹ Public Staff Comments at 4. For example, the 2022 DISIS Facilities Study stage includes 10 solar projects totaling about 680 MW that are not 2022 RFP winners and are utilizing RZEP 1.0 upgrades and proceeding with negotiated PURPA contracts.

well as the potential for perceived “unfairness” between RZEP-dependent DISIS and RFP interconnection customers, the Companies submit that the RZEP shadow cost should not be imposed for purposes of the 2024 RFP.²⁰

NCEMC comments that it “supports the Commission’s position that the evaluation of any bids submitted for Carbon Plan compliance should be based on the solar project’s total costs, including all network upgrades attributable to that project.”²¹ In reply to NCEMC’s comments, the Companies believe that treating CTPC Local Transmission Plan-approved RZEP projects in a manner consistent with all other transmission investments included in the Local Transmission Plan is the most reasonable and non-discriminatory approach for RFP bidders, generator interconnection customers, and the Companies’ retail and wholesale customers. RZEP upgrades have been approved and included in the CTPC’s 2022-2032 Local Transmission Plan based on the broad system benefits they confer. The RZEP upgrades are not caused by or designed to specifically benefit any one proposed solar project or interconnection customer. Interconnection customers—including those that elect to bid into the 2024 RFP and those that do not—as well as transmission, wholesale, and retail customers will all receive the benefits of new RZEP projects. RZEP projects will enable the more efficient and reliable interconnection of new solar and other generation in previously constrained areas of the DEP and DEC transmission systems and will provide additional system benefits such as increased

²⁰ Public Staff’s Comments at 6; *see also* CCEBA Comments at 7 (explaining that “if otherwise competitive projects are *not* selected because of the shadow cost mechanism, ratepayer costs could *increase* due to the selection of otherwise uncompetitive projects outside the RZEP areas, while the area served by the RZEP upgrades will still be utilized by GSA, QF, and merchant facilities. In the end, use of shadow pricing could result in a suboptimal utilization of the RZEP upgrades by CPIRP resources that are actually disadvantaged in the procurement evaluation process by use of a fictional cost adder.”) (Emphasis in original)

²¹ NCEMC Comments at 5-6.

reliability, added resilience, and improved transfer capability between DEC and DEP, thereby benefitting all customers.

In sum, imposing a shadow cost adjustment on solar projects bidding into the 2024 RFP that rely upon the RZEP transmission risks increasing the costs of projects selected in the RFP and could result in increased costs to customers and bias towards selection of sub-optimal RFP projects. Accordingly, the Companies submit that the RZEP shadow cost mechanism should not be utilized for the 2024 RFP process.

III. The Companies' request for extension of time to continue engaging with market participants and interested stakeholders in developing the 2024 RFP is unopposed and in the public interest.

The Public Staff supports, and no other party opposes, the Companies' request for additional time to develop the 2024 RFP.²² As first stated in the Motion, the Companies believe this extension will provide additional opportunities to continue engaging with market participants, and the Companies are in the process of organizing another open stakeholder engagement session in early March. Additional stakeholder engagement is in the public interest and will enhance market participants' understanding enhance their understanding of and provide input into the 2024 RFP, ultimately leading to a more successful procurement.²³ Accordingly, the Companies renew their request for an extension up to and including April 12, 2024, to file the 2024 RFP proposal.

²² Public Staff's Comments at 8.

²³ The Companies briefly note their disagreement with CCEBA's characterization of the RFP stakeholder process as "negotiations." (See CCEBA Comments at 7, 8). The Commission has previously acknowledged the Companies' position that it was not appropriate in developing the 2023 RFP to "prioritize consensus in those instances where consensus was only achievable by compromising the intent and goals of the competitive solicitation process or would contravene the Companies' responsibility . . . to apply prudent business judgement and to plan and deliver reliable service at reasonable cost." Order Accepting Proposed 2023 Solar Resource Procurement Requests for Proposal Documents at 6, Docket Nos. E-2, Sub 1317, E-7,

CONCLUSION

WHEREFORE, Duke Energy Carolinas, LLC and Duke Energy Progress, LLC respectfully request that the Commission consider these Reply Comments, grant the relief requested in the Companies' Motion, and direct such other and further relief as the Commission determines to be in the public interest.

Respectfully submitted, this the 20th day of February, 2024.

/s/ E. Brett Breitschwerdt

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Sub 1290 (July 26, 2023). The Companies will continue to use prudent business judgment, taking into account the input and expertise of the RFP Independent Evaluator, Charles River Associates, and Public Staff, and seeking input from stakeholders in furtherance of developing a well-designed and transparent 2024 RFP to deliver reliable service at reasonable cost.

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*Counsel for Duke Energy Carolinas, LLC
and Duke Energy Progress, LLC*

CERTIFICATE OF SERVICE

I certify that a copy of Duke Energy Carolinas, LLC's and Duke Energy Progress, LLC's Reply Comments in Support of Motion, in Docket Nos. E-2, Sub 1340 & E-7, Sub 1310, has been served electronically to all parties of record.

This the 20th day of February, 2024.

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